

# The Effect of Government Policy and Social Capital on Entrepreneurship and Performance of Medium-scale Woodcraft Industry in Tegallalang Village, Gianyar Regency

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**Abstract:** This study aims to analyze and explain the effect of government policies and social capital on entrepreneurship and SME performance, and analyze the role of entrepreneurship as a mediator on the influence of government policies and social capital on the performance of wood craft SMEs in Tegallalang Village. This research was conducted in Tegallalang Village which is a center of wood crafts in Gianyar Regency. The population in this study was 84 wood craft SMEs in Tegallalang Village, where the sample was determined by saturated sample technique. Data collected through a questionnaire instrument that has been tested for validity and reliability are then analyzed using the SEM-PLS technique. The analysis shows that government policies and social capital directly have a positive and significant effect on entrepreneurship of SMEs. Government and entrepreneurial policies of SMEs directly and positively and significantly influence the performance of SMEs, but social capital does not significantly influence the performance of SMEs. Entrepreneurship significantly mediates the indirect effect of government policies and social capital on the performance of SMEs in Tegallalang Village, Gianyar Regency. The indirect effect of government policy on SME performance is partial mediation, while the indirect effect of social capital on SME performance is full mediation.

**Keywords:** Government Policy, Social Capital, Entrepreneurship, Performance, Small and Medium Enterprises (SMEs).

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## I. INTRODUCTION

The development of Small and Medium Enterprises (SMEs) in Indonesia is one of the priorities in national economic development. This is because the business is the backbone of a populist economic system that is not only intended to reduce the problem of inequality between income groups and between businesses, but also related to poverty alleviation and employment. Moreover, its development is able to broaden the economic base and can make a significant contribution in accelerating structural changes, namely the improvement of the regional economy and national economic resilience. Success in surviving the crisis does not necessarily make SMEs able to develop properly. Many factors affect the slow pace of business development, including attention from the government and the banking community which is felt to be lacking. Various efforts have been made to realize the expectations of SMEs, such as: deregulation as structural adjustments and economic restructuring began to be done by increasing investment through disbursement of financial assistance, initiating patterns of partnerships with large companies and conducting managerial coaching because the government knows SMEs have limitations in the third that matter.

This partnership pattern is intended to enable large companies to foster and assist SMEs in improving management quality and expanding market penetration. But so far, this government policy has not been able to touch the interests of SMEs, even based on some empirical studies this policy is stated to be more beneficial to large companies rather than empowering SMEs (Kuncoro, 2010). The existence of SMEs in Bali is as one of the supporters of the tourism sector which is superior in increasing local revenue. The role of SMEs is to provide added value to increase tourism attractiveness, help the government in providing tourism facilities and infrastructure, which in turn also contributes to improving the image of tourism both at home and abroad. In general, most SMEs produce souvenirs for tourists visiting Bali, especially Tegallalang Village. Over time, these SME products have developed into export commodities. This means that Balinese SME products have been able to enter the international market through export activities so that they are expected to make a meaningful contribution to the increase in the accumulation of foreign exchange reserves, the development of national industries and public income.

In general, the problems of SMEs in Tegallalang District are not much different from the problems experienced by SMEs in the Province of Bali, including low managerial ability (in terms of production, raw materials, administration and finance), low commitment to fulfill orders customers (in product design and quality; instability of supply and price of raw materials or other supporting materials); and low access to sources of financing. The handling of this matter has also been carried out by the government through various SME empowerment programs, in the form of funding, partnerships, training, mentoring, and others. But empirical facts show that Bali SMEs have not yet developed optimally. Firmanzah (2013) states that the role and contribution of the SME sector in the structure of the national economy is not only one of the national priorities, but also a hope for efforts to accelerate the economic recovery hit by the crisis in 1998 to 2008. The role played by this sector is expected to continue in a way that the government and related parties have clear references about the factors that influence the improvement of business performance.

The performance of the Small and Medium Enterprises (SME) sector is influenced by two main factors namely external and internal factors. Internal factors include aspects of HR (owners, managers, and employees); financial aspects, technical aspects of production; and marketing aspects. External factors consist of government policies, socio-cultural and economic aspects, and the role of related institutions such as Government, Higher Education, Private, and NGOs. (Lesceiva, 2004; Maupa, 2004; and South Sulawesi Head of Cooperatives and SMEs Office, 2006). The number of industries and household handicrafts is very diverse and diverse, one of them is wood handicraft commodity. According to Iman Suryanto in the Bali Tribune article (2014) said the number of industries and household handicrafts in Bali is very large, one of which is wood crafts capable of sustaining around 80 percent of the total non-oil and gas exports each year. This industrial activity is able to absorb a large workforce and is a development priority in the hope of being able to increase the income and standard of living of the community. Tegallalang sub-district is one of the sub-districts with a source of community income from wooden arts. The wood craft industry, especially sculpture, tends to grow evenly, and forms centers that are rooted in the talents, skills and art of the community and uses simple technology and absorbs a lot of labor (Alao and Kuie, 2010).

Despite being the dominant sector entered by business actors, the SME sector still has many problems. Issues that are faced both by the government as the policy maker and business actors as the party experiencing or undergoing the risks that will be accepted. This problem starts from the capital problem to the still weak business management implemented by the SMEs in this country, so that it affects the performance of the SMEs themselves. These problems, by Pandjialam (2007), are summarized in a number of key issues which include: 1) Credit disbursement by banks has not significantly supported the development of informal businesses, 2) Government businesses have not been coordinated, 3) The majority of informal business operators are not bankable, and 4) various small-scale formal financial institutions have not been optimally portrayed.

Several small businesses are very limited in their efforts to build innovations that are needed in the development of businesses that are spread in many countries. Thus, efforts to develop innovation and strengthen Small and Medium Enterprises require the support and assistance of government policies, so that Small and Medium Enterprises can defend themselves from the current global competition. Governments in various countries have diverse policies in facilitating the development of innovation for Small and Medium Enterprises groups in encouraging the progress of SMEs, including the need for innovation, government assistance in the development of employee skills in building employee productivity, as well as opportunities to strengthen the competitiveness of Small and Medium Enterprises (Ernst and Kim, 2002; Guan and Chen, 2012).

Another researcher, Cook et al, (2003) presents empirical evidence that government policies are decisive in the innovation development agenda for SMEs in many countries. Government policies also control the direction of the development of innovations that have an impact on the business concerned, consumers of product users and other public service centers (Herrera and Nieto, 2008). The role of government also significantly contributes to the basis of business power and the formation of community welfare. According to Mustar and Laredo (2002), governments in many countries also play a role, among others: 1) encouraging the development of corporate innovation, 2) providing financial assistance, 3) regulations to protect businesses, and 4) empowerment policies. Based on the description above, this study will examine the relationship of the role of government policy and social capital as non-physical capital to entrepreneurship (product innovation, proactivity, and risk-taking) of business actors, and encourage the success of SMEs in building their performance. In this study also examines the extent to which government policies have relevance in building social capital and the ability of SMEs in realizing their entrepreneurial behavior.

### **Theoretical Basis**

#### **Capital Formation**

Capital is input to a production process which is the output of a previous production process (Mankiw, 2013: 47). Capital accumulation or capital formation is an increase in capital stock within a certain period (Adisasmita, 2013: 104). Capital formation occurs when a portion of income is saved and reinvested with the aim of enlarging outputs and future income. Capital formation includes all new investments in the form of land (land), fiscal equipment, and human resources (Subandi, 2011: 69).

#### **Business Performance**

Business performance is the result or overall level of success of a person during a certain period in carrying out the task compared with various possibilities, such as work standards, targets or targets or predetermined criteria that have been agreed upon together (Rivai and Basri, 2005: 50). Performance measurement can be done through a number of indicator approaches, including through the company's asset growth approach, net profit on business, and market share development (Waggoner et al, 1999). Managing company resources and aligning them with the right strategy is the process of building business performance strengthening (Dess and Lumpkin, 2005).

In an uncertain economic situation, a company must improve its performance. Every resource in the company must be utilized as well as possible. Improving performance is needed so that the products and services produced by the company can compete in the market. Improved performance can be seen in terms of revenue and results achieved. According to Schwalbe (2000: 185) performance is done so that the product or service provides what the consumer expects well. With this performance improvement, SMEs will be better in service and increase the speed of turnover of goods so as to be able to maximize the profits of SMEs.

#### **Entrepreneurship**

Entrepreneurship is a process of applying creativity and innovation related to risk-taking, proactive and aggressiveness (Miller, 1981). So that it can solve problems and find opportunities to increase the company's added value. Bashir and Akhtar (2016), stated that entrepreneurs are entrepreneurs who carry out new combinations in building creativity and technology. New possibilities are intended to introduce a new product from an item that is not yet known by consumers.

#### **Government policy**

Ndraha (2000), said that the government holds responsibility for the interests of the people. The task of government is to serve and regulate society. Then explained further that the task of service emphasizes efforts to prioritize the public interest, facilitate public affairs and provide satisfaction to the public, while the task of regulating emphasizes the power power inherent in bureaucratic office positions. The role of allocation by the government is very needed, especially in the case of the supply of goods that cannot be provided by the private sector, namely public goods or also called public goods.

#### **Social Capital**

Social capital is features of social life, such as trusts, norms, and networks that make participants to act together more effectively to pursue common goals (Field, 2005: 45). Furthermore, Putnam emphasized that like other forms of capital,

social capital is productive, allowing the achievement of certain goals, without which the goals will not be achieved (Lawang, 2004: 212). The central idea of social capital is to refer to social networks which are valuable or valuable assets (Field, 2005: 4).

### **Microfinance**

Microfinance (microfinance) is a financial institution that provides various forms of microfinance services and products, including savings, credit, insurance, money transfers for low-income groups, poor communities and micro-scale businesses. The term microfinance is often associated with the problem of limitations (inferiority), therefore, the concept of microfinance is described as a form of inferiority of the poor that is difficult and limited access to financial services in banking financial institutions.

### **Public Policy Theory**

Public Policy is a decision that is intended for the purpose of overcoming problems that arise in a particular activity carried out by government agencies in the context of governance (Mustopadidjaja, 2002). On another perspective, Hakim (2003) argues that the Public Policy Study studies government decisions in overcoming a problem of public concern. Based on its stratification, public policy can be seen from three levels, namely general policy (strategy), managerial policy, and operational technical policy.

### **Agency Theory**

The agency theory perspective is the basis used to understand the issues of corporate governance and earnings management. Agency theory results in an asymmetrical relationship between the owner and manager. To avoid this asymmetrical relationship, a concept is needed, namely the concept of Good Corporate Governance, which aims to make the company healthier. The application of Good Corporate Governance based on agency theory can be explained through the relationship between management and owners. Management as an agent is morally responsible for optimizing the profits of the owners (principal) and in return will get compensation in accordance with the contract. With this there are two different interests within the company where each party strives to achieve the desired prosperity, so that asymmetric information arises between management and owners who can provide managers with opportunities to manage earnings in order to mislead owners about the company's economic performance (Sefiana, 2009).

### **Theory of Reasoned Action (TRA)**

Theory of Reasoned Action explains behavior that changes based on the results of behavioral intention, and behavioral intention is influenced by social norms and individual attitudes towards behavior (Eagle, Dahl, Hill, Bird, Spotswood, & Tapp, 2013, p. 123). Subjective norms describe individual beliefs about normal and acceptable behavior in society, whereas for individual attitudes towards behavior based on individual beliefs about the behavior. According to (Lee & Kotler, 2011, p. 198), the theory of reason action developed by Ajzen and Fishbein, states that the best predictions about a person's behavior are based on the person's interests. Behavioral interest is based on 2 main factors, including individual trust in the results of behavior carried out and individual perceptions of the views of people closest to the individual towards the behavior carried out.

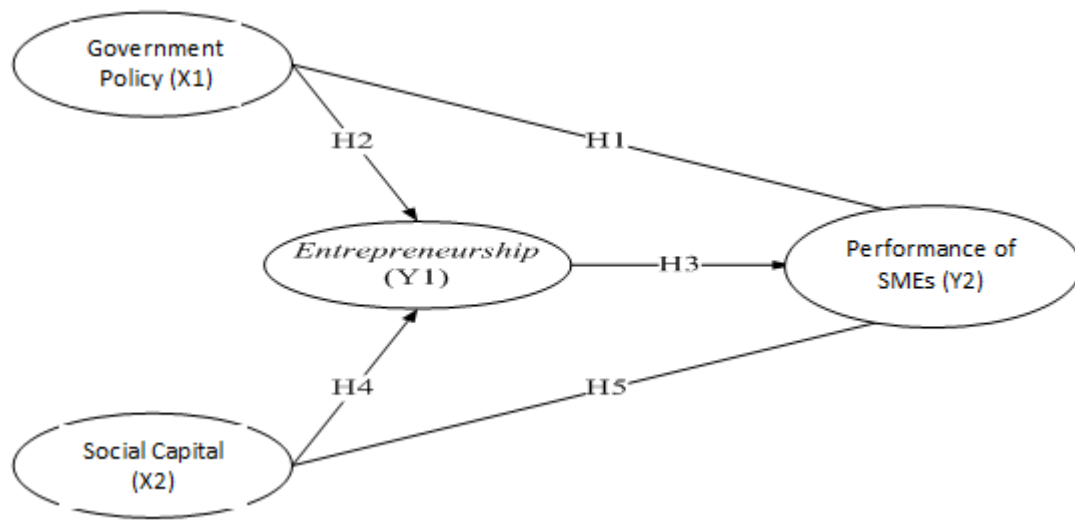
## **II. CONCEPTUAL FRAMEWORK AND HYPOTHESIS**

### ***A. Page Layout and Font Used***

In this study, which affects the performance of Small and Medium Enterprises, among others, government policy, social capital through entrepreneurship, In accordance with the problem formulation and literature review discussed, hypotheses that can be formulated include:

1. Government policies have a positive and significant effect on the performance of SMES Wood Crafts in Tegallalang Village, Gianyar Regency.
2. Government policies have a positive and significant effect on entrepreneurship perpetrators of SMES Wood Crafts in Tegallalang Village, Gianyar Regency.
3. Social Capital has a positive and significant effect on entrepreneurship of SMES Wood Crafts in Tegallalang Village, Gianyar Regency.

4. Social Capital has a positive and significant effect on the performance of SMES Wood Crafts in Tegallalang Village, Gianyar Regency.
5. Entrepreneurship (SMES) entrepreneurs positive and significant effect on the performance of SMES Wood Crafts in Tegallalang Village, Gianyar Regency.
6. Government policies have a positive and significant effect on the performance of SMEs through Entrepreneurship perpetrators of Wood Craft SMEs in Tegallalang Village, Gianyar Regency.
7. Social Capital has a positive and significant effect on the performance of SMEs through Entrepreneurship perpetrators of Wood Craft SMEs in Tegallalang Village, Gianyar Regency.



**Figure 1: Research Conceptual Framework**

## Method

In this study, the chosen research location is Tegallalang Village, located in Gianyar Regency, Bali Province, Indonesia. The location was chosen because Tegallalang Village is the majority area of SMEs engaged in the wood handicraft business which is a business with the largest export value compared to other handicrafts. (Department of Industry and Trade, 2017). In this research, the research design used is quantitative research with associative explanatory level. The research design was in the form of explanatory research, namely research aimed at explaining a sample generalization to its population or explaining the relationship of differences or the influence of one variable with other variables (Bungin, 2010).

This research also emphasizes the importance of narrative argumentation from the information statements interviewed in addition to quantitative data collected through questionnaires, with this step expected to occur in harmony between the correlational truths of research with truths obtained through descriptive and narrative data. The collected data will be processed using descriptive statistical analysis techniques and structural equation analysis (SEM) techniques with alternative Partial Least Square (PLS) (component based SEM). Finally, an interpretation of each variable is performed to see the suitability of the theoretical and empirical models so that conclusions can be drawn from the research problem formulation.

In this study using one dependent variable, two independent variables and one intervening variable. The dependent variable in this study is the performance of SMEs (Y2). The independent variable used is government policy (X1) and social capital (X2) as well as one intervening variable, namely entrepreneurship (Y1). Government policy (X1) is a construct that is built based on community perceptions as users of government services. The social capital (X2) described is related to norms and related to local culture which includes beliefs, networks and norms, where this is thought to be related to how businesses that are located around these locations can be sustainable and increased as measured on a Likerts scale. Entrepreneurship (Y1) in this study refers to the perception of entrepreneurial attitudes of business actors in

3 dimensions, namely innovative, proactive, and risk-taking attitude measured on a Likerts scale. While the performance of SMEs (Y2) refers to the perception of business actors on the performance or success of their business that can be seen in terms of the percentage of profits, the percentage of the number of customers and the percentage of total assets measured on a Likert scale.

This study uses quantitative data that will measure the performance of SMEs such as profits, number of customers, and the number of assets of SMEs Wood Crafts in Tegallalang Village, Gianyar Regency. It also uses qualitative data including information that will describe the characteristics and other data that support the research including all forms of perception or views of the community as SMEs in assessing government policies, social norms and entrepreneurship attitudes owned by business actors. In this study using primary data and secondary data, where primary data will be collected through observation and interviews directly to respondents as woodworking businesses in Tegallalang Village using a questionnaire instrument. While the secondary data used is data obtained from the Department of Industry and Trade and the Statistics Agency of Gianyar Regency to support the content of the study.

The population in this study were all small and medium enterprises (SMEs) wood crafts in Tegallalang Village which consisted of 11 banjars with 84 SMEs. All SMEs will be the sample. Samples were taken using a Non-Probability Sampling technique that is saturated sampling which is a technique of determining the sample if all members of the population are used as samples (Sugiyono, 2009). Furthermore, the respondent in each sample is determined purposively by establishing a certain criterion. The established criteria are that the respondents in this study are the owners / managers / managers of wood craft SMEs (not wood workers) because they are understood to have the capacity to describe the conditions in each of the SMEs they manage.

The analysis technique used in this study is path analysis using Partial Least Square (SPSS) and SPSS software. This model is used in a study if the analysed relationship is a causal relationship with a complex model. Although the path analysis applies the multiple regression model, its purpose is different from the regression model. The main purpose regression model predicts the value of the dependent variable based on the value of the known independent variable which is supported by its significance. On the other hand, path analysis aims mainly to predict the magnitude of the relationship of a variable with other variables, as well as the presence of indirect effects.

The analysis technique is done by using PLS (Partial Least Squares). The analysis process is carried out with the PLS program. The equation model in this study is:

$$Y_1 = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + e_1 \dots\dots\dots (1)$$

$$Y_2 = \alpha_2 + \beta_3 X_1 + \beta_4 X_2 + \beta_5 Y_1 + e_2 \dots\dots\dots (2)$$

Information:

Y1 = Entrepreneurship / Entrepreneurship

Y2 = SMEs Performance

X1 = Government Policy

X2 = Social Capital

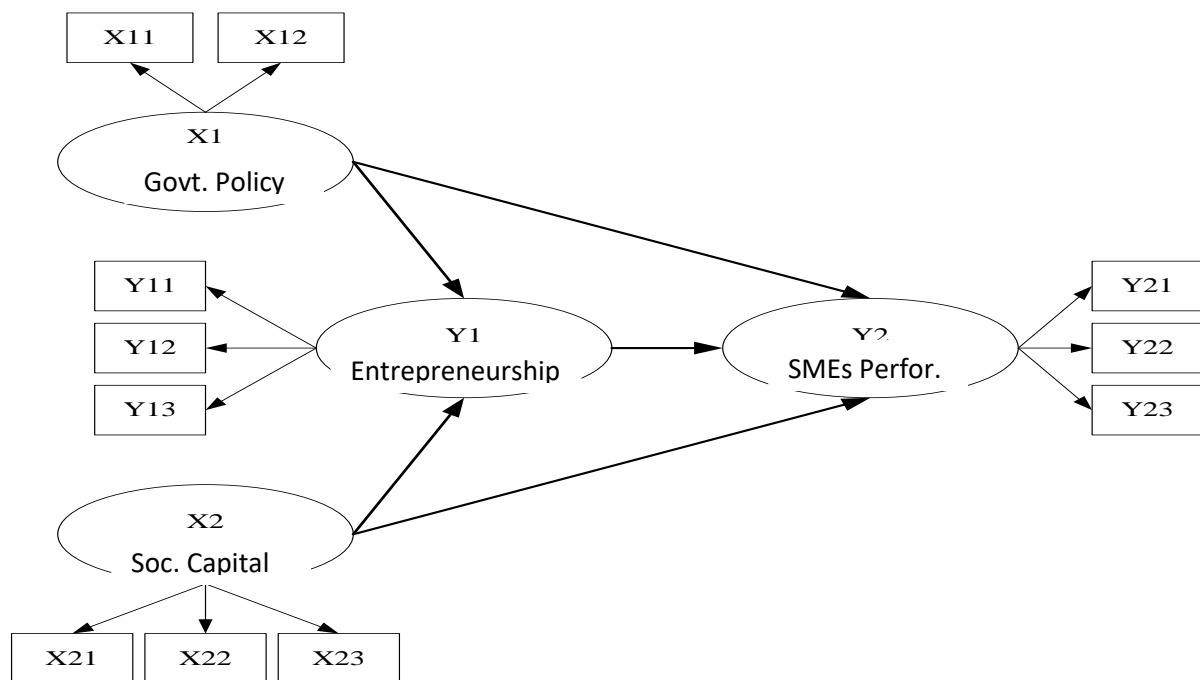
$\beta_1$ -2 = Regression coefficient which shows variations in the dependent variable as a result of changes in the independent variable.

$\alpha$  = intercept

e = Error

Based on equation (1) and equation (2), the relationship of influence between constructs is found, as illustrated in the operational framework model of the study in Figure 2.





**Figure 2: Research Operational Model Framework**

In analyzing the data of this study also used descriptive statistics. In the descriptive analysis there is an index value that is useful for obtaining a description of the respondents' perceptions of the questions raised. To be able to calculate the index value, the following formula is used (Sugiyono, 2009).

$$\text{Index Value} = \frac{(\%F1x1) + (\%F2x2) + (\%F3x3) + (\%F4x4) + (\%F5x5)}{5}$$

Information:

F1 is the frequency that answers the answer choices (1) strongly disagree

F2 is the frequency that answers the answer choices (2) do not agree

F3 is the frequency that answers the answer choices (3) doubt

F4 is the frequency that answers the answer choices (4) agree

F5 is the frequency that answers the answer choices (5) strongly agree

By using the three box method, the basic interpretation of the index values is: 10.00 - 40.00 = low; 40.01 - 70.00 = moderate; 70.01 - 100.00 = high.

Another method in this research is the Partial Least Square (PLS) method. Partial Least Squares is a strong factor of indeterminacy of analytical methods, therefore it does not assume that the data must be of a certain scale and with a small sample size. The purpose of PLS is to help researchers to get the value of latent variables for predictive purposes. Weight estimates for creating a component score of latent variables are obtained based on how the inner model (structural model that connects between latent variables) and the outer model (the measurement model that is the relationship between the indicator and its construct) is specified. The result is that the residual variance of the dependent variable (both latent and indicator variables) is minimized.

Covergent validity of the measurement model with reflexive indicators was assessed based on the correlation between item scores/component scores and construct scores calculated with PLS. Another method for assessing discriminant validity is to compare the square root of average variance extracted (AVE) values of each construct with the correlation between constructs and other constructs in the model. If the AVE square value of each construct is greater than the correlation value between the construct and other constructs in the model, then it is said to have a good discriminant validity value (Fornell and Larcker, 1981). Following is the formula for calculating AVE.

$$\lambda_{ij} = \frac{\sum_{i=1}^n \lambda_{ij}^2}{\sum_{i=1}^n \lambda_{ij}^2 + \sum_{j=1}^m \lambda_{ij}^2} \dots (4)$$

Where  $\lambda_{ij}$  is the component loading to the indicator and  $\text{var}(i) = 1-12$ . If all indicators are standardized, then this size is the same as the average communalities in the block.

The composite reliability indicator block that measures a construct can be evaluated with two kinds of measures namely internal consistency developed by Werts, Linn and Joreskog (1974) and Cronbach's Alpha. By using the output generated by PLS, the composite reliability can be calculated by the following formula:

$$\rho_c = \frac{\sum_{i=1}^n \lambda_{ij}^2 \text{PC}}{\sum_{i=1}^n \lambda_{ij}^2 + \sum_{j=1}^m \lambda_{ij}^2} \dots (5)$$

Where  $\lambda_{ij}$  is the component loading to the indicator and  $\text{var}(i) = 1-12$ . PC as a measure of internal consistency can only be used to reflexively construct indicators. An evaluation of the inner model is carried out by looking at the magnitude of the structural path coefficient, and also the value of the statistical t test obtained by the bootstrapping method. In addition, also note R2 for the dependent latent variable. R2 values around 0.67 are said to be good, 0.33 is said to be moderate, while 0.19 is said to be weak. Changes in R2 can be used to assess the effect of certain latent variables on whether independent latent variables have substantive effects. This can be done by calculating f2. F2 values equal to 0.02, 0.15 and 0.35 can be said that the predictor of latent variables has an influence, small, medium, and large on the structural model.

Structural models are evaluated using R-square for the dependent construct, Stone-Geisser Q-square test for predictive relevance and t test as well as the significance of the structural path parameter coefficients. In assessing the model with PLS we begin by looking at the R-square for each latent dependent variable. The effect of magnitude of f2 can be calculated by the following formula:

$$f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excl}}}{1 - R^2_{\text{incluc}}} \dots (6)$$

where R2 included and R2 excluded are R-square of the dependent latent variable when the predictor of the latent variable is used or excluded in structural equation. F2 values equal to 0.02, 0.15 and 0.35 can be interpreted that predictors of latent variables have a small, medium, and large influence on the structural level.

Besides looking at the R-square value, the PLS model is also evaluated by looking at the Q-square predictive relevance for the construct model. Q-square measures how well the observational values generated by the model and also the estimated parameters. A Q-square value greater than 0 (zero) indicates that the model has a predictive relevance value, while a Q-square value less than 0 (zero) indicates that the model has less predictive relevance.

### III. RESULT AND DISCUSSION

#### a. Demographic Characteristics of Respondents

The survey was conducted on 84 respondents. Following are the results of the processed demographic characteristics of the respondents.

**Table 1: Demographic Characteristics of Respondents by Gender**

Gender	Frequency (SMEs)	Percentage (%)
Woman	15	17.85
Men	69	82.15
Total	84	100.00

Source: Primary Data, 2018



Data in Table 1 shows that most respondents were male, amounting to 82.15 percent (69 people). Female respondents were 17.85 percent (15 people). Male gender is a factor that determines the development of businesses at the level of handicraft business, this is in accordance with local cultural patterns where men play the role of head of the family responsible for their family. Thus, the pattern of Balinese culture based on the pattern of Balinese cultural customs can be found in the patterns of business ownership in the craft sector.

**Table 2: Demographic Characteristics of Respondents by Age**

Age (Year)	Frequency (SMEs)	Percentage (%)
< 20	15	17.86
21 – 30	17	20.24
31 – 40	34	40.48
> 40	18	21.42
Total	84	100.00

Source: Primary Data, 2018

Based on age groups, it turns out that the handicraft business is dominated by the age group between 31 to 40 years, showing that the age factor is the ideal thing in order to support business productivity. First, that the age factor between 19 to 40, showed a percentage of 78.58 percent which at the same time guaranteed the support of productive age in moving the wheels of business activities, which required speed in moving the business to be energetic enough to build business competition.

**Table 3: Demographic Characteristics of Respondents According to Education**

Level of Education	Frequency (SMEs)	Percentage (%)
Elementary School/Equivalent	5	5.96
Middle School/Equivalent	10	11.90
Senior High School/Equivalent	57	67.86
Vocation/University	12	18.27
Total	84	100.00

Source: Primary Data, 2018

The next fact is the potential of human resources which is crucial in driving a business, exploring opportunities and communicating in establishing business agreements, pioneering new market shares and pioneering business partnerships, which cannot be separated from business skills supported by the quality of education of entrepreneurs. Table 3 depicts 67.86 percent of handicraft entrepreneurs with high school education, 18.26 percent with diploma education, this shows that the handicraft business is still a small business, because it is managed from staff dominated by high school graduates, who do not need to deliver quality higher education than high school, which is caused by the pattern of businesses that still use traditional tools, with an average of limited capital. With the pattern of education which mostly consists of junior and senior high school graduates, it also shows the existence of livelihood options that do not require special skills to become entrepreneurs in the craft field.

**Table 4: Demographic Characteristics of Respondents by Length of Business**

Length of Bussiness (Year)	Frequency (SMEs)	Percentage (%)
1 – 5	8	9.52
6 – 10	15	17.86
11 – 15	32	38.10
> 15	29	34.52
Total	84	100.00

Source: Primary Data, 2018

The profile of handicraft business can also be seen from the length of business of handicraft business activities. It turns out that based on Table 4, it turns out that most of the handicraft businesses have been operating for more than five years, showing that the handicraft business has become a relatively stable livelihood choice, and even tends to be passed on to the next generation. This is caused by the culture of the people who really appreciate art, so that it is easy to get closer to access to craft work that is loaded with art products. Field facts show that there are as many as 8 (eight) new entrepreneurs, who have started their businesses between 1 (one) to the last 5 (five) years. Thus, handicraft products in Tegallalang Village, Gianyar Regency, are livelihoods that have evolved from one generation to the next, because handicraft products are related to the local culture of an art-based community.

**Table 5: Demographic Characteristics of Respondents by Number of Workers**

Number of Workers (People)	Frequency (SMES)	Percentage (%)
1 – 4	5	5.95
5 – 10	43	51.19
11 – 19	22	26.19
> 19	14	16.67
Total	84	100.00

Source: Primary Data, 2018

The handicraft business profile illustrates the evenness of the business potential from the aspect of the use of labor, because most handicraft entrepreneurs use between 5 (five) to 10 (ten) workers, which is around 51%, whereas only 16.67% of employers use more than 10 workers (ten) people. The facts presented in Table 5 also illustrate that handicraft business is in the type of people's economy, which is more dominated by business owners who also double as workers, so that widespread use of labor is not dominant. Only 16% of the craftsmen entrepreneurs actually apply a commercial business pattern, which has been used by more than 19 workers in the handicraft company. As many as 77 percent of handicraft businesses in the Tegallalang area are still managed with limited external absorption, due to the double occupation of the work of the owner's family who also doubles as a worker.

According to the Central Statistics Agency (BPS) the number of workers is 5-19 people, small businesses, while Medium Enterprises with 20-99 workers. In this study the number of respondents 84 business units can be concluded that the study was conducted on 77 percent of small businesses and 16.67 percent of the remaining medium businesses including micro businesses as much as 5.95 percent.

#### b. Description of Respondents' Perceptions of Research Variables

**Table 6: Respondents' Perception of Government Policy Variables**

Indicator	Percentage of Choice of Respondents					Perceptions	Mean
	1	2	3	4	5		
Financial Aid (X11)	0.00	11.90	40.48	40.48	7.14	68.57	3.43
Government Regulation (X12)	0.00	21.43	44.05	29.76	4.76	63.57	3.18
Average	0.00	16.67	42.26	35.12	5.95	66.07	3.30

Source: Research Results, 2018

Based on the analysis of respondents' perceptions of government policy variables in Table 6, it can be seen that respondents' perceptions of government policies are sufficient / moderate with an average perception value of 66.07 percent. The indicator that has the highest perception value is financial assistance worth 68.57 percent, while the lowest is the government regulation indicator valued at 63.57 percent.

Perceived financial assistance is more important than regulation, which turns out to be in line with the indicator average. The perception of regulation turns out to be below average, so according to respondents, financial assistance is a more priority matter. (in accordance with the craftsman profile where most consist of high school education and medium-scale business with employment absorption of about 5-7 people.

**Table 7: Respondents' Perception of Social Capital Variables**

Indicator	Percentage of Choice of Respondents					Perceptions	Mean
	1	2	3	4	5		
Network (X21)	0.00	3.57	9.52	78.57	8.33	78.33	3.92
Trust (X22)	0.00	15.48	30.95	51.19	2.38	68.10	3.40
Norm (X23)	0.00	3.57	10.71	77.38	8.33	78.10	3.90
Average	0.00	7.52	17.06	69.05	6.35	74.84	3.74

Source: Research Results, 2018

Based on the analysis of respondents' perceptions of social capital variables in Table 7 it can be seen that respondents' perceptions of social capital are good / high with an average perception value of 74.84 percent. The indicator that has the highest perception value is the network valued at 78.33 percent, while the lowest is the confidence indicator worth 68.10 percent.

**Table 8: Respondents' Perception of Entrepreneurship / Entrepreneurship Variables**

Indicator	Percentage of Choice of Respondents					Perceptions	Mean
	1	2	3	4	5		
Innovative (Y11)	0.00	1.19	10.71	82.14	5.95	78.57	3.93
Proactive (Y12)	3.57	26.19	39.29	30.95	0.00	59.52	2.98
Risk Taking (Y13)	2.38	10.71	25.00	54.76	7.14	70.71	3.54
Average	1.98	12.70	25.00	55.95	4.37	69.60	3.48

Source: Research Results, 2018

Based on the analysis of respondents' perceptions of entrepreneurship variables in Table 8 it can be seen that respondents' perceptions of entrepreneurship are good / high with an average perception value of 69.60 percent. The indicator that has the highest perception value is innovative at 78.57 percent, while the lowest is the proactive indicator at 59.52 percent.

**Table 9: Respondents' Perception of SME Performance Variables**

Indicator	Percentage of Choice of Respondents					Perceptions	Mean
	1	2	3	4	5		
Profit (Y21)	0.00	5.95	11.90	75.00	7.14	76.67	3.83
Market Share (Y22)	0.00	1.19	8.33	82.14	8.33	79.52	3.98
Assets (Y23)	0.00	0.00	57.14	39.29	3.57	69.29	3.46
Average	0.00	2.38	25.79	65.48	6.38	75.16	3.76

Source: Research Results, 2018

Based on the analysis of respondents' perceptions of SME performance variables in Table 9, it can be seen that respondents' perceptions of SME performance are good / high with an average perception value of 75.16 percent. The indicator that has the highest perception value is profit worth 76.67 percent, while the lowest is the asset indicator worth 69.29 percent.

### c. Results of Data Analysis with SEM-PLS

Reliability can be measured by looking at the value of Cronbach's Alpha and Composite Reliability.

**Table 10: Cronbach's Alpha Value and Composite Reliability**

Variable	Cronbachs Alpha	Composite Reliability
Government Policy (X1)	0.689	0.865
Social Capital (X2)	0.697	0.822
Entrepreneurship (Y1)	0.776	0.871
Performance of SMES (Y2)	0.642	0.802

Source: Research Results, 2018

Table 10 shows the value of Cronbach's Alpha and Composite Reliability of each construct is of greater value or close to 0.70 so that it can be said that the gauges used in this study are reliable.

**Validity test**

1) Convergent Validity

**Table 11: Convergent Validity Test Results**

Output	Indicator	Latent Variable				
		Government Policy (X1)	Social Capital (X2)	Entrepreneurship (Y1)	SMES Performance (Y2)	
<i>Loading Factor</i>	X11	0.879				
	X12	0.867				
	X21		0.783			
	X22		0.804			
	X23		0.746			
	Y11			0.624		
	Y12			0.913		
	Y13			0.935		
	Y21				0.763	
	Y22				0.774	
	Y23				0.736	
	AVE		0.762	0.606	0.699	0.674

Source: Research Results, 2018.

Based on Table 11, it appears that all loading factor indicators have values greater than 0.6. This shows that the convergent validity requirements have been fulfilled. Likewise the AVE value has met the requested standard.

**Discriminant Validity Test**

Discriminant validity measurements from measurement models can be assessed based on cross loading measurement indicators with their constructs.

**Table 12: Cross Loading Results Between Indicators With Variables**

Indicator	Government Policy (X1)	Social Capital (X2)	Entrepreneurship (Y1)	SMEs Performance (Y2)
X11	0.879	0.454	0.504	0.498
X12	0.867	0.520	0.494	0.465
X21	0.424	0.783	0.405	0.400
X22	0.519	0.804	0.604	0.528
X23	0.291	0.746	0.311	0.264
Y11	0.269	0.462	0.624	0.323
Y12	0.606	0.539	0.913	0.679
Y13	0.495	0.522	0.935	0.583
Y21	0.289	0.423	0.475	0.763
Y22	0.372	0.341	0.371	0.774
Y23	0.543	0.447	0.597	0.736

Source: Research Results, 2018.

In addition, discriminant validity testing is also carried out through Fornell-Larcker Criterion testing.

**Table 13: Validity Test Results With Fornell-Larcker Criterion**

Constructions	Government Policy (X1)	Social Capital (X2)	Entrepreneurship (Y1)	SMEs Performance (Y2)
Government Policy (X1)	0.873			
Social Capital (X2)	0.557	0.778		
Entrepreneurship (Y1)	0.571	0.603	0.836	
SMEs Performance (Y2)	0.552	0.544	0.659	0.758

Source: Research Results, 2018

Table 13 shows that based on the square root values above AVE with latent variable correlation is greater than the variance along with other constructs, except for the openness of mind variable, but because it dominantly meets the criteria the test results for the construct are declared valid. Another way that can be done to obtain discriminant validity is based on the heterotrait-monotriate ratio of correlations (HTMT) as stated by Henseler, Ringle, and Sarstedt (2015), which states that the value of the distribution of HTMT is smaller or close to 0.85 so that it can be stated construct has discriminant validity.

Table 14 shows the HTMT value which is smaller than 0.85 but there is one value that is still close to 0.85 so that it is considered feasible and meets the testing criteria.

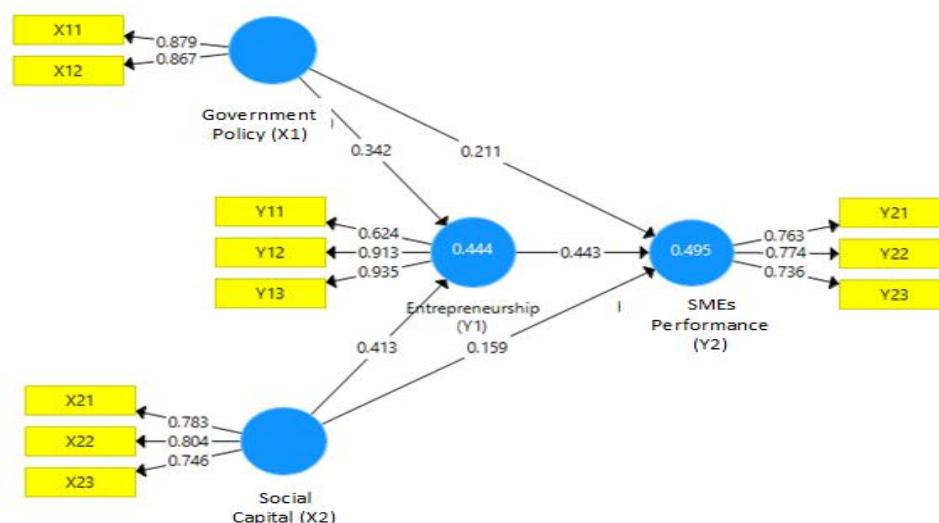
**Table 14: Validity Test Results With Heterotrait-Monotrait**

Constructions	Government Policy (X1)	Social Capital (X2)	Entrepreneurship (Y1)	SMEs Performance (Y2)
Government Policy (X1)				
Social Capital (X2)	0,755			
Entrepreneurship (Y1)	0,752	0,774		
SMEs Performance (Y2)	0,789	0,725	0,864	

Source: Research Results, 2018

### Structural Model Testing

The structural model in PLS needs to be evaluated using R-square for the dependent variable and its significance value based on the t-values at each path. The structural model of this study can be seen in Figure 3.



Source: Research Results, 2018

**Figure 3: Research Model Framework with Path Coefficient**

After the estimated model meets the outer model criteria, the inner model testing is then performed. Assessing the inner model is tantamount to seeing the relationship between latent variables by looking at the estimated results of the path coefficient and its significance level. Table 15 shows the R-square values for each endogenous variable. To get an idea of how much the accuracy of this model in providing information, then we need to know the value of R-square as follows.

**Table 15: R-square value**

Variable	R-Square
Entrepreneurship (Y1)	0.444
SMES Performance (Y2)	0.495

Source: Research Results, 2018.

Table 15 shows the R-square value of 0.444 for the entrepreneurship variable. This means that entrepreneurship variability can be explained by government policy variables and social capital by 44.4 percent. Furthermore, the SME performance variable can be explained by government policy variables, social capital, and entrepreneurship by 49.5 percent.

Based on  $R^2$  in Table 15 it can be calculated  $Q^2$  or Stone Geiser Q-Square test, namely:

$$\begin{aligned} Q^2 &= 1 - \{(1 - 0.444)(1 - 0.495)\} \\ &= 1 - \{(0.413)(0.435)\} \\ &= 0.719 \end{aligned}$$

The calculation result of  $Q^2$  or Stone-Geiser Q Square above is 0.719. This value is greater than zero which is quite large because it is close to 1. This indicates that the overall model is fit with the data or able to reflect the reality and phenomena that occur in the field. Because the model has a high predictive priority, the resulting model is feasible to use to predict.

#### d. Direct Influence, Indirect Influence, and Total Influence Between Variables

Analysis of direct influence, indirect effect, and total effect can explain the relationship between research variables (latent variables). To find out the direct effect between variables can be seen from the results of the analysis of the path coefficients shown in Table 16.

**Table 16: Path Coefficient**

	Ori. Sample (O)	Sample Mean (M)	T Stat.	P Values
Government Policy (X1) □ Entrepreneurship (Y1)	0.342	0.343	3.765	0.000
Government Policy (X1) □ SMEs Performance	0.211	0.208	1.958	0.025
Social Capital (X2) □ Entrepreneurship (Y1)	0.413	0.420	4.368	0.000
Social Capital (X2) □ SMEs Performance (Y2)	0.159	0.170	1.421	0.078
Entrepreneurship (Y1) □ SME Performance (Y2)	0.443	0.444	3.580	0.000

Source: Research Results, 2018.

Based on Table 16 it can be explained that the influence between research variables is positive and significant. Except for the influence of social capital on the performance of SMEs which are not significant. To find out the indirect effect between variables can be seen from the results of the analysis of indirect effects values shown in Table 17.



**Table 17. Value of Indirect Effects**

Constructs	Org. Sample	T Stat.	P Values	Mediation
Government Policy (X1) □ Entrepreneurship (Y1) □ SME Performance (Y2)	0.151	2.779	0.003	Partial
Social Capital (X2) □ Entrepreneurship (Y1) □ SME Performance (Y2)	0.183	2.540	0.006	Full

Source: Research Results, 2018.

Based on Table 17 it is known that government policy directly or indirectly influences the performance of SMEs (through entrepreneurship) is significant, so it includes partial mediation. While social capital indirectly has a significant effect on the performance of SMEs, but bearing in mind that government policies do not have a significant direct effect on the performance of SMEs, the indirect effect of social capital on SMES performance is full mediation.

Based on Table 16 and Table 17 we can calculate the direct effect, indirect effect and the total inter-variable effect in this study, as summarized and presented in Table 18.

**Table 18. Summary of Direct Effects, Indirect Effects, and Total Effect of Latent Variables**

Independent Variable	Dependent Variable					
	Entrepreneurship Orientation (Y1)			SMES performance (Y2)		
	DE	IE	TE	DE	IE	TE
Government Policy (X1)	0.342		0.342	0.211	0.151	0.362
Social Capital (X2)	0.413		0.413	0.159	0.183	0.342
Entrepreneurship (Y1)				0.443		0.443

Note: DE is a direct effect

IE is an indirect effect

TE is a total effect

Source: Research Results, 2018.

### e. Discussion

#### The Effect of Government Policy and Social Capital on Entrepreneurship of SMEs in Tegallalang Village

The results of data analysis show that government policies have a positive and significant effect on entrepreneurship of SMEs in Tegallalang Village. The meaning is that if government policies are better, in the sense of being in favor of SME actors, it will be able to improve the entrepreneurial abilities of SMEs. Furthermore, the analysis also shows that direct social capital has a positive and significant effect on entrepreneurship of SMEs in Tegallalang Village. This means that the better the trust, networks, and norms that are owned by SMEs will be able to increase the entrepreneurship of SMEs in Tegallalang Village. The government's policy so far has been considered to be quite easy for SMEs to increase their entrepreneurial spirit. Among others, when the Government of the Gianyar Regency prepared PLUT-KSMES as a training center for SMEs. In addition, the Gianyar Regency Government regularly facilitates the promotion of SME products through various exhibitions. The latest has even begun to be developed sales, promotions, and marketing of SME products (mainly crafts) through e-commerce facilitated by the Department of Industry and Trade of Gianyar Regency.

Likewise, social capital also has a positive effect on the entrepreneurship of SMEs. SMEs who have a wide network and understand the norms and are trusted will certainly have the courage to take business risks because of their understanding. In addition, SMEs who have wide networks will be able to keep abreast of product trends that are in demand by consumers so that they are more innovative. The role of social capital in economic development is no less important than other economic infrastructure. It has been proven that economic growth is highly correlated with social capital. Social capital owned by the community such as trust, mutual cooperation, networking and attitudes, has a great influence on the

development of entrepreneurial behavior, such as increased public trust which is manifested in honest, orderly behavior and cooperation based on shared norms. In social capital entrepreneurship activities can also function as a lever for the success of business activities, because in social capital there are values of cooperation.

The core dimension of the study of social capital lies in how the ability of the community (nation) to work together to build a network to achieve a common goal, where this collaboration is colored by a pattern of mutual relations and mutual benefit and is built on trust supported by norms. positive and strong social norms and values. The strength of this collaboration will be maximal if it is supported by a proactive spirit of making relationships over principles of participatory attitude, attitudes that pay attention to each other, give and take each other, trust each other in trust, and are strengthened by values and norms. norms that support it (Acta Diurna, 2013).

### **The Effect of Government Policy, Social Capital, and Entrepreneurship on the Performance of SMEs in Tegallalang Village**

Based on the results of research and data analysis it is known that government policy directly has a positive and significant effect on the performance of SMEs in Tegallalang Village. Likewise entrepreneurship has a positive and significant effect on the performance of SMEs in Tegallalang Village. This means that if government policies and entrepreneurship get better, the performance of SMEs will also improve. Whereas social capital apparently has no significant direct effect on SMES performance in Tegallalang Village. The point is that changes in the condition of social capital owned by SMEs do not directly affect the significant changes in the performance of SMEs in Tegallalang Village. Something similar from Aulia Ningrum study (2017) is that social capital has a negative effect, even though it has proven significant on financial performance.

Government policies through financial aid instruments and government regulations have been able to support the performance of SMEs in Tegallalang Village. Government policies have been able to provide convenience and protect domestic products from competition. The implementation of local government policy on the performance of the Kerajinan Kayu SMEs in Tegallalang Village has been running according to the model of performance implementation as the results of the confirmation with the principle of four are correct (1) right to answer the problem, (2) right to implement, (3) right on target, and (4) appropriate environment, in the selection of performance policy implementation models.

Furthermore, related to social capital, namely trust, norms and networking, it does not directly affect the performance of SMEs. This is because SMEs must be able to utilize and apply their social capital through production and post-production activities. Even though SMEs, for example, have good social capital, if they are not matched by quality and innovation in their production, then social capital will not be meaningful to improve the performance of SMEs.

The decline in the value of trade in the last few years shows that the SMEs of Wood Crafts in Tegallalang Village are experiencing obstacles that prevent them from working optimally. In addition to the above, from the results of research carried out by researchers, so far the role of local governments through the Department of Trade Cooperatives and SMEs is still very minimal to touch solutions regarding human resource development and not even at all in terms of social capital. Training to improve the capacity of SME actors has been insufficient and counseling on the importance of social capital to make SMEs more empowered has not been done. So that the SMEs, especially in the field of wood crafts in Tegallalang Village, have not fully utilized the existing potentials to improve performance. Entrepreneurship has a significant effect on the performance of SMEs in Tegallalang Village because: (1) the majority of SMEs have dared to take risks, be innovative, and have good competitiveness; (2) the activities of producing and selling SME products have been able to run well and independently and not depend on other parties. So far, the products produced by SMES in Tegallalang Village are mostly creative and have local characteristics that can compete with other products.

According to Endri (2010), a company will produce different performance if it is managed by different people, meaning that different human resources in managing the same company's assets will produce different added values. Therefore, further study of the HR working in SMEs is needed along with the development of a model that can improve the performance of SMEs. Several studies have shown the effect of HR management (human capital) and the factors present in the HR (social capital) on company performance. One of the studies conducted by Pujiastuti and Kristanto (2012) shows that human capital and social capital have a positive relationship and influence on company performance. The performance measurement according to Dokko (2004) is by assessing the productivity and innovation of HR. Productivity

is an aspect of performance about how much and quickly a job can be completed, while the power of innovation is an aspect of the workforce to look ahead, make a change to improve its performance.

Zhang (2001) concluded that the two main conditions for growing small businesses, namely the company's ability to maintain long-term survival, and the ability of managers to overcome management barriers. In the external factors variable to improve the performance of SMEs, namely the involvement of relevant parties both from government agencies and institutions that facilitate by providing equipment or media assistance for the overall process in terms of raw materials, production processes and marketing processes, so that SMEs can be more creative in producing superior quality products. In internal factors variables to improve the performance of SMEs, namely by increasing the more skilled HR, so the technical aspects of production can be processed quickly and quality.

Performance is very crucial in the development of a business. According to Day (1990), the company's performance outcomes are: (1) satisfaction, meaning that more and more parties feel satisfied by the existence of the company, such as customers, shareholders, employees, lenders, suppliers, and the government; (2) loyalty (loyalty), concerns customer loyalty to the products produced by the company so that women entrepreneurs do not move in purchasing products from other companies; (3) market share (market share), in this case the extent to which the company is able to continue to increase and expand its market share and even be able to become a market leader; and (4) profitability (an increase in revenue), a company is said to be successful in its business and shows good performance if it gradually continues to show a significant increase in profits.

Meanwhile, Armstrong (2004) suggests performance measures can refer to increased income, sales, output, productivity, costs, service reception, reaction speed or change, achieving quality standards or customer / client reactions.

### **The Role of Entrepreneurship in Mediating Government Policy and Social Capital Against Entrepreneurship of SMEs in Tegallalang Village**

The results of data analysis indicate that entrepreneurship significantly mediates the indirect effect of government policies and social capital on the performance of SMEs in Tegallalang Village. In the indirect effect of government policies on SME performance, entrepreneurship is partial mediation, given that government policies are directly or indirectly significant. Whereas on the indirect effect between social capital on the performance of SMEs, social capital is full mediation. These factors are always embedded in the soul of entrepreneurs so that the strengthening of social networks based on cultural background and local wisdom is a necessity in the business world in Tegallalang Village. Local people in Tegallalang Village have very rich local wisdom and are manifested in social entrepreneurship. Social entrepreneurship based on the local wisdom of the Indonesian people has a positive impact by supporting the welfare of local communities amidst global economic instability. In addition, the concept of community social entrepreneurship in Tegallalang Village is also inclusive so that it benefits the surrounding community and promotes harmony with nature.

Social capital owned by the community such as trust, mutual cooperation, networking and attitudes, has a great influence on the development of entrepreneurial behavior, such as increased public trust which is manifested in honest, orderly behavior and cooperation based on shared norms. In social capital entrepreneurship activities can also function as a lever for the success of business activities, because in social capital there are values of cooperation. One very important aspect that is part of internal factors is social capital. Social capital is thought to play a role in increasing income by 20 percent (Fukuyama in Abidin 2010). This makes social capital one of the most important non-economic factors to study.

Social capital is the most important form of capital that can be created by social entrepreneurs because even though economic partnerships are the most important values: mutual understanding, trust and a culture of cooperation, all of this is social capital. The success of Germany and Japan is due to the roots of long-term relationships and cooperation ethics that are able to foster innovation and develop industries in their respective countries. The World Bank also stated that a critical problem in poverty reduction is inadequate social capital. Below this is described the "virtuous circle of social capital" which begins with the initial inclusion of social capital by social entrepreneurs. Furthermore, a network of trust and cooperation is increasingly built so that they can access physical development, financial aspects and human resources. When business units are formed (organizational capital) and when social businesses start to be profitable, more and more social facilities are built. From the SME segment (Sugiarto, 2011) indicators of performance success are divided into 2 (two) things: company success indicators and entrepreneur performance indicators concerned.

The increasing role of SMEs in economic development can encourage government awareness (both local and central) to pay more attention to improving the SME sector (Oyelaran-oyeyinka and Lal, 2006). According to Lumpkin (2001) the lack of innovativeness, competitive-aggressiveness, and proactiveness shows that SMEs do not have an entrepreneurial orientation that can result in decreased performance. While the lack of social and advocacy participation shows that SMEs do not have the ability to build social capital (social capital) in work that can result in a decrease in the performance of SMEs (Bolino, et al 2002). Thus it can be said that structural social capital will improve company performance (in this case SMEs) as the network within the company increases, because within that network effective connections and contacts occur. Miller (1981) recommends that entrepreneurial orientation is formed by three main dimensions, namely: the ability to innovate, proactive and the tendency to take risks. Wiklund & Shepherd (2003) said that through investigating entrepreneurial orientation, it would be possible to explain the existence of managerial processes that enable companies to reach positions that are superior to their competitors. Because entrepreneurial orientation facilitates the company's actions to act based on initial signs that come from the company's external and internal environment.

#### IV. CONCLUSION

Entrepreneurship is a very strategic mediator in strengthening the performance of SMEs, especially in the field of wood crafts, so the government should pay more serious attention to efforts to empower SMEs to improve entrepreneurial orientation. Some of the efforts that the government can do include: (1) Involving the world of education in instilling an entrepreneurial spirit early on through the education curriculum, especially wood craft SMEs in Tegallalang Village are generally hereditary, so that with the spirit of family business with a high work ethic, SMES wood crafts in Tegallalang Village can still exist. (2) Providing technical training in production with innovative technology, product design and quality management to improve the quality and capacity of wood craft products. (3) The government should collaborate with research institutions to conduct an export reorientation program which is expected to find new potential export destination countries.

Facilitating crafters to expand the export market through assistance and ease of handling Timber Legality Verification Certification (SVLK) as an export requirement for craftsmen who export handicrafts. (4) Involving wood carving craftsmen intensively in promotional activities and exhibitions through roadshows, e-marketing, websites, in collaboration with the government.

Social capital is a potential that can be used in order to build togetherness of SMEs in driving performance to build business competition and gain more market segments in the context of the welfare of SMEs in the village of Tegallalang, Gianyar Regency. Therefore, SMEs can make several efforts: (1) be more proactive in finding out about the use of innovative technology in the process of making wood crafts; (2) promoting products at various exhibitions and events, as well as online promotions; (3) cooperating with other parties, including academics, to try to penetrate the export market.

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