

The Role of Entrepreneurs, Social Capital and Absorptive Capacity for Small Enterprises in Indonesia

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Abstract

Small enterprises sector has contributed massively in the Indonesia's GDP and in developing Indonesia's rapid economic growth. Many of Indonesian products have been developed by small enterprises entrepreneurs in the area of small to medium scale businesses; such as beauty related products, garment and up-to-date easy to wear products. Entrepreneurs have upgraded their skills and expanded their market niche through effective marketing concept as a result of strategic managerial skills. They have also succeeded in creating consumers' needs to consumers' wants and shift basic needs to become purchasing trends. This study therefore shows that small enterprises entrepreneurs to certain extent have contributed to the development of small to medium scales of businesses known as SMEs. The purpose of this study was to determine the role of entrepreneurs in the SMEs growth in Indonesia. The variables observed were entrepreneurs skills, social capital to absorptive capacity of SMEs in Indonesia. The study was using a qualitative approach in a form of a non-probable sampling technique. Entrepreneurs were the statistic sampling of SMEs population within Indonesia provinces. These results indicated that entrepreneurs' leaderships skills and effective managerial skills have significant correlation on the SMEs' development. While social capital and absorptive capacity have positive impact on the SMEs' going concern. It could be concluded that all variables simultaneously have a very strong correlation that have a relatively high impact to SMEs' development with unidirectional relationships.

Key Words: Entrepreneurs, social capital, absorptive capacity, small medium enterprises.

1. Introduction

Small and Medium Enterprise (SMEs) indeed play a strategic important roles in the Indonesian Economics Growth (Tambunan, 2017) and (Faeni, 2017). The study has shown SMEs' that one of the strategic roles is as vital and as large enterprises that absorbs massive working forces and contribute large scale of income to the Indonesian GDP (Armstrong et.al., 2016). A recent study also indicated that SMES have direct support and contribution to the social capital at least there are four major contributions to the economic values; such as employments absorption, income equality distribution, corporate social responsibility, social economic structure development and economic development supports for minority incomes due to reducing income inequality. There are four major reasons to rank SMEs' roles as strategically important as large enterprises such as; first, to establishment SMEs do not require a large number of initial capital due to it's simplicity accounting and financial management nature; secondly, human resources recruitment do not requires skillful manpower based on learning by doing as by nature has historical factors, thirdly, location aspects do not requires prime location which has to be equipped with sophisticated infrastructures and fourthly (Weijland, 2009), Indonesian government realized that SMEs have major contribution in the process of the economics growth development even though supported by very insignificant government policies and regulations. Policies and regulations for SMEs tend to be not well comprehensive sometimes misinterpreted and less effective, barely touching the objectives (Adiningsih, 2011). As identified in previous studies there are several major problems in the development of SMEs as major concerns for the government such as; government has not established any proper SMEs trainings in upgrading skills of SMEs actors, even there are no government policies and regulations which support SMEs actor establishment. Lack of constructive trainings has indirectly push SMEs to become second class citizen business entrepreneurs and considered as marginal low technology businesses. Low initial capital, non-bankable businesses and local market orientation should not be overlooked by the government. The role of SMEs have so far console finance and economic system nationwide due to its perseverance in running the nation economics. SMEs are indeed the soul of ASEAN Economics, the success of SMEs indicates the nations success. Another classical obstacle for SMEs upgrading is low quality labor will produce low quality of products because SMEs start up with small initial capital therefore only afford to recruit unskilled labors that manages SMEs in traditional paradigms. Traditional SMEs management may cause traditional way of market penetration and product development to always concentrate on the product improvements. In the development of SMEs upgrading of the knowledge skills and transformation of developing the business level through improvements of product innovation, continuous quality improvements, upgraded human capital, absorptive capacity level, adaptive new technology and wide range business network are highly required (Schmitz, 2010).

Social capital in the working environment is the key to successful existence of SMEs, by all means social capital refers to individual and business partnerships and network collaboration in business community or individuals (Leana & Van Buren, 2009; Tsai & Ghosal, 2008). Social capital is a relatively new but vital perspective concept in building SMEs. Productivity and social network within social capital will strengthen SMEs existence to keep it going concern (Pontoh, 2010). Social capital such as internet connections, informal business relations, interpersonal relation and managerial relationship are the basic critical fundamental activities in SMEs throughout South East Asia (Pollard, 2010) and (Jemicz, 2010). Empirically SMEs have suffered through some oppressions in their businesses due to lack of competitiveness in the international business world (Manolova, 2009), (Manev, 2009), (Gyoshev, 2009) and (Peng, Wang Nd Jiang, 2008).

Absorptive capacity in SMEs determined its ability to explore and exploit internal and external basic capabilities strengths and knowledge. Absorptive capacity considered to be the most important element to help SMEs upgrading in enhancing in their business competitiveness by producing advancement of commercial products and transformation knowledge of services in the market. The abilities to acquisition, assimilate, transform and exploitation of knowledge are those among considered to be sophisticated absorptive capacity (Neige, 2014). Hence, SMEs should be positioned to be accelerated and introduce to their external environment business knowledge by identifying external business growth and internal knowledge to be developed to enhance competitive advantage of their SMEs (Ndiege, 2014).

2. Literature Reviews

Entrepreneurs

The involvement and existence of small enterprises entrepreneurs in Indonesian economic world from decades have significant escalation in its growth. Local entrepreneurs leaders have long been involved in the making and trading of batiks nationwide to support their family economics (Febriani, 2012). Aside to their potential and competencies as entrepreneurs, SME's activists, managers or as workers will still continuously upgrade their business and entrepreneurship skills (Hesti, 1996). The phenomena of entrepreneurs and or workers merely based upon their needs to achieve economic freedoms, to fulfill their basic hierarchical needs in order to survive financially, economical opportunities to improve their living standards and to access equality of opportunities as an expression of the communities' acceptance of their existence (Sukesi, 2002). Entrepreneurs' success barometer can be indicated by their economic stability, their income level per capita and their contribution to their family's economy. Small enterprises entrepreneurs were trained and involved to compete from their early age, such in team works sport competition, lack of confidence to compete and too focus on small things which can hinder the major issues when handling problems in problem solving which may jeopardize their leaderships skills.

Entrepreneurs tend to be risk takers and tend to be decisive when force to make major decisions and perform as mediocre workers, modest and not showing their eagerness in achieving their goals. Entrepreneurs tend to stay in outside their comfort zone and be aggressive and assertive when their rights are taken away. Entrepreneurs tend to be proactive and taking initiative in achieve their business goals. The analysis in stressing out that the main root cause of all problems involving small enterprise entrepreneurs is based on the low quality of human resources which impact lack of competitive advantage compare to those who are coming from a career ladder from large enterprises concept of economy. Therefore, there must be some certain strategy to diminish discrimination by giving the same opportunity in education and their involvement in the economic development.

H₀ : There are no significant correlation between entrepreneurs and SMEs in Indonesia.

H₁ : There are positive correlation between entrepreneurs and SMEs in Indonesia.

Social capital

Social capital is perceived and defined as an integrated interpersonal relationships supported by network, values and social trusts that enhance efficiency and effectivity of business in relations with profit orientations (Cox, 1995) in (Faeni, 2017). Social capital is also perceived as a resources in developing a new resources in one business process (Hasbullah, 2006). The latest study concerning social capital is perceived as resources in enhancing continuous competitiveness as basic concept in building social capital. Business process is not alone and isolated but rather this social capital is an investment itself in developing network and business relations to increase economical incremental values in organization (Ma et.al., 2009) (Manolova et.al., 2009) and (Walter et.al., 2006). Social capital improves business network with other companies, economical and social entities and or individual networking that is transformed into some kind of business cooperation with the orientation of increasing economical values to involved parties in this social capital practices. The type resources in the form of business relations is known as social capital. Social capital is intangible sources that may develop strategical competitiveness to support companies sustainability in the competitive world. (Lages et.al., 2009) (Nahapiet et.al., 1998) (Goshal, 1998) and (Westlund, 2006). (Davidson, 2003) and (Honig, 2003). Social capital refers to entity, relations and norms that form quality and quantity in the social interactions in the business society. Social capital is not only based upon how much companies or organizations that support the society but also as cohesive to attract all stakeholders in relations to structural social capital and cognitive social capital (World Bank, 2006). In addition to that, in the perspectives of sociologist anthropologist in Indonesia, social capital is consisting human being with the same potential groups, type of relationships, interpersonal and interpersonal relationships established by the

norms, social networking and beliefs of group and individual that based upon the same beliefs (Koentjaningrat, 1990) (Soekanto, 2002). The differences are in the interrelations upon the consequences of social capital bonding and social capital bridging (Hasbullah, 2006) and (Faeni, 2016). Social capital also defined as social organization appearance in networking and beliefs that facilitates team cohesiveness and coordination for mutual benefits (Sukmawati, 2014).

H₀ : There are no significant correlation between social capital toward SMEs in Indonesia.

H₂ : There are significant correlation between social capital toward SMEs in Indonesia.

Absorptive Capacity

In accordance to previous researchers absorptive capacity is perceived as how one company manages and integrates its information from external sources and combine those information with the present internal resources and situation for producing that answers present market demands (Wang, 2007) (Ahmed, 2007) (Adeniran, 2012) (Johnston, 2012) (Szogs, 2008). Absorptive capacity can be perceived as important procedure-based capability for the organizations. Absorptive capacity in organization is the ability as internal technology efforts in correlation with external knowledge's resources. The importance of absorptive capacity is to integrated external and internal resources and to develop the concept as products that answers the market demand (Faeni, 2017).

Absorptive capacity is created to seek new knowledge and the know how as additional company's ability to expand their capacity for enhancing competitive advantage for the company (Lane, 2006) (Koka, 2006) (Pathsk, 2006) (Cohen, 1990) (Levinthal, 2006). Absorptive capacity can be viewed as an important procedure-based capability for the organizations (Saghali, 2011). (Allahverdi, 2011). The term is used to seek additional knowledge to improving competitive advantage (Lane, 2006) (Koka, 2006) (Pathak, 2006). Absorptive capacity is defined as acknowledgement of a new knowledge to be assimilated and application for commercial based orientations (Faeni, 2016) (Faeni, 2017).

H₀ : There are no significant correlation between absorptive capacity toward SMEs in Indonesia.

H₃ : There are significant correlation between absorptive capacity toward SMEs in Indonesia.

Small medium enterprises

Small Medium Enterprise (SMEs) and its development often correlated with production units in small medium scale enterprises through demand and supply process. In some literature reviews SMEs interpreted with entrepreneur characteristics, firm characteristics, social capital, inter firm linkages and business society. The term of SMEs is often related to the growth of the

company itself through development processes. In the discussion, development will be referred as intelligent efforts and approaches in problem solving with different ways of methodology aspects and process that differs from any other competitors (Humphrey dan Schmitz, 2000). The term SMEs is an introduction process with new paradigm that differs from other competitors in firm's relevant markets, but never in different marketing perspective worldwide. It could be concluded as theoretical reviews and empirical studies as define in SMEs in many different aspects as in global value chains. The type of business linkage the process of creating development SMEs is in growth (Navas, 2011), (Alemain, 2011), (Dunn et.al, 2006), (Guiliani et.al., 2005), (Kaplinsky, 2005) and (Readman, 2011).

SMEs development in marketing also refers to competitiveness. It involves evaluation, acquisition, integrated usage of new external knowledge (Van de Bosch, et.al, 1999). The organization ability to learn and act to modern technology activities as scientific findings (Sun and Anderson, 2010). SMEs development are introductory to new product resulted in upgrading in the sales volumes (Humphrey and Schmitz, 2000). The rapid growth of SMEs can be analyzed from various aspects, such as the objectives of the entrepreneurs' perspectives; sales growth, profitability and workers' productivity. All of these aspects certainly not always to grow simultaneously, but sales growth and profitability may increase in numbers while using a smaller numbers of workers. Hence, SMEs growth can be measured with direct innovation approaches known as enterprise development process.

The growth of SMEs can be enhance through enterprise development process, it can be easily identified if it can reproduce a more competitive advantage SME if compares to other SMEs due to its economical increase or growth. The correlation between growth can be illustrated through development process that creates high sales volume and or the increase of profitability. Cost efficiency in production where output per unit is utilizing minimum resources but can produce higher leverage of incomes with higher profit margins in creating a bigger market opportunity. Innovation process is creating growth in functional innovation that shorten the production process in a shorter production chain but creating a higher product values exchange and in sectoral innovation.

H₀ : There are no significant correlation between entreperneurs, social capital and absorptive capacity in SMEs in Indonesia.

H₄ :There are significant correlation between entreperneurs, social capital and absorptive capacity in SMEs in Indonesia.

3. Hypothesis

H₀. : There are no significant correlation between enterpreneuers and SMEs in Indonesia.

H₁ :There are positive correlation between enterpreneuers and SMEs in

Indonesia.

H₀ : There are no significant correlation between social capital impact SMEs in Indonesia.

H₂ : There are significant correlation between social capital with SMEs in Indonesia.

H₀ : There are nonsignificant correlation between absorptive capacity and SMEs in Indonesia.

H₃ : There are significant correlation between absorptive capacity and SMEs in Indonesia.

H₀ : There are no significant correlation between entrepreneurs, social capital and absorptive capacity in SMEs in Indonesia.

H₄ : There are significant correlation between entrepreneurs, social capital and absorptive capacity in SMEs in Indonesia.

4. Methodology

In this study described the methodology research used as a basis for analyzing the approach to understand the SMEs entrepreneurs. The factors that influence dependent and independent variables will be tested on the data, population and sample. The variables are tested partial and simultaneously through multiple linear regression analysis model. It will find causal concept in order to identify the relationship between variables and them tested the approach model for the real solution to help to understand and predict the variables relationships (Chin, 1998).

5. Population Sample

Population in a group or collection of individuals or subjects of research that has certain of the characteristics predetermined (Creswell, 2012). Based on the variables being studied, it depend the quality and characteristics of the population of individuals or objects observation (Fridah, 2011). In this study population were 100 entrepreneurs and leader of SMEs business for more than 5 up 25 working experiences as managers or leaders with their highest education as high as high schools graduates up to post graduates were being questioned and surveyed. This research was conducted in various different provinces in Indonesia.

6. Results

The data was collected from questionnaires filled out by respondents. It provides an overview of respondents by age, highest education, entrepreneurs years and IT experiences as stipulated at Table 1.2.

Table 1.1: Profile of Respondents by Age, Highest Education, Entrepreneur Years and IT Experiences

Respondents Indicator Characteristics	Total People	Percentage
Age		
Less than 30 years	40	40%
31-40	31	31%
40-50	19	19%
51 above	9	9%
Educations		
Postgraduates	18	18%
Undergraduate	18	18
High School	60	60
Experiences Year		
<5 years	43	43%
5-10	22	22%
11-15	21	21%
16-25	14	14%
Users of IT		
Online	88	88%
Non Online	12	12%

Source : Primary Data, SPSS. 22.00

Based on the data above all women respondents more than 43% under the age of 30 years where 36 people with tertiary education backgrounds and 88 people are aware of online usage for their businesses and computer literate. Entrepreneurs as respondents 86 people are mostly worked for 5 years and above but lower than 25 years experiences as entrepreneurs and managers.

Results of Multiple Regression Analysis

Thus study use partial and simultaneous features then it gave a holistic view about the relationships among variables. Based on analysis results and statistic interpretation from SPSS. 22.00 for Windows it can be seen the multiple

regression analysis partial and simultaneous. The results given in Table 1.2.

Table 1.2

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	6.320	1.701		3.716	.000					
Entrepreneurs	.206	.046	.362	4.459	.000	.644	.346	.258	.508	1.967
Social capital	.177	.044	.275	4.038	.000	.556	.317	.233	.720	1.388
Absorptive capacity	.115	.042	.217	2.755	.007	.583	.222	.159	.538	1.858

a. Dependent Variable: SMEs in Indonesia

Coefficient Collinearity

Source : Primary Source Data 22.00, 2018

From the calculation result of Multiple Linear Regression analysis as shown in Table 1.2. That the influence of independent variables on the dependent variables was large in the value of the coefficient of determination (R^2) is equal to 0,6.

Table 1.3: The Coefficient of Determination (R^2)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6.320	1.701		3.716	.000
Entrepreneurs	.206	.046	.362	4.459	.000
Social capital	.177	.044	.275	4.038	.000
Absorptive capacity	.115	.042	.217	2.755	.007

a. Dependent Variable: SMEs in Indonesia

Source : Primary Source Data 22.00, 2018

The Analysis and Discussion of Hypothesis

Multiple correlation coefficient R (multiple correlation) described the strength of the relationship among the variables in the dependent variables such as entrepreneurs, social capital and absorptive capacity toward SMEs in Indonesia. This means that simultaneous relationship between the variables is very close since R value is approaching 1. The interpretation of the regression model can be formulated and summarized in multiple regression equation as follows $Y = 6.320 + 0.260X_1 + 0.177X_2 + 0.115X_3 + e$. The analysis b_1 = with constant of 6.320 entrepreneur has 0.206 is a slope or direction coefficient of entrepreneurs that affect the SMEs in Indonesia with the regression coefficient X_1 that value is 4.459 a positive sign.

Hypothesis Entrepreneur toward SMEs in Indonesia

These results interpreted as SMEs in Indonesia can be achieved by entrepreneurs effective management with the assumption that entrepreneurs variables has a value equal to zero or considered has constant influence. b_2 = with constant of 6.320 social capital has 0.177 is a slope or direction coefficient or social capital that affect of SMEs in Indonesia with regression coefficient X_2 value is 4.038 a positive sign.

Hypothesis Analysis Social Capital toward SMEs in Indonesia

These results interpreted as SMEs in Indonesia may leverage by social capital by continuous improvement of business networking and social relations for better SMEs competition. b_3 = with constant of 6.320 absorptive capacity has 0.115 is slope or direction coefficient or absorptive capacity that affect SMEs in Indonesia with regression coefficient X_3 value is 2.755 a positive sign.

Hypothesis Absorptive Capacity toward SMEs in Indonesia

These results interpreted as absorptive capacity significantly correlative with SMEs in Indonesia due to innovation creation to always improve SMEs products and breakthroughs in marketing innovation, packaging, merchandise the products and lucrative pricing strategies. The analysis result bring explanation about the relationships among variables.

Table 1.4: Adjusted (R^2) Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.716 ^a	.512	.502	3.749

a. Predictors: (Constant), entrepreneurs, social capital dan absorptive capacity

Source : Primary Source Data 22.00, 2018

The result also showed the influence of entrepreneurs, social capital, absorptive capacity and the efforts of SMEs in Indonesia. Their relationships can be explained from the analysis results which gained R 0.716 (71,6%) which the remaining 28,4% was described by other variables not studied in this research.

Hypothesis Testing Results

To determine the independent variables simultaneously toward dependent variable, this study used Adjusted R² to compare the value of a significance. To determine the Adjusted R² Model Summary in this study then it compared with values of sig. f with the significance level as shown in Table 1.4.

Table 1.5: Adjusted (R₂) Model Summary

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2154.667	3	718.222	51.101	.000 ^a
	Residual	2052.006	146	14.055		
	Total	4206.673	149			

a. Predictors: (Constant), entrepreneurs, social capital & absorptive capacity

b. Dependent Variable: SMEs in Indonesia

Source : Primary Source Data 22.00

Hypothesis Testing Results

Anova b

Based on the analysis result in Table 1.5. F Test has a significance of 0.000. It means that the value of significance of F Test result is smaller than α . From this analysis, it showed that entrepreneurs, social capital and absorptive capacity have simultaneously significant effect on SMEs in Indonesia.

Test Result for H₁, H₂ and H₃

To determine the effect of each independent variable eg. entrepreneur, social capital and absorptive capacity among SMEs in Indonesia. This study used two way testing (two side of two tail testing) by composing with the significance alpha with degree of freedom by 3% (df = 5%) the t result is summarized in Table 1.5. Based on this t test in Table 1.5. Partially, entrepreneurs (X₁) has significant value which equal to $0.0051 < 5\%$. The results indicated a significant influence between entrepreneurs leaders with SMEs in Indonesia. The analysis results of social capital (X₂) indicated how it gained $0.050 < 5\%$ which can be explained the variable bring higher development of SMEs in Indonesia at least lowest value or constant. Whereas Absorptive capacity (X₃)

and SMEs in Indonesia also tested to know the effect and how SMEs in Indonesia effected by absorptive capacity.

7. Conclusions and Suggestions

Upgrading SMEs is a necessity and can only be achieved by a strong entrepreneurs which based upon higher skills and educations. SMEs in Indonesia can also be implemented by larger social capital skills and an enlargement or absorptive capacity. Social capital can be improved by expanding both by individual and business networks.

1. Entrepreneurs leaders has positive significance to SMEs in Indonesia, can be concluded that entrepreneurs has positive impact on the upgrading of SMEs supported by research done by Huda 2009, that in Bangladesh involved in formal sectoral an informal economics development due to their interest to expand their business commercially.
2. Variable Social capital has positive significance in the development of SMEs in Indonesia. This is supported by the research conducted by Khorriani 2014. The research resulted data SEM Analysis supported that knowledge and dimensional structural has a positive impact on the social capital both individually and business linkage towards the SMEs in Indonesia.
3. The variable absorptive capacity has a significant positive impact towards the development of SMEs. In other words we can conclude that the absorptive capacity is vital and significant in the development of SMEs in Indonesia. This is supported by the research conducted by Mucio (2012) stating that the estimation of several profit model has shown that the absorption of SMEs has a relevant impact on the capability of the SMEs in Indonesia by establishing cooperation with external establishment.
4. Based on the simultaneous correlation factors among the variables between entrepreneurs, social capital and absorptive capacity and the development of SMEs in Indonesia, it has a high, positive and in the same conformity. With the enhancement of the entrepreneurs, social capital and absorptive capacity, until the SMEs development in Indonesia will improve. The adjusted coefficient R square of 0,716 or 71,6%. Meaning that the independent variables simultaneously, entrepreneurs, social capital and absorptive capacity of the development of SMEs in Indonesia is 71,6%. While the difference of 2,84% can be explained by other variables that is not research in this journal.

8. Suggestions

Based on our suggestion, we conclude that several suggestion as follows:

1. The government should develop entrepreneurship for SMEs based on the World Bank International Finance Corporation on the access of financing for entrepreneurship in Indonesia. It is stated that small

entrepreneurs has a good return rate, much better than the scores of large scale entrepreneurs. SMEs entrepreneurs have a relatively higher interest rate of receiving credit funding in comparison to large scale entrepreneurs. SMEs entrepreneurs are more careful in applying for credits and has the higher consideration to return the credit funding received. This is the key factor for the bank to enhance the opportunities for women entrepreneurs to receive access to funding.

2. To enhance the competency of SMEs entrepreneurship to develop their SMEs capability, they must conduct and upgrading in their knowledge, skills of SMEs of entrepreneurs by giving them the related training on these sectors.
3. The government must socialize potential women entrepreneurs in rural areas. This is due to the social norms that are still rigid in values and attitude as a constraint in the enhancement of entrepreneurship. So we must expand their horizon of the entrepreneurs to expand their business skills to help the family economy.

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