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Full Length Research Paper

Existence of Internal and External Factors: Implications to Small Scale Urban Business Performance (Survey on Small Scale Agribusiness Enterprises in Palembang City-Indonesia)

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Even though small-scale enterprises (SSEs) contribution to GDP is still not optimum yet, its existence has become an integral part of national business environment. Furthermore, it also had a highly potential and strategic role in expanding employment, economic service, equalization process, income enhancement, economic growth, and national stability. Though along the implementation it had met some problems both internal and external, nevertheless by having serious attention and improvement efforts from government and related instances, SSEs will still exist and grow as a strong fundament for national economic growth. Indonesian's economic growth will improve positively if all the related actors give optimum contribution by developing a good coordination. Such actors are big scale, medium scale and last but not least small scale enterprises. The aim this study is to obtain the empirical evidence about internal and external factors in small scale urban agribusiness enterprises in Palembang City. Primary data was collected through survey technique from 200 samples, respondents taken by random sampling method and was analyzed by Two Stage Least Square (TSLS). Through analysis showed that in aggregate all of variables had a positive influence not only in first hypothesis, but also in second and third, it means all of the hypothesis were not rejected.

KEYWORDS: Small Scale Enterprises, Economic Growth, National Stability, Internal and External Factors.

INTRODUCTION

Public issue on the idea of small scale enterprises (SSEs) needs serious attention because most them, as economic actors, still powerless in strengthening the resilience of the nation's economy to face global competition. Small scale enterprises development is a strategic effort in bridging the reality of inequality and

gaps, as well as builds a new middle class. Empirical evidence shows that the pursuit of national economic development growth without equity has caused alienation for small scale enterprises in the national economic structure. Through experience in LTDS 1 (Long-Term Development Stage 1), we see that the development

strategy that emphasizes the aspects of economic growth and income per capita has spawned various impacts that could affect the continuation of national development in the future. Despite what has been achieved is quite impressive, but the provision of redundant facilities to large employers is ironic. Therefore, as an effort to improve income distribution for people and economic players, treatment and guidance to small scale enterprises is absolutely necessary in every Indonesia's developing region. In consequences with such efforts, socio economic inequality and gaps can be eliminated optimally.

Small scale enterprises are the economy lifeblood of the largest part of the people scattered throughout the area, villages, and cities and covers almost the entire field of business there. Small scale enterprises toughness as one of the pillars that sustain the nation's economy has been proven, because this sector is able to survive and compete in the midst of the economic crisis. By looking at the role and existence of small scale enterprises, developing countries today have changed the orientation to empower such sector, this is due to the importance of the small business sector in supporting and strengthening the economy of the people, to realize and maintain the competitiveness of the national and even at the global level. Realizing this, the Government of Indonesia through the Ministry of Cooperatives for Small and Medium Enterprises emphasize its policy on increasing competitiveness by providing reinforcement for both financial and non-financial (Lumbanraja, 2011).

Although its contribution to GDP is still not optimal yet, small scale enterprises have a strategic role in national economic development, besides having a role in economic growth and employment they are also having role in distributing development outcomes. In the economic crisis that occurred few years ago, where many large-scale enterprises has stagnated even cease their activities, the small scale enterprises sector is proved to be more resilient in the face of such crisis (Hafsah, 2004).

The small scale enterprises for food sector is as one of majors research topics easily found in Palembang, which is used as the research area. With the potential that exists and is supported by the availability of local resources, small scale enterprises is meaningful to the development of investment and employment. Small scale enterprises for food sector amounted to 499 units, with an investment of Rp 7,346,384 thousand and workers absorbed as many as 3,485 people (Department of Cooperatives and SMEs Palembang, 2010); the percentage of this amount is significant enough to regional economic growth and development, particularly in employment that is not absorbed in the formal sector. Meaning that it can directly reduce unemployment and reduce the poor's which is growing by years. Although many efforts have done to fasten their development, in fact, small scale enterprises have not completely

detached from the problems or obstacles. As a result, the presences of these small scale enterprises have not contributed optimally to the regional economic development, neither for labor absorption nor contribution to original income.

With limited capital, both working capital and investment for business development remains an obstacle. Limited capital, mainly due to their lack of direct access to financial services and facilities provided by formal financial institutions (banks) and nonbank. This means that most or all of the funds needed for investment (expansion or improvement of production volume) and working capital comes from informal sources. These resources vary widely which can be from personal savings (the owner), loan or financial assistance from family or acquaintances, borrowing from suppliers of raw materials in the form of payments later, the money in the form of advance payment (partial or total) of the buyer, until the profits invested (Yusi and Zahri, 2006). With such limited capital problems every effort to be made in order to improve both quality and productivity will be hampered.

Problems of business facilities, in general, can be said are still away from supportive. Yusi's research results (2007) on small scale enterprises in South Sumatra shows that most small scale enterprises occupy a less favorable business location, because it was less strategic, in fact many of them have difficulty in transportation and communication. In addition, the production equipment for daily activities is still traditional and simple. Thus, it results unstandardized production and can hamper business success.

Furthermore, success of small scale enterprises cannot be separated from human resource capabilities that manage the business. Of the phenomenon shows that employers generally only equipped with relatively low formal education so that the business management is solely supported by the experience. So far, the empowerment to increase their ability is only through training. The training both was held by themselves or by following the relevant external training programs. However, the action was constrained by limited funding capacity.

About mindset and outlook on life, generally, small scale enterprises in Palembang still have a traditional mindset and tend to close themselves to the changes and innovations (South Sumatera Province Department of Industry, 2014). They are very fanatic with their products and quickly satisfied with the result more over forget to anticipate any progress in the vicinity. Consumers desire continue to vary, nevertheless this does not stimulate employers to modify products based on market demand, because according to them it is not necessarily a new product can increase sales turnover. With this mindset, such products relatively unchanged in shape, form, or offered benefits. In addition, the employers are generally

limited the entrepreneurial spirit, such as market research and opportunities seeking, the courage to bear the risk, lack of motivation, and work ethic remains a dilemma.

Another fact shows that, most of the small scale entrepreneur for food sector in Palembang city still belong low level of education. Lack of education can cause a lack of motivation for someone because of his ignorance. Furthermore, motivation may lead to discipline in work. Low labor discipline is a common problem in small scale enterprises in Indonesia. Education is an important factor in shaping the human capital to transform the economic backwardness and raise the ability and motivation to move forward. Human capital is a characteristic of human resources determined by the possessed knowledge used to create value for the organization (Collin and Clark, 2005). Then it is important to improve the knowledge and skills of small scale entrepreneurs.

In addition to the information that has been stated above, in the development of small scale enterprises, it is important to provide a healthy business climate. A conducive business climate can only be created through the policies set by the government, either by seeking peace and security sought, simplification of licensing procedures, the ease with regard to the problem of capital, marketing, bureaucracy, partnerships, and other supporting policies (Kristiyanti, 2012).

Admittedly, the development of small scale enterprises in Indonesia has done by the government through development center, but it has not been able to create a conducive business climate for the development of small scale enterprises. This is because there are still many obstacles facing both internal and external. Internal problems less serious coaching so that the quality of human resources in managing the business has not independent and thrive. External problems for example is unfavorable business climate, government facility is still not fully guarantee the growth and development of small scale enterprise as one of the national economic actors.

By mentioned issues, it will be relevant if the research conducted on the internal and external conditions have an important role for the development of small scale enterprises. This applied research is expected to provide useful information for the creation of business synergies that are interrelated in order to develop small scale enterprises into a better direction. By developing small scale enterprises it is not only able to increase employer income but also contribute to the development of the national economy.

Review of Literature

Urgency of Small Scale Enterprises

Specialization Thesis Flexible (*Flexible Specialization*)

that emerged in the 1980s concluded that, small and medium enterprises (SMEs) will be more important significantly in the development process (Tambunan, 2002). Some countries in Western Europe such as Germany, Italy and the Scandinavian countries prove that in these countries have numbers of SMEs and they are growing rapidly. At the time of Western Europe experienced an economic recession in the decade of the 1980s SMEs amazingly had survived; while on the other hand, many large businesses have trouble. In the United States value added contribution to GDP and the share of labor in the number of employment opportunities in the country most of which come from the SMEs sector (Ibid).

In Indonesia, small scale enterprises as a people economic business in national economy map have existed and have considerable role in economic life. Small scale enterprises is a struggle tool for improving the quality of life and welfare of the people, the business sector that absorbs labor which is not absorbed in the formal sector, and can reduce the burden of government in tackling poverty and unemployment. Small scale enterprises are also able to overcome the problems of the population. The development of small businesses in rural areas and suburbs at least will have an impact on a more equitable distribution of the population. The impression most of the villagers who are attracted to the city with better and lucrative jobs promises soon as will be erased.

Seeing the importance of small scale enterprises in the national economy, therefore the government should direct the economic policies on empowering small-scale enterprises, just because the experience shows that when the national economy suffered badly from the effects of the prolonged world recession, this sector has strong elasticity and suppleness. As a country with a relatively large population distribution and the increase of labor force by years, thus it is indispensable as a "safety valve" for labor absorption.

According to the Report of the UN Agency for Trade and Development (United Nations Commission on Trade and Development-UNCTAD) the role of small scale enterprises is the embodiment of the people's economy in Indonesia which is still very poor compared with neighboring countries in Southeast Asia (the Economic News, 1998 in Yusi, 2007). According to that report, Indonesia's economy is dominated by large companies, while the smaller companies are only concentrated on agriculture and the informal sector or other sectors with weak growth.

Developing and advancement of small scale enterprises is one of the national strategies and policies that will contribute to economic growth and equitable distribution of incomes. Small scale enterprises will be able to play a strategic role in the national economy; they will also absorb a lot of labor, expand the field of business, and increase local income. Such contribution is

going to be working if only they are given the opportunity to advance. Many small scale enterprises in developed countries have contribution and particularly important role as a driving force of economic growth, a source of creativity and innovation in productive business activities (Handayani, et. al., 2010).

OBSTACLES FACED

Limitation in capital for business activities remains an obstacle in doing business. Although in general, the initial capital came from capital savings or informal sources, but these sources is often not enough for production activities especially for investments (expanding production capacity or modernizing of equipment). While expecting the financial support from bank fund is far from reality. Therefore, it is not surprising that even though there are so many loan schemes from banks and State Owned Enterprises (SOEs) have not contributed significantly instead off informal sector financing for small scale enterprise activity (Tambunan, 2002). Limited access to sources of financing faced by small scale enterprises, especially from formal financial institutions such as banks, causing them to rely on informal sources. The shapes of these sources vary from money lenders and develop to savings and loan units, cooperatives, and other forms (Wiyono, 2005).

With limited capital efforts to improve both quality and productivity are to be blocked, while the capital support can give wider opportunities for entrepreneurs to develop their business. Capital is the principal driving force for business development, such capital will: (1) assist small entrepreneurs in overcoming the limitations of capital with a relatively small interest, and (2) reduce their dependence on middlemen and moneylenders (Ashari, 2009). Problem in the capital is also one of the main reasons for employers to delay their business development business (Kaplan and Schoar, 2005).

Education will improve mindset and a way of life; in general, small scale entrepreneur in researched area have a traditional mindset and tend to close themselves to change and innovation. Coupled with the limited provision of education and entrepreneurial skills, employers sometimes cannot distinguish between business funds and personal funds, so that the business cannot run smoothly. Many of the loans which were pains takingly receive dare channeled into consumptive expenditure which can eventually lead to failure. That condition is contrary to the concept of the formation of the entrepreneurial spirit which is necessary for the business world namely creative, innovative, and knowing how to develop internal resources (Suryana, 2001).

In terms of education and this mindset, it is clear that the creative mindset will bear expertise in all areas of business ranging from labor to employers is to determine

the success of a business (Hafsah, 2004). In contrast to other countries which are very powerful small scale enterprise such as Taiwan, South Korea, Japan, the US and Western European countries, the level of education of the majority of small entrepreneurs in Indonesia is still very low. Indeed, in one case, the continued prevalence of workers with low education is "cheap" means small businesses can maintain a traditional comparative factor. But in the era of free trade competitive advantage will stand out, including the quality of human resources, ranging from workers and employers, a special person to handle marketing, and designers.

It is often said that in order to address the problem of human resources, providing direct training to entrepreneurs is very important and this is the only most effective way. However, many small scale enterprises, especially micro-enterprises, cannot bear the cost of training. Limitation of human resources is a serious threat to Indonesia's small scale enterprise to compete in both domestic market and international market. Moreover, this condition certainly will have direct impact on the gains for strengthening the internal capital for the purposes of working capital, investment in equipment and technological renewal of production.

To grow rapidly, knowledge and skills play an important role for the development of small scale enterprises. Any improvement activities such as training and technical assistance program can be regarded as an attempt to encourage business growth and business development (Abdullah and Mohamed, 2005).

Empirically, business success will provide opportunities for improvement of physical facilities and business expansion. In contrast to developed countries, small scale enterprises in Indonesia commonly still use the physical facilities and traditional technology in the form of old and manual machinery or production tools. Limitation of this technology not only makes the low total factor productivity (total factor productivity) and efficiency in the production process, but also the poor quality of the products made (Tambunan, 2002). This limitations of technology due to many factors such as: lack of capital investment to purchase new machines in order to improve production processes, lack of information about the development of technology or machinery and tools new production, and lack of knowledge or skills of human resources who can operate the new machines or make innovations in products and production processes. Successful small scale enterprises will certainly enhance its reputation which in turn will assure third party, such as banking. Reputation has economic value that can be utilized by small scale enterprise in ensuring its survival. Reputation in banking activity is one of the assessments in loan lending (Mishkin, 2006).

In terms of marketing, one of the obstacles faced by small scale enterprises is the lack of knowledge about marketing, especially concerning the identification of

market needs, the chain of distribution, and costing and pricing strategy. Marketing research and assessment activities have never done by small scale enterprises. Further in the literature, marketing is often regarded as one of the critical constraints to the development of small scale enterprises. Results from a transnational study done by James and Akrasanee (in Yusi, 2007) stated that in a number of ASEAN countries shows that marketing is one of growth constraints faced by many small and medium enterprises (this problem encountered not too serious in Singapore). The study concludes that if the SMEs do not carry out considerable improvements in all aspects related to marketing such as product quality and promotion activities, it is difficult for SMEs to be able to participate in free trade.

The results of their study showed that one of the aspects related to the general marketing problems faced by SMEs are competitive pressures, both in the domestic market, similar products made in large industrial and imports, as well as in export markets. In the midst of today's financial crisis, marketing problems may be more serious, because as one of the effects of the crisis the access to bank credit becomes difficult. As a result, many SMEs do not have the sufficient production sources to at least maintain production volume and improve the quality of their products, and this means that they are increasingly difficult to improve or even maintain their competitiveness in domestic market moreover in international market.

Promotional activities for the goods produced are also rare. In fact that promotion is one of important aspects in marketing management, and is often said to be "continuous process". This is because promotion could lead to a series of further activities of the company (Dwyer and Tanner, 2002). In terms of competition, small scale enterprises are faced with a dynamic atmosphere. In such dynamic competition, small scale enterprises are faced with demands, namely innovation and quality improvement, both of which are proactive in the effort. This action is only possible if a small scale enterprise is supported by an adequate level of technology and the availability of new markets. In a static competition, efficiency, notably transaction and production play an important role. Two of those, technology and new market, can minimize the cost so as to enable small businesses establish a competitive price (Tambunan, 2004).

RESEARCH METHODOLOGY

DESIGN AND SAMPLE

This study uses a survey approach to obtain data about events in the field, with interview and in-depth study. The unit as a unit of analysis and sampling are small business

entrepreneurs in agribusiness enterprises. To obtain data that can represent small scale enterprises in Palembang city, it is conducted sampling stage with two stage cluster sampling. The first phase is set n primary sampling units done by simple random sampling. The second phase is set secondary sampling unit, performed by simple random sampling. A sample set of 200 units of small scale in agribusiness enterprises.

OPERASIONALIZATION OF VARIABLES

To identify the capacity of small scale enterprises in the areas of research, some key indicators, which are interrelated, classified into internal and external factors. Internal factors consist of: internal capital procurement, promotion, business management ability, physical facilities and business facilities, the potential for superior products, reputation, mindset and outlook on life, as well as working hours. External factors consist of: marketing conditions, competition, climate and business opportunities, provision of external capital, coaching and development, and training.

ANALYSIS METHOD

In identifying the variables, this study uses regression approach with Ordinary Least Square (OLS) method. Given the relationship between variables which can be an independent variable and the dependent variable otherwise affect each other and predicted to have an important role in the research, this study tries to develop three models of simultaneous equations, namely:

$$Y = f(X_1, X_2, X_3, X_4, X_5, X_6, X_8)$$

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \alpha_5 X_5 + \alpha_6 X_6 + \alpha_8 X_8 + \varepsilon_1$$

$$X_1 = \beta_0 + \beta_1 Y + \beta_2 X_2 + \beta_3 X_7 + \beta_4 X_9 + \beta_5 X_{10} + \varepsilon_2$$

$$X_5 = f(X_1, X_{11}, X_{12}, X_{13}, X_{14})$$

$$X_5 = \delta_0 + \delta_1 X_1 + \delta_2 X_{11} + \delta_3 X_{12} + \delta_4 X_{13} + \delta_5 X_{14} + \varepsilon_3$$

Simultaneous equation derived by mathematical formula above developed by considering $Y = f(X_1)$, $X_1 = f(Y)$, and $X_5 = f(X_1)$. The variables are categorized as the following equation:

$$\text{Endogenous Variables} = Y, X_1, \text{ and } X_5$$

$$\text{Exogenous Variables} = X_2, X_4, X_7, X_9, X_{13},$$

Table 1. Definition of Operationalization Variable

Variable	Definition	Unit of Measurement
business performance (Y)	ability in operating business based on sales performance	revenue Sales amount from sales in IDR
internal capital (X ₁)	ability to held internal capital	amount capital in IDR
marketing (X ₂)	ability in product marketing	marketed product in unit and IDR
competition (X ₃)	competition from large scale enterprises	1 = competitor exist 0 = no competitor
promotion (X ₄)	promotion expenditure	in IDR
management (X ₅)	ability to manage measured by problem solving	1 = problem exist 0 = no problem
physical facility (X ₆)	owned production infrastructure	1 = adequate 0 = inadequate
superior product (X ₇)	produced superior product	in IDR
business climate (X ₈)	business climate from government policy	1 = supported 0 = unsupported
external capital (X ₉)	ability to held capital from external source	in IDR
reputation (X ₁₀)	entrepreneur reputation	1 = determined 0 = undetermined
coaching (X ₁₁)	coaching given by government	1 = fit 0 = unfit
mind set (X ₁₂)	openness toward changes and innovation	1 = anticipate 0 = do not anticipate
training (X ₁₃)	training given by government	training frequency
working hours (X ₁₄)	working hours in a day	male = 8 hours, female 0,75 x male hours, teen = 0,33 x male hours

and X_{14}

Dummy Variables = $X_3, X_5, X_6, X_8, X_{10}, X_{11},$

and X_{12}

Error Variables = $\varepsilon_1, \varepsilon_2,$ and ε_3

RESULT AND DISCUSSION

Hypothesis 1: The success of the small scale enterprises is positive influenced by internal capital procurement capabilities, marketing capabilities, competition, promotion, management ability, physical facilities, and business climate.

Internal capital procurement (X₁) is very significant, this means that the better the ability

of employers in the provision of internal capital, the greater the likelihood of small scale enterprises to succeed in managing its business. Marketing conditions (X₂) also show significant results, it means that there are still opportunities in market to absorb every product and furthermore will help enterprises development. Competition (X₃) is not significant and negative trend; this indicates tight enough competition coming from large scale enterprises or imports. Promotion (X₄) show significant results, that although promotional activity rarely performed and relatively small in value but can give

a positive contribution to the amount of products being marketed.

Management (X₅) shows significant results, that the competence and skills of entrepreneurship is one of the conditions of success in the running business. Although low level of education and limited knowledge, small scale entrepreneurs can still survive in business. Physical facilities (X₆) is not significant, this is due to the means used for production activities less supportive in production process. Climate and business opportunities (X₈) is not significant, that the government policy is still lacking and not yet fully support the growth and development of small scale enterprises in the study area.

Furthermore showed that the independent variables can explain the dependent variable of 74.23 percent, means another 25.77 percent is explained by other variables. These calculations indicate that the TSLS approach that is used as an analytical tool is good enough to be used in testing the first hypothesis.

Hypothesis 2: The success of the internal capital procurement is influenced by marketing capabilities, presence or absence of a superior product, the ability of external capital procurement, and reputation.

Business performance (Y) is significant; this means that the better success business will lead to greater internal capital that the entrepreneurs could cumulate. Marketing conditions (X₂) also showed significant result, it means

Table 2. Calculation of Hypothesis 1 with TSLS

No	Variable	Regression Coefficient	Score of t-calculation	Probability Partial	Significance Determination	of
1	Intercept	0,1463	-	-	-	
2	X ₁	0,4212	4,6203	0,00000	α = 0,001	
3	X ₂	0,3251	4,1944	0,00482	α = 0,001	
4	X ₃	-0,4638	-4,2783	0,06425	ns	
5	X ₄	0,1642	3,1895	0,00495	α = 0,001	
6	X ₅	0,2416	4,3917	0,00000	α = 0,001	
7	X ₆	-0,3044	-2,8526	0,04802	ns	
8	X ₈	-0,2241	-2,5322	0,02065	ns	
		R ² = 0,7423				
		F _h = 11,4231				

Tabel 3. Calculation of Hypothesis 2 with TSLS

No	Variable	Regression Coefficient	Score of t-calculation	Probability Partial	Significance Determination	of
1	Intersep	0,6442	-	-	-	
2	Y	0,3214	3,2431	0,00000	α = 0,001	
3	X ₂	0,1298	1,5244	0,19531	α = 0,001	
4	X ₇	0,3528	4,5128	0,00000	α = 0,001	
5	X ₉	0,6461	7,2629	0,00000	α = 0,001	
6	X ₁₀	0,1642	1,5436	0,15522	α = 0,001	
		R ² = 0,7156				
		F _h = 15,1853				

Table 4. Calculation of Hypothesis 3 with TSLS

No	Variable	Coefficient of Regression	Score of t-calculation	Probability Partial	Significance Determination	of
1	Intercept	0,5816	-	-	-	
2	X ₁	0,1042	4,2541	0,00000	α = 0,001	
3	X ₁₁	0,1524	3,7236	0,00000	α = 0,001	
4	X ₁₂	-0,0482	-3,6923	0,00041	ns	
5	X ₁₃	0,1928	8,5762	0,00000	α = 0,001	
6	X ₁₄	-0,0843	-4,6244	0,00056	ns	
		R ² = 0,8126				
		F _h = 12,2284				

that conditions of conducive market will bring many positive influences in the procurement of internal capital in the form of amounts of money that is generated from the marketing activities. Potential superior product (X₇) is significant, meaning the presence of products that meet consumers demand is highly instrumental in generating profits that can be used as additional capital. Procurement of external capital (X₉) show significant results, meaning that the ability to absorb capital from outside companies brings a positive impact on small businesses in the capital procurement either working capital or investment. Reputation (X₁₀) also showed significant gains, meaning that the good name of

entrepreneurs in carrying out its activities can be used as collateral in the procurement of internal capital.

Furthermore showed that the independent variables can explain the dependent variable of 71.56 percent, means another 28.44 percent is explained by other variables. These calculations indicate that the TSLS approach is good enough to use in testing the second hypothesis.

Hypothesis 3: The ability to manage the business is affected by the provision of internal capital, coaching and development, the mindset of employers, education and training, as well as working hours. Internal capital procurement (X₁) is significant, this means

that the greater ability of small scale enterprises to foster internal capital, the greater the ability to improve the entrepreneur's knowledge. Coaching and development (X_{11}) also show significant results, show that better and more frequent guidance provided would be better for the development of employer's ability. The mindset (X_{12}) is not significant; this means that the traditional mindset that is not willing to anticipate the change is not favorable for business development. Training (X_{13}) shows significant results, meaning that the more counseling given by the government, state-owned and other private sector will have a positive influence for development. Working hours (X_{14}) showed no significant results, this means that the indiscipline in the works will give a negative impact on business development.

Furthermore it is showed that the independent variables can explain the dependent variable of 81.26 percent, while another 18.74 percent is explained by other variables. These calculations indicate that the TSLS approach is also quite good in testing the third hypothesis.

POLICY IMPLICATION

In the face of national economic crisis such nowadays, theory-based resource (resource-based theory) which emphasizes on strengthening the internal environment is particularly relevant when applied in small scale enterprises empowerment. The main attention should be focused on creating added value to gain competitive advantage through the development of specific capabilities (entrepreneurship), so that small scale enterprises no longer rely on a strategy of market forces over monopoly and government facilities. In this strategy, small scale enterprises should be directed to the special expertise internally which could create a superior core product to expand the share of production. The strategy is less expensive and potent in developing small scale enterprises, because such small business can take advantage of local resources.

Positive conditions above needs to be done, considering the small scale enterprises in Indonesia have played an important role in absorbing labor-especially of poorly educated segments of society. At the time of monetary crisis, unequal distribution of income, the uneven development between urban and rural areas, and supports an increase in household income, small scale enterprises have shown their role. Furthermore in the national economy, the existence of small scale enterprises will increase commitment and siding to national development (Rusdarti, 2010).

Specifically, Burns (Suryana, 2001) states that, in order that small scale enterprises are able to compete and succeed, then there should be special efforts are to be geared for survival, consolidation, control, planning, and

expectations. In this stage, it is important to mastery the management, such as by changing the owner as entrepreneur who recruits expert and given authorization explicitly. In marketing, it has to change not only of finding customers, but also increase the ability to compete. In finance, it is necessary to turn from a cash stage to financial and cost stage.

Small scale enterprises need to strengthen the internal environment by developing business resources such as technology, labor (including the capability and knowledge), capital, and habit to face a complex competition and external crises. It is considered a potential reinforcement for maintaining the company's success when in a volatile external situation. It can be said that a company can compete in both domestic and export markets. Besides external environment, internal environment within the company should be solid, and to make it sturdy it is needed to internal strengthening efforts and external as a buffer (Sjarkowi and Sufri, 2004).

Small scale enterprises development as a people's economy cannot be achieved simply by relying on its growth strategy. Wisdom that only rely on a growth actually increase inequality, therefore an economic development strategy must be based on a trilogy of development. People economic development efforts need to be directed to encourage structural changes (structural adjustment or structural transformation), by strengthening the position and role of the people's economy in creating equity.

The study of small scale agribusiness enterprises is quite favorite research topics found in Palembang, the capital of South Sumatera Province. With the potential that exists and is supported by the availability of local resources, small scale enterprise is enough to contribute to the development of investment and employment. Although there are a lot of efforts has been done to its development, in fact, small scale enterprises have not completely detached from the problems or obstacles encountered, especially the condition of both internal and external environment that influence their activity.

The availability of internal funds is the main problem faced by many entrepreneurs. Empirical evidence shows that most of small scale entrepreneur in the research object is the low-income groups who are not served by a commercial bank services demanding procedurals. Without stable access on banking services, almost all of these groups financing rely on its own capabilities which is very limited, or informal financial institution (money lenders and middlemen). Finally, this condition limits the ability of these groups to participate in development activities (Krishnamurti, 2005).

Zhao, et. al. (2006) also stated that the problem of capital is the main factors for the development of small scale enterprises. Lack of such capital on small scale enterprises because they are personal-owned company

or closed-company which relies on the owner's limited capital. This will affect other activities such as produce quality products according to market demand, drive promotional activities, and invest in physical facilities. This condition will certainly have a direct impact on the turnover of the product being marketed.

Capital is the principal driving force for business development. Capital constraints can be inhibitor to corporate in modifying products, investing in production equipment as well as in developing a business. In fact, the availability of sufficient capital for the business is a must. Capitals function not only as one of the factors of production, but also play a role in improving the capacity of entrepreneurs in adopting the technology. Therefore, small scale enterprises loans still have to be improved in the future, given the number of small scale enterprises that cannot obtain credit disbursement as yet bankable (Kuncoro, 2008). Therefore, the government should need to extend special credit schemes with the terms that do not burden small scale enterprises, to increase its capital, either through the formal financial services sector, informal financial services sector, guarantee schemes, leasing and venture capital funds.

In addition to venture capital, human resource factors such as knowledge and skills of entrepreneurs is an equally important factor, limited knowledge and these skills will certainly have an impact on the understanding of the business, both in terms of production management as well as strategies to acquire customers. The real condition is contrary to the concept of the formation of the entrepreneurial spirit that is necessary for the business world which can produce superior attitudes such as creative thinking and the way of internal resources development (Suryana, 2001). In terms of knowledge and skills of human resources, it is clear that the creative mindset will bear expertise (skills) in all fields ranging from labor to employers which is very crucial to success in winning the competition (Kumar, 2015).

Coaching and counseling are always needed so employers can understand how to strive to be better, and the discipline of the working time. Coaching and development in growing optimism with high achievement motivation as an impetus to improve performance, both in the field of production and marketing, the dimensions of attitudes, perceptions and behavior is no less important. Soewardi (2001) indicated the majority of small entrepreneurs lacking in motivation, weak in willingness. Their response has been slow to produce on demand, when demand increases their production does not necessarily rise.

Therefore, the government needs to undertake a strengthening of the human resources of this small scale enterprises, such as training in aspects of entrepreneurship, management, administration and knowledge and skills in business development. In addition, employers also need to be given the opportunity

to apply the training in the field to practice the theory through the development of pilot partnerships. Need to develop a partnership of mutual help between small scale enterprises, or between a small scale and large scale enterprises in the country and abroad, to avoid a monopoly in the business. Thus small scale enterprises will have the strength to compete with other business doer, both from within and outside the country. Strengthening human resources is an important factor to change the economic backwardness and raise the ability and motivation to move forward, it is very important to increase knowledge in the form of training for these small scale entrepreneurs (Yusi, 2014).

Previously, Mongid and Notodihardjo (2011) in their research on SMEs in Malaysia also stated that, for the rapidly growing, knowledge and skills play an important role for the development of SMEs. Training contributes to the understanding of SMEs. In addition to the above matters, in order to small scale enterprises have a progresses, the creation of a conducive business climate becomes absolutely necessary. A-conducive-business climate can only be created through the policies set by the government, either through the ease with regard to the problem of capital, marketing, bureaucracy, partnerships, business licensing procedures, tax breaks, and other supportive policies. A-conducive- business climate in the form of protection to small scale enterprises, especially in the current economic conditions is very strategic because it is expected to be able to generate sufficient added value for the number of business units. By having small scale enterprises, most labor will be absorbed through labor-intensive way, and it can expand business opportunities and gain the national income distribution that has been dominated by large corporations with capital intensive way (Kristiyanti, 2012).

Previously, Hill (1995) stated that the key to small scale enterprises become an efficient and dynamic industry is creating a conducive business climate without making small businesses continue to rely on special government assistance. A conducive business climate in the form of availability of means of transportation and communication, business support facilities, an honest competition, and regulations that support is a very important factor for the development of small scale enterprises (Chew, 1996).

Sriyana (2010) in his research also stressed that the development of small scale enterprises will be largely determined by the presence or absence of supportive business climate. Improvement of the business climate by reforming and deregulating the license for small scale enterprise is one strategy to develop them. It is necessary to facilitate the implementation of a business climate that is economically efficient, healthy and non-discriminatory competition for survival and improvement of the performance of small scale enterprises. In addition to provide an action to eliminate various charges that are

not appropriate, cross-sectorial policy coherence, as well as surveillance and defense against unfair competition practices and supported the improvement of legislation and institutional development.

In addition to the business climate as favorable external factors, a number of studies found that attitudes, values, perception of risk, continuous learning, managerial expertise which are an essential elements of entrepreneurship; marketing and in the production process (including technology), availability of production resources (including financial), and the availability of information and its effective use, are the internal factors that have a significant influence on the success of small scale enterprises (Moini, 1995).

CONCLUSION

Developing and advancement of small scale enterprises in an effort to increase and equity of people income is nonnegotiable. This study tried to unravel the capacity of internal and external conditions of small scale enterprises in studied area than play a role in spurring such development and advancement. Results of analysis through hypothesis test performed showed the following matters.

1. Partial hypothesis test results that variables internal capital procurement, marketing conditions, promotional activities, and the ability of employers to manage the business shows significant results and have an influence to the success of small scale agribusiness enterprises in Palembang. Furthermore, the test showed that the presence of independent variables in total can explain the dependent variable of 74.23 percent. These calculations indicate that the TSLS approach used is quite well in testing the first hypothesis, meaning that we can accept H_1 dan reject H_0 .

2. Partial hypothesis test also showed that the variable success of the business, marketing conditions, the potential for superior products, procurement of external capital, and reputation show significant results and have influence on internal capital procurement. Furthermore, the test showed that the presence of independent variables in total can explain the dependent variable of 71.56 percent. These calculations indicate that the TSLS approach used is also quite good in testing the second hypothesis, meaning that we can accept H_1 dan reject H_0 .

3. Partial hypothesis test also showed that, variable internal capital procurement, coaching and development, and education showed significant results and have an influence on the ability to manage the business. Calculation results also indicate that the presence of independent variables in total can explain the dependent

variable of 81.26 percent. These calculations indicate that the TSLS approach used is also quite good in the third hypothesis testing, meaning that we can accept H_1 dan reject H_0 .

SUGGESTION

Small scale enterprises development efforts in Indonesia for general and in Palembang for particular are not an easy job. Many things need to be addressed both internally and externally. In the development of small scale enterprises along with its positive impact generated, there were some suggestions made as a result of the analysis as follows:

1. Strive to always improve the provision of capital, both internal and external capital, human resources, production technology to produce competitive and quality products. Try to always overcome internal weaknesses, such as changing to positive mindset or increase discipline in work.

2. Due to small scale enterprises still face many obstacles and weaknesses of both internal and external, the role of government, state enterprises and the private sector in the form of a partnership is needed to further enhance the role and development of small scale enterprise. The establishment of policies and regulations that favor small scale enterprises is indispensable so that such small scale enterprises can be more creative in a conducive-business climate; furthermore enable them to strengthen the position and role of the national economy.

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