

# Does Entrepreneurship Supply Chain Management Mediate the Effect of VOE Resources and Social Capital to Performance of Craftsmen?

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**Abstract**— Sustainable Development Goals aims to reduce inequality, however, this problem still occurs in Bali Province. Data from its Industry showed a gap in SME performance between cities, with the lowest performance of MSE in Karangasem Regency. The objective of this research was to analyze: the effect of Village Own Enterprise (VOE) resources and social capital to entrepreneurship and performance of craftsmen. Data used were quantitative and qualitative collected through observation, and in-depth interviews, with the SEM-PLS program used for its analyzes. The results show that the effect of VOE resource is positive but insignificant to entrepreneurship of craftsmen, while social capital is positive and significant. Furthermore entrepreneurship does not mediate the effect of VOE resources on performance, while entrepreneurship mediates the effect of social capital. The suggestion of this research were to VOE management in order to more introduce the existence of VOE, subsequent researchers need to add external variable that possible influence the performance of craftsmen for example government policy.

**Keywords**— *entrepreneurship, performance, village, own, enterprise, social, capital, supply chain management*

## 1. Introduction

The reduction of inequality is one of agenda Sustainable Development Goals, however the problem until now still occur in Bali Province. Data from its Industry showed a gap in SME performance between cities, with the lowest performance of MSE in Karangasem Regency by indicator investment, production and number of employees, is the lowest between other regency/cities. Woven weaving craftsmen, woven pandanus, coconut shell processing craftsmen and wood sculpture craftsmen are part of MSE that get more attention from local government, because they produce tourism supporting product and export commodity. The government has made various efforts to overcome the problem of economic inequality to realize social justice for all of Indonesian people. President Joko Widodo's nawacita program is to develop Indonesia from the periphery by strengthening region and village within the framework of a unitary state. Follow up of the program to develop Indonesia from the periphery by strengthening regions and villages, namely the issuance of Law 6/2014 on Villages mandating that villages can establish Village Owned Enterprises (VOE).

Establishment of VOE aims as a locomotive of village-level local economic development. The local economic development of the village is based on the needs, potential, capacity of the village, and capital participation from the village government with the ultimate goal of improving the economic standard of the village community. One effort to improve the economic level of rural communities is to establish VOE. The percentage increase in the number of VOE units in Karangasem Regency over the past two years is 6.25 percent. The ratio of VOE to the number of villages is 87.18 percent.

The high ratio of VOE to the number of villages shows that villages in Karangasem Regency have a high interest in forming VOE.

Resolving the problem of inequality and low performance can be done not only through economic empowerment, but also through strengthening social capital. Social strengthening can be done through social capital strengthening schemes such as improving the function of the Village Consultative Body (VCB), VOE, Village Community Financial Institutions (VCFI), Farmers Group Association (FGA) and cooperatives. Social capital, if managed properly and correctly, will be better able to empower the community, one of which is through the development of entrepreneurial behavior to support poverty reduction [1].

Empirical findings about the determinants that affect MSE performance find that microfinance institutions have the significance of not only seeking profit but also increasing the income of micro small business owners and helping to increase empowerment and socioeconomic productivity [2]. [3] found that the network as an indicator of social capital can be a driver of growth in corporate business in Norway. A different finding was stated by [4] who examined the empowerment of the household handicraft industry for poverty alleviation in the Province of Bali, in terms of social capital and the role of traditional institutions found that social capital was not significant to the empowerment of the Household Handicraft Industry. This study aims to analyze: 1) The Effect of VOE Resources and Social Capital on Entrepreneurship Entrepreneurs in Karangasem Regency, 2) The Effect of VOE Resources, Social Capital, and Entrepreneurship on the Performance of Craftsmen in Karangasem Regency, 3) The Role of Entrepreneurship in Mediating the Effect of VOE Resources and Social Capital on the Performance of Craftsmen in Karangasem Regency.

## 2. Literature Review

VOE is the New Forum for Local Economic Development through the optimal role of village government, community and private sector as the initial initiation, many VOE activities are still focused on microfinance services [5]. Similar institutions to VOE have been developed in several countries such as Japan, Thailand, the Philippines and China. Japan introduced the concept of OVOP (One Village One Product). This concept was discovered in a city called Oita around 2001, a concept of economic and social development for rural communities [6]. OVOP means a sub-district produces at least one superior product. This concept was later adopted by China under the name

OBOP (One Barangay One Product), in Malaysia under the name One Village One Product Moment and in Thailand named One Tambon One Product (OTOP) [7].

OTOP in Thailand has objectives in the economic, social, psychological and political fields proven to have experienced economic success since the initiation made by the government, but OTOP's contribution to social development is considered very small [6]. VOE as an organization that grows and develops in the social life of rural communities, needs to develop dialogue with the community to get a picture of the professional management of the community version of the VOE. VOE sustainability is very dependent on the ability to manage the organization, because VOE is in a situation that requires ambidextrous management to become a social business organization. If the social aspects are the focus of VOE, it is important to realize that the principle of mutual cooperation and volunteerism requires a strong commitment to bind the parties managing VOE. If VOE is directed to become a professional business organization, resulting in a transactional pattern of relations and a low sense of ownership in the social capital that forms the VOE [8]. Social capital has six dimensions, namely: 1) total membership; 2) the diversity level of group/organization members; 3) meeting intensity; 4) level of decision making; 5) the level of contribution (money and labor); and 6) community orientation [9]. [10] distinguish social capital into two complementary dimensions, namely structural and cognitive dimensions. Both dimensions have common elements that encourage mutually beneficial cooperative behavior. [11] identifies social capital into six dimensions, namely: 1) habits (type of agreement: formal and informal); 2) shared goals (between institutions respect each other respect); 3) relationships in the "bridging" relationship (trust and reciprocity) build together; 4) social capital as an intermediary (trust can build a system of closeness between individuals); 5) the intensity of relationships (the intensity of relationships between individuals is wealth and multiple benefits in society); and 6) social location (establishing kinship (neighbors) well can build social capital resources.

Entrepreneurship is a creative and innovative ability that is used as a basis, tips, and resources to find opportunities for success. Creativity is the ability to develop new ideas and new ways of solving problems and finding opportunities. The point is creativity is to think of something new and different. Innovation is the ability to do something new and different [12]. Entrepreneurship contributes significantly to company success [13]. An entrepreneur must have new ideas that result from creativity. This creativity will bring entrepreneurs to innovate their businesses. Innovation as an indicator of the spirit of

entrepreneurship can be generated by the existence of social capital. Network as a dimension of social capital can be used as a tool to open the innovation process. Interaction with business partners and suppliers at MSE in Romania was able to increase the innovation of MSE [14], and [15]. Social networking and cognitive as a dimension of social capital mediated by knowledge sharing were found to be able to improve entrepreneurial spirit with innovation indicators and to be able to improve the performance of MSE in the tourism sector in Korea [16]. [17] find that eco-innovation has positive effect to marketing performance.

Performance is a multidimensional concept and the relationship between performance and entrepreneurship depends on the indicators used to measure performance [18]. Empirical literature reports that there are high differences in performance indicators. A common difference is the difference between financial and non-financial measurements. Non-financial measures consist of customer satisfaction and global success generated by managers and owners, while financial measures consist of sales growth, return on investment (ROI) [13]. Indicators that can be used to measure MSE performance are: a). profit growth, capital growth and growth in the number of employees [19]. Measurement of company performance can use objective and subjective measurements. Measuring performance objectively refers to quantitative indicators. Subjective measurements depend on the subjective opinion of the expert team [20]. Financial indicators that can be used to measure MSE business performance are; an increase in the number of sales, an increase in the amount of capital and an increase in the number of labor [21].

### 3. Method

This research uses quantitative and qualitative data types, based on the source data used are primary and secondary data. Data collected by the method of observation, interviews and in-depth interviews. The population of this research are all woven weaving craftsmen, woven pandanus, coconut shell processing craftsmen and wood sculpture craftsmen who have interacted with VOE in Karangasem regency determined by saturated sampling method, which is the sampling technique where the entire population is used as research samples, so the number of research samples is 122 craftsmen. This research uses descriptive analysis techniques and quantitative analysis techniques with structural equation modeling or (SEM-PLS).

## 4. Results and Discussion

The results of the analysis of the research data are presented in Table 1 and 2. Direct Influence Between Research Variables served in Table 1.

**Table 1.** Path Coefficients

		Original Sample	Standard Deviation	T Statistics	P Values
VOER (X <sub>1</sub> )	→	0,101	0,120	0,840	0,401
ENTP (Y <sub>1</sub> )					
VOER (X <sub>2</sub> )	→	0,041	0,073	0,557	0,578
PERF (Y <sub>2</sub> )					
SCAP (X <sub>3</sub> )	→	0,415	0,088	4,726	0,000
ENTP (Y <sub>1</sub> )					
SCAP (X <sub>3</sub> )	→	0,271	0,059	4,612	0,000
PERF (Y <sub>2</sub> )					
ENTP (Y <sub>1</sub> )	→	0,490	0,058	8,438	0,000
PERF (Y <sub>2</sub> )					

Source: Results of data analysis

Note: VOER = VOE Resources, ENTP= Entrepreneurship, SCAP = Social Capital, PERF= Performance

The indirect effect between latent variables can be seen from the results of the analysis of the specific indirect effect values presented in Table 2.

**Table 2.** Specific Indirect Value

Relation between Variables	Mediator	Original Sample	Standard Deviation	T Statistics	P Values
VOER (X <sub>1</sub> )	Y <sub>1</sub>	0,050	0,061	0,808	0,419
PERF (Y <sub>2</sub> )					
SCAP (X <sub>3</sub> )	(X <sub>2</sub> )	0,204	0,045	4,556	0,000
PERF (Y <sub>2</sub> )					

Source: Results of data analysis

The findings of this study stated that VOE Resources directly had a not significant positive effect on the Entrepreneurship of Craftsmen in Karangasem Regency. This finding means that the amount of capital, the number of workers and the quality of the workforce owned by VOE have not yet contributed to increasing creativity, innovation, courage to bear the risk and independence of craftsmen. VOE is a business entity that is owned and managed by the village government in order to improve the economy of the village community which in the end is expected to improve the welfare of the village community. VOE is expected to be able to manage the resources owned efficiently and effectively in order to carry out the mandate of establishing VOE

[22] states that VOE is mandated by law to become a village level social entrepreneur institution, VOE presence is expected to be able to encourage the emergence of new entrepreneurs in the village and with resources in the form of capital and labor owned by VOE is expected to be able to increase the entrepreneurial spirit of economic actors, one of them a craftsman at the village level. Capital assistance with low interest rates and easy conditions ideally helps economic actors in the

village further enhance creativity and innovation in producing products.

Data from the Karangasem Regency Community Empowerment Agency shows that the number of VOE in 2018 is 78 VOE units, of which there are 15 VOE located not in the centers of craftsmen namely VOE in Sidemen and Kubu District, thus there are 53 VOE located in the craftsman center, but from the number is only 5 units or only 9 percent of VOE that provide services interacting with craftsmen. The minimal number of VOE interacting with craftsmen is one reason VOE have not played a role in the innovation and creativity of craftsmen. The limited interaction between the craftsmen is possible because VOE has not been able to recognize the needs of the craftsmen when the craftsmen innovate or increase the courage to try new products so that the amount of capital, the number of employees and the quality of the employees at VOE are not significant to innovation, initiative, independence and courage of the craftsmen to bear business risk. This result is not in line with the findings of [7] who stated that OVOP (One Village One Product) similar to VOE was able to increase the independence and creativity of rural communities in the of Jambi city.

Social capital is positive and significant to entrepreneurship. Its means increasing information exchange activities, mutual trust, adherence to norms, values and proactive actions of the craftsmen will also increase innovation, creativity, courage to bear the risk, service and independence of the craftsmen in Karangasem Regency. Craftsmen in Karangasem Regency have a high level of trust, both with fellow craftsmen, with suppliers of raw materials as well as with customers. The form of mutual trust with suppliers of raw materials, for example, craftsmen can obtain raw materials without having to pay the entire price of raw materials because they already know each other and maintain mutual credibility between them. The raw materials obtained are used to innovate trying to make new product designs that have never been made before. Innovation and creative design are only done by craftsmen when the order is low (in the low session). These results are in line with research findings of [23], [1], [24], [25], [26], [27], [28]. The core of previous research findings supported by the results of this study are business actors who exchange information and have high mutual trust with related parties and uphold agreed norms and values that will be able to increase creativity, innovation and courage to bear business risks.

VOE resource has a positive not significant effect on the performance of the craftsmen's business. The amount of VOE capital, the number of employee, the quality of the employee in this case is the education of VOE

employees in Karangasem Regency has not been able to increase sales, increase capital and increase the labor of Craftsmen in Karangasem Regency, this is due to several conditions including: 1) Craftsmen who need additional capital prefer to seek additional capital using the people's business credit program with a lower loan interest percentage. 2) The business sector of VOE savings and loan is not widely known by craftsmen, the knowledge of craftsmen in the VOE business sector is limited to selling groceries and office stationery. Craftsmen who know the existence of saving and loan are very low, only 7.2 percent (122 people out of 1,697), of those who have borrowed funds, only 2 percent borrowed within 12 months and the majority of 95 percent borrowed within one month. As a microfinance institution in the village with its proximity to the village community, the presence of VOE will help empower the community, especially craftsmen, however the presence of VOE in Karangasem Regency has not been able to play a significant role in improving the performance of craftsmen. The interaction between VOE and craftsmen so far has not only been in the form of savings and loans, VOE in Bebandem village has provided assistance to woven craftsmen ate by supplying raw materials and selling the basic ingredients of the craftsman's products to collectors, but until now the craftsmen who get these facilities are only 0,82 percent. The minimum number of craftsmen who interact with VOE is the reason for the amount of capital, the number of workers and the quality of VOE workers has not played a significant role in increasing the sales of craftsmen. This result failed to support the findings of [2] who found that microfinance institutions were able to increase the productivity of MSE owners.

Social capital has a significant positive effect on performance. The performance of the Craftsmen in Karangasem Regency is measured by an increase in the number of sales, the amount of capital and the number of workers obtained during the past year (2017 to 2018). Increasing the amount of sales, capital and labor enjoyed by craftsmen occurs when they run businesses exchanging business information, helping one another provide capital loans in the form of cash or raw materials, providing marketing information because of mutual trust. The results of this study support the findings of [3] who found that the network as an indicator of social capital can be a driver of growth in corporate business in Norway. [29] who conducted research at the small milkfish presto center in Tambakrejo found that social capital contributed enough to improve the performance of SME even though it was limited to profit, could sell every day, and products sold were sold. This result is not in line with the findings of [4] who found that social

capital had no significant effect on the empowerment of the Household Craft Industry.

The entrepreneurship of craftsmen in Karangasem Regency is measured by the perception of the craftsmen of their innovation, initiative, courage in taking risks, service and independence in running their business, which has a significant positive effect on the performance of the craftsmen's business. The entrepreneurial spirit of the craftsmen encourages an increase in sales, an increase in capital and an increase in the labor. Creativity carried out by woven craftsmen ate such as making bag designs added to paintings, adding ribbons and other decorations, creativity carried out by woodcarving craftsmen such as making new mask designs, making new types of sculptures especially themed animals, craftsman pandanus craftsmen making bags with new models and sizes. New product designs made by craftsmen generally get positive responses from consumers and are able to increase sales so that there is also an increase in the use of capital and labor. The results of this study support the research conducted by [30] conducting research on Agribusiness SMEs in Papua to find the courage to bear risk, innovation, hard work, creativity can increase production volume, sales volume and profitability. [31] found innovations to improve the performance of MSME in Australia. [32] found that innovation is significant to an entity's performance. [33] found that creativity and innovation has a direct effect on business performance.

Entrepreneurship does not mediate the effect of VOE resources on the Performance of Craftsmen in Karangasem Regency. VOE resources that are not significant to performance either directly or indirectly mediated by Entrepreneurship occur because the amount of capital, the amount of labor and the quality of the labor available at VOE are not utilized to increase innovation, creativity and courage to bear business risks so as to increase the amount of sales, the amount of capital and the number of labor is not caused by the amount of capital, the number of workers and the quality of the workforce at VOE. The majority of craftsmen who become research respondents borrow funds only for a short period of time with a very minimal amount. VOE as a business entity that is still relatively new is not yet known by the public, especially craftsmen, there are still many craftsmen who suspect VOE is only selling food. The savings and loan business sector carried out by VOE is not yet known by many craftsmen. Although there are a small number of craftsmen who require relatively large amounts of additional capital, they choose to use the people's business credit program.

Entrepreneurship mediates the effect of social capital on the performance of craftsmen in Karangasem Regency. This is because the craftsmen coordinate with each other, share

information about where to buy cheaper raw materials of the same quality, share customer information and share information about customers. The craftsmen in running their business have high trust towards fellow craftsmen, suppliers of raw materials and customers. A form of high trust with suppliers of raw materials is that craftsmen very often get raw materials on credit. A form of high trust with customers is that the craftsmen dare to send all orders even though the customer has not provided a down payment. Innovation, creativity, courage to bear the risk, service and independence of craftsmen have an impact on customers making orders that continue even sometimes increase, so that there is an increase in the use of capital and labor.

This research supports the findings of [16] who conducted research on micro tourism cluster businesses in Korea which found that sharing information among micro business operators positively affected the performance of tourism micro cluster businesses through innovation. Another finding that is also supported by this research is [34] found that creativity as an indicator of entrepreneurship mediates the effect of social capital on increasing business opportunities as an indicator of the performance of small and medium businesses in China. The research limitations are: 1) The VOE resource variable only uses the amount of capital, the number of employee and the quality of the employee that is only viewed in terms of education, not including the experience and training activities that have been followed. 2). Variable performance craftsmen only use three indicator variables. 3) Only use one external factor that affects performance

## 5. Conclusion

If Based on the results of research and discussion, there are some conclusions in this study, which are as follows: 1) VOE resources directly has no a significant positive effect on craftsman entrepreneurship. Social capital directly has a significant positive effect on entrepreneurship of craftsmen. 2) VOE resources directly has no significant positive effect on craftsman performance. Social capital directly has a significant positive effect on craftsman performance. Entrepreneurship directly has a significant positive effect on craftsman performance. 3) Entrepreneurship does not mediate the effect of VOE resources on craftsman performance. Entrepreneurship mediates the effect of social capital on craftsman performance. Suggestions proposed in this research are aimed at VOE managers to better socialize the existence of VOE, industry and trade agencies to establish export product craftsman associations and to the

next researcher it is suggested to add external variables that might affect entrepreneurship and performance of craftsmen such as government policy.

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