Structural model for the role of government and social capital on business performance of weaving industry in Jembrana Regency of Bali

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Abstract: One potential processing industry business developed in the area of Jembrana Regency of Bali is weaving industry. Weaving industry business is one of the creative industries based on local wisdom of Bali, need to be developed with the concept of modern entrepreneurship (orange economy). Based on empirical theory and facts, this study aims to examine how the direct influence of the role of government and social capital on business performance in the weaving industry in Jembrana Regency of Bali. Based on surveys and structured interviews on 70 business actors through data analysis techniques using SEM-PLS with Smart PLS 3.0 software support, it was found that: (1) the role of the government and social capital directly influenced positive and significant impact on business performance; and (2) the most dominant component of social capital is the network, then the norm and the last sense of trust. Strengthening of the government's role in all aspects and the capacity of social capital based on local wisdom are quite successful in improving the business performance of the weaving industry in Jembrana Regency of Bali.

1. Introduction

The weaving industry is not only the basic skills for Balinese people (especially in Jembrana Regency), but also forms of cultural identity and ritual artifacts. The weaving industry business as one type of creative industry, should be developed more advanced with the concept of modern entrepreneurship (orange economy) which involves the role of government. The hope is that the weaving industry is able to improve business performance and provide a better economic development impact for the people of Jembrana Regency of Bali.

The determining factor of the process of economic growth in development is strongly influenced by social capital. A number of studies have been carried out on the role of social capital, such as Colleman and Fukuyama [1] Suandi [2] and Amanda and Monica [3]. In general, there are three main components of social capital, namely: (1) Trust, (2) Norms, and (3) Networks; each of which contains a number of indicators [4].

The role of the government through the Office of Industry and Trade refers to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs). The role of the government in the weaving industry as part of MSMEs needs to be assessed for its involvement in advancing the performance of the weaving industry in Jembrana Regency of Bali. The government's role in the development of effective and optimal MSMEs (including weaving industries) is realized as: (1)
facilitators, (2) catalysts, and (3) regulators, in policies that facilitate the development of business creativity and investment [5] and [6].

Business performance depends on the level of achievement of the industry for a certain period of time [7]. The form of implementation in weaving industry is by using four indicators, this is an increase in: (1) the amount of production, (2) the type of business unit, (3) sales volume, and (4) profitability.

So far there has been no research using the same parameters as on the topic of this study. This study generally aims to examine structural equation modeling using SEM with the help of Smart PLS 3.0 software. Based on primary social data from perceptions of weaving industry entrepreneurs in Jembrana Regency, analyzed the direct influence and strategy of involvement of government roles and social capital on the performance of weaving industry businesses. In Jembrana Regency of Bali. In detail this research aims: 1) formulating structural equation modeling, 2) analyzing the direct influence of the government's role on the performance of the weaving industry, 3) analyzing the direct influence of social capital on the performance of the weaving industry, and 4) analyzing the dominant component of social capital in the weaving industry (in Jembrana Regency of Bali).

2. Research and Methodology

2.1 Place, Time and Research Sample

The research data was taken at the centers of the weaving industry in the Jembrana Regency of Bali Province. The number of samples was chosen proportionally from each sub district and the sample unit was chosen randomly. Primary data from respondents through structured interviews obtained from the perceptions of management actors or weaving business owner in Jembrana Regency of Bali. The measurement results of the research instrument (indicator) require a validity test (using product moment correlation test) and reliability test (using Cronbach Alpha (α) technique) [8], to a number of initial questionnaire data to test the feasibility of the research instrument from the questionnaire used.

Sample distribution of each sub-district in Jembrana District as follows in Table 1.

| District | Population (unit) | Sample (unit) | Percentage |
|----------|------------------|---------------|------------|
| Melaya   | 3                | 2             | 0.67       |
| Jembrana | 5                | 3             | 0.60       |
| Negara   | 88               | 57            | 0.65       |
| Mendoyo  | 12               | 8             | 0.60       |
| Pekutatan| 0                | 0             | 0          |
| **Total**| **108**          | **70**        | **0.65**   |

Resource: Office of Industry and Trade of Jembrana Regency, 2017
2.2 Design of Structural Equation Model (SEM)

Design of Structural Equation Model (SEM) shown in Figure 1.

![Figure 1. Design of the Research Model](image)

2.3 Research Hypothesis

The research hypothesis are: 1) The Role of the Government (RG) has a positive and significant effect on business performance (BP) in the weaving industry in Jembrana Regency; 2) Social Capital (SC) has a positive and significant effect on business performance (BP) in the weaving industry in Jembrana Regency.

2.4 Data Analysis

Data processing and analysis will be carried out with the help of Smart PLS software, and re-sampling (Bootstrapping) with the following steps: (1) designing a measurement model (outer model) according to Figure 2.1, (2) designing a structural model (inner model) according to Figure 2.1, (3) constructing path diagrams, (4) converting path diagrams into equations in the outer model and inner model, (5) parameter estimation, (6) model match test, and (7) hypothesis testing and discussion [9].

The application of Bootstrapping method, testing is done by T-test, if P-Value is obtained \( \leq 0.05 \) or T-Value \( \geq 1.96 \) (alpha 5%) then it is concluded to be significant, and vice versa. If the results of hypothesis testing on the outer model are significant, it can be concluded that the indicator can be used as a measuring instrument for latent variables. If the test results on the inner model are significant, it can be concluded that there is a significant influence between one latent variable and another latent variable.

3. Results and Discussion

3.1 Profile of Respondents

Respondents from 70 business actors (business leaders) selected provided profiles such as Table 2 below.

| Variable | Category | Frequency | Percentage (%) |
|----------|----------|-----------|----------------|
| Gender   | Male     | 2         | 02,85          |
|          | Women    | 68        | 97,15          |
| Age      | 21-30 years | 4       | 05,72          |
|          | 31-40 years | 12      | 17,14          |
Based on the results in Table 2 descriptively it can be illustrated that the respondents of the weaving industry business were dominated by female respondents, namely 68 people (97.15%), because in reality the women were quite close to the weaving business. The majority of around 77.14 percent (54 people) are over 40 years old, this is because the weaving industry is a type of business that requires a strong commitment primarily in cultural preservation and perseverance. It is also seen in the older age groups above 50 years there are still many who are involved as business people who consistently maintain and preserve local genuses in weaving business activities in Jembrana Regency of Bali. Most weaving industry entrepreneurs finish their final education at the level of secondary education (graduating from junior and senior high school) as much as 78.57 percent, while businesses at the level of educated workforce (Diploma/Bachelor) also exist at around 10.00 percent. This educated workforce has the potential to develop towards modern entrepreneurs in the weaving industry in Bali Province.

3.2 Feasibility of Research Instruments
The feasibility testing of research instruments or the testing of validity and reliability in this study was conducted on 30 initial questionnaires distributed in the Jembrana sub district. The test uses the Cronbach Alpha value (α) and the Item-Total correlation is corrected [8].

Result shows that all indicators are valid because all item-total correlations are corrected to measure constructs (latent variables) first order is worth above 0.300 [8]. Mean while the Cronbach's Alpha (α) value of each reflective construct is feasible and can be trusted because all α is greater than 0.60 [8]. The research instruments are all valid and reliable, so the research can be continued to retrieve questionnaire data for 70 samples using all indicators that have been compiled and then analyzed according to the data analysis stage.

3.3 Testing of Measurement Models (Outer Model)
Testing of the measurement model consists of: (1) convergent validity, (2) discriminant validity, and (3) composite reliability.

| Construct | AVE | CA (α)   | CR    | Item Code | Outer Loading | T_Values |
|-----------|-----|----------|-------|-----------|---------------|----------|
| Trust     | 0.379 | 0.443   | 0.706 | X111      | 0.54          | 6.73 (s) |
|           | (p=0.00) | (p=0.00) | (p=0.00) | X112 | 0.53          | 2.27 (s) |
|           |       |         |       | X113 | 0.55          | 3.41 (s) |
|           |       |         |       | X114 | 0.63          | 6.07 (s) |
|           |       |         |       | X121 | 0.63          | 5.56 (s) |
| Norm      | 0.381 | 0.456   | 0.710 | X122      | 0.54          | 3.39 (s) |
|           | (p=0.00) | (p=0.00) | (p=0.00) | X123 | 0.60          | 4.63 (s) |
|           |       |         |       | X124 | 0.69          | 6.57 (s) |
Table 3 shows the AVE values of each construct at the 5 percent statistical test level (P-Values value ≤ 0.05), this means that all constructs used in this study have sufficient validity [10]. Likewise, the Cronbach Alpha (CA) value of each construct was more than 0.6 and it was also significant at the 5% t-test level (T-Value > 1.96), so that each construct was reliable in test level $\alpha = 5$ percent. While the Composite Reliability (CR) value of each construct, it turns out that all constructs with a value of more than 0.7 means that they have fulfilled the requirements of construct reliability [9]. Meanwhile, all of the indicators used in the study have an outer loading at the level 5 percent, where almost all indicators have a T-Values value greater than 1.96, except for the X133 which is below 1.96. Therefore testing the measurement model (outer model) all meet the requirements, meaning that all indicators and constructs in this study are valid and feasible to use, except for the X133 indicator which is invalid. This indicator is removed from the model (modified) so that it analyzes the structural model (inner model) without the X133 indicator, as shown in Figure 2 below.

![Figure 2. Modified Structural Models with P-Value](image_url)
3.4 Testing of Structural Models (Inner Model)

The structural model is evaluated using the R-square for the dependent variable (endogenous) and its significant value is tested based on the value of T-values in each path (path). R-square value for endogenous variable (construct business performance) is 0.525 (moderate structural model, according to Hanseler). This means that the construct variability of business performance can be explained by the construct of social capital and the role of government (both significant) by 52.5 percent, while the remaining 47.5 percent is explained by other factors for the weaving industry in Jembrana Regency of Bali. Whereas the structural model equation for endogenous construct estimation of business performance in accordance, can be formulated as formula 1.

\[ \hat{Y}_1 = 0.46X_1 + 0.31X_2 \]

3.5 Relationship Between Research Variables

Direct influence analysis can explain the relationship between constructs as a research variable. The research variables referred to include social capital, the role of government and business performance. Direct influence is expressed by the coefficients of all construct arrows (Figure 2) with one end with the significance through the T_Values or P_Values at 5 percent.

| Relationship | Original Sample | Standard Deviasi | T Values | P Values | Results |
|--------------|-----------------|------------------|---------|----------|---------|
| X_1(SC) → Y_1(BP) | 0.462 | 0.028 | 3.063 | 0.002 | Significant |
| X_2(RG) → Y_1(BP) | 0.311 | 0.152 | 2.048 | 0.042 | Significant |

Source: Own Data (2017), processed

Table 4 describes the direct influence of latent variables (constructs) on social capital (SC) which have a positive and significant effect on business performance (BP). Furthermore, the latent variable (construct) of the role of government (RG) has a positive and significant effect on business performance (BP). Finally the latent variable (construct) of social capital (SC) has the most dominant components, first is networks (0.86), the next norm (0.81) and the last trust (0.78).

3.6 Hypothesis Test and Discussion

Data analysis with the help of Smart PLS 3.0 Software, as shown in Figure 2. The hypothesis test results are described in the following discussion.

H1: The role of the government has a positive and significant effect on the performance of the weaving industry in Jembrana Regency of Bali.

The direct influence role of government (RG) research variables on business performance (BP), as shown in Table 4. and Figure 2, shows that the positive path coefficient is 0.311 with a standard deviation of 0.152. The causal relationship turned out to be positive and significant at the 5 percent test level with a significance value (P-Values) is 0.042. This hypothesis is accepted, so it can be said that the influence of the role of the government with its direct indicators is quite capable of causing an increase in business performance for the weaving industry entrepreneurs. The strengthening of the government's role in the facilitation aspects, catalysts and regulators of the weaving industry through the provision of business capital, training and regulations that facilitate business and investment in the weaving industry is quite successful in improving the performance of the weaving industry in Jembrana Regency of Bali.

H2: Social Capital has a positive and significant effect on the performance of the weaving industry in Jembrana Regency of Bali.
The direct effect of social capital (SC) on business performance (BP), as shown in Table 3.5, shows that the positive path coefficient is 0.462 with a standard deviation of 0.028. The causal relationship turned out to be positive and significant with a test level of 5 percent with a significance value (P-Values) is 0.002. This hypothesis is accepted, so that it can be said that the increase in the influence of social capital with its indicators can lead to an increase in business performance in the weaving industry. The strengthening the capacity of social capital based on local wisdom has an effect on improving the performance of the weaving industry, so that in total it is expected to be able to improve the welfare of the weaving industry in Jembrana Regency of Bali.

Data analysis states that the capacity of social capital of weaving business actors in Jembrana Regency is dominated by the components of the networks (path coefficient 0.86), the next component is the norm (path coefficient 0.82) and the last component is trust (path coefficient 0.78). It can be said, the capacity of social capital through the ability to build networks based on norms and trust needs to be improved so that it can be more meaningful in improving business performance in the weaving industry in Jembrana Regency of Bali.

4. Conclusion
The conclusion of this research are: 1) Model of structural equations for endogenous constructs of business performance with exogenous constructs of the role of government and social capital are, Business Performance = 0.462 * Social Capital + 0.311 * Role of Government + Error; 2) The role of the government with its indicators has a positive and significant impact on the performance of the weaving industry in Jembrana Regency of Bali. Strengthening of the government's role in the aspects of facilitators, catalysts and regulators of the weaving industry entrepreneurs is quite successful in improving the performance of the weaving industry in Jembrana Regency of Bali; 3) Social Capital with its components has a positive and significant effect on the performance of the weaving industry in Jembrana Regency of Bali. Strengthening the capacity of social capital based on local wisdom has an effect on improving the performance of the weaving industry, so that in total it is expected to be able to improve the welfare of the weaving industry in Jembrana Regency of Bali; 4) Social capital has a component dominated by the first components is the networks, the next norm and the last is trust. It can be said, the capacity of social capital through the ability to build networks based on norms and trust needs to be improved so that it can be more meaningful in improving business performance in the weaving industry in Jembrana Regency of Bali.

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