

Dynamics of Entrepreneurship on The Small Enterprises in Rural Areas in Kudus, Central Java

(A Case Study in Loram Kulon Village)

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Abstract— The entrepreneurship in small entrepreneurs in rural areas of Java has good dynamics by experiencing growth and development influenced by many factors. Therefore, there are villages whose small enterprises are able to grow and develop well, but there are also some which do not have well-developing businesses. The Loram Kulon village belongs to those which have good growth and development of the small enterprises. This study aims to explain the relationships between religious values and the development of entrepreneurship in small enterprises in Loram Kulon village and how these factors play a role in the dynamics of entrepreneurship in the community in the Loram Kulon people. The results of this study indicate the dynamics of small enterprises has a connection with the latent functions of religion; there is dynamics that shows the development of small enterprises in Loram Kulon within the framework of traditional small enterprises; the small enterprises will still have difficulties to become the medium and larger ones.

Keywords—dynamics, entrepreneurship, small enterprises

I. INTRODUCTION

Small enterprises have an important role in dynamizing the economic life of the community [1][2]. They create employment, drive the economic activities of the rural communities, and have strong business resilience toward the economic crisis [3, 4]. Small enterprises in rural areas in Java show unique dynamics. They do not grow everywhere, but in certain places with typical characteristics [5].

In Central Java, some regions as the centers for developing small enterprises include Kudus, Jepara, Klaten, and Pekalongan regencies and municipalities [6]. There are also small enterprises beyond them, but the number and development are less phenomenal. Kudus regency is a place for developing various SMEs in the form of cigarette, convection, border, iron farming, food, beverages, services, and trading industries. In Jepara, there are places for developing furniture business, convection, borders, monel and tiles/brick. The regency and municipality of Pekalongan is a center of batik and convection. Meanwhile, Klaten regency is a place for developing metal-based industrial enterprises, especially in Ceper sub-district.

The development of entrepreneurship in a society has previously been studied by entrepreneurial experts. It is

closely related to many factors. Some underlying entrepreneurial theories include the view of Richard Cantillon that links with the courage to take risks, Max Weber who associates with Protestant Ethics; Schumpeter who associates with the ability to innovate, Everett Hagen associating it with creative personality, David McClelland who associates with achievement motivation, and who links it with business opportunities[7]. Clifford Geertz who reviews entrepreneurship on Java is a figure that discusses Weber's Protestant ethics. Moreover, in [8] it relates to education; and [9] that links innovation and economic growth.

To discuss the development of entrepreneurship in the Javanese communities, this study limits the discussion only on the entrepreneurial dynamics in rural areas in Kudus regency, Central Java. What is interesting about the entrepreneurial dynamics of SMEs in Kudus is that the development of entrepreneurship extends to almost all sub-districts there. This is different from other regencies which are concentrated only in certain villages in a number of sub-districts. The entrepreneurship develops not only in certain fields of SMEs but also on other aspects. Therefore, this area was ever studied by Lance Castle and mentioned in the work of Clifford Geertz as the origin of entrepreneurs in Modjokuto (Pare, Kediri).

This study aims to explain the relationships between religious values and the development of entrepreneurship in small enterprises in Loram Kulon village of Kudus regency, and how these religious value factors play a role in the dynamics of entrepreneurship in the people of Loram Kulon.

II. THE CONCEPT OF ENTREPRENEURSHIP

The entrepreneurial dynamics has previously been explained by some experts related to growing, developing and rising and falling conditions. The growth of entrepreneurial society is not by chance, but there are factors that influence it. In this paper, not all theoretical studies will be explained. Some experts' opinions that will be discussed view the development of entrepreneurship which are related to the latent functions of religion, as stated by Max Weber who supported the explanation of Clifford Geertz [5][10][11] in the case in Modjokuto (Java) and also Lance Castles in Kudus (Java).

The latent functions of religion towards entrepreneurship according to Max Weber and Clifford Geertz do not show direct relationship between religion and entrepreneurship. In addition, in Weber's view, religion is not interpreted as a doctrine that gives orders or instructions for entrepreneurship. Religion is viewed more from its latent function, namely the effect of perspective and possession of the followers of religion which makes it more likely to grow the choices of entrepreneurial livelihoods. Weber shows the influence of Protestant ethics indirectly, through the teachings to work hard, live frugally (ascetic, simple), working as a form of God's call, and these make Protestants people are able to create capital and finally run a business [12][13].

The same thing Clifford Geertz has shown in Modjokuto, where groups of Islamic students (*santri*) had the urge to carry out Islamic religious orders to perform pilgrimage which made them have a spirit of hard work and frugal life like Weber's Protestant ethics, and caused them to create capital to run a business. The religious and entrepreneurial relations of Weber and Clifford Geertz can be seen clearly but they are more of a latent function. Lance Castles, who discussed the same topics in Kudus, also showed that there was an entrepreneurial link in the community in Kudus [14], which was pioneered by *santri* described first by Clifford Geertz, but their efforts were difficult enough to develop well. The business capital of *santri* is mostly used for religious duties and fails to adjust to government policies, so that they are unable to develop their own business to be larger and modern one.

Clifford Geertz also explained the difficulties of development of Javanese enterprises due to the obstacles on organizational ability, because the entrepreneurs who grow in Java generally are traders who run their businesses individually. The business in Java is more individual naturally, and it is very dependent on the continuity of business owners as the individual businesses. The business owned by *santri* cannot optimally be developed into a well-organized enterprise with modern business management [11].

III. METHODS

A. Study Area

The research is conducted in Loram Kulon village, Jati sub-district of Kudus Regency. In Loram Kulon, there are many small industrial enterprises. Although there are many that are developing, but the most prominent ones are convection and embroidery. Therefore, this research tries to reveal and study more deeply on those two business fields.

B. Methodology

The method used was qualitative, by using observations, in-depth interviews, and secondary source studies. The main informants consisted of four businessmen, and the secondary ones were from

community leaders, local village officials, and other residents of Loram Kulon. The observations were made to identify settings of place, environment, people's activities, and conditions of the entrepreneurs. The interviews were conducted to obtain information from the entrepreneurs, their families, community leaders, and local village officials. The secondary sources are the village monographs, sources of information published on internet, newspapers and the like.

IV. RESULT

A. Profiles of Entrepreneurs

Loram Kulon village in Kudus Regency is known as a center for small enterprises. There are many people who have established various business fields. The entrepreneurs are those who belong to the *santri* category. They view working as a form of worship, and therefore choose the type of works that is practiced and legitimated by the religion.

Various religious orders and prohibitions such as the command of zakat and pilgrimage, along with other pillars of Islam, are carried out well; while choosing prohibited (haram) business fields is upheld strongly; for example, they do not run food businesses made from pork. Therefore, the entrepreneurs in Loram Kulon are categorized as *santri*, but they are not only from puritan or modernist groups, but also from conservative ones. They show the characteristics that Clifford Geertz and Lance Castles described, hard-working and thrifty in their lives and following recitations (studying Islam) and have sufficient wealth and keep trying to perform pilgrimage. This can be seen from all informants engaged in various business fields.

B. Functions of Religion

The functions of religion in developing entrepreneurship in the people of Loram Kulon are not naturally direct, but they are more latent. There is no religious teaching that directly provides guidance or encouragement for entrepreneurship. Therefore, not every people of Loram Kulon who a Muslim is become an entrepreneur. Islam provides an ethical foundation that allows a number of people to be readier to become entrepreneurs. This strong foundation includes mental readiness to accept uncertainty as a result of risk, run a simple, economical ways of life and not to be spree to be able to gather more money to increase business capital.

They also avoid the habits of conducting parties and luxurious activities or goods and other extravagant pleasures. This can be seen in the way of holding a wedding party, death rites and social activities in the community, where all of them are carried out in simple ways. Some events such as presenting art performances during the marriage such as music, shadow puppets and others are not commonly held in this village.

Appreciation for people who work or have a enterprise encourages Loram Kulon people to be more productive. The embarrassment of being unproductive makes them not want to depend only on others, so that they prefer to

run a business or working. During working hours, the atmosphere in Loram Kulon seems so quiet. On the other hand, many people are working in the business industrial homes.

The appreciation for those who work or run their own business can be seen when the people of Loram Kulon choose a spouse. Young men and women are more appreciative of being productive or potentially productive in determining potential partners. Productive young people are very well known by the community and become the main choices to be their life partners. Ownership of shame to not work or to strive and to be independence is part of religious teachings that are often conveyed during the Islamic studies, and in the mutual life of the people of Loram Kulon. This matter, together with a frugal way of life, has made many residents of Loram Kulon choose to educate their children to be skilled at work or entrepreneurship fields.

C. Business Development

Viewed from its characteristics, all types of the existing businesses are small enterprises. The most prominent businesses are convection, bags, embroidery, food and businesses, transportation / traveling services, bridal make-up, printing, photographs, tile/ceramic industries, sawmills, scrap metal utilization, and others. They are generally owned by individuals as family businesses and almost none are managed with modern organizations in the form of limited liability companies (PT), or *commanditaire vennootschap* (CV). The entrepreneurs choose the traditionally owned businesses that are easier to develop and manage.

The traditional natures can be seen from the ownership of entrepreneurial skills. They have entrepreneurial skills not from attending formal education in high school or college but from internships or work experiences in the business of their parents, siblings, neighbors, or wherever they work. The work experience gained is a more decisive experience capital; second, the business capital obtained based on the data taken from individual savings, assistance, or loans from parents, relatives plus the loans from bank and non-bank savings, and loan institutions.

Third, as the small enterprises, the profits of the business activities obtained by the entrepreneurs of Loram Kulon cannot be separated from personal wealth and company assets. The business profits have also not been recorded using accounting standards. The fourth is business management. The employee recruitment, setting up employees in the form of their rights and obligations, as well as career arrangements, are organized in simple ways. The employees' rights are more specific to salaries, off days, and the right to get work overtime bonuses. The requirements are more on real competencies that are owned not based on the level of education. Ways to hire employees tend to use traditional standards, by involving agreements between the employers and employees. To stop or remain an employee is also not determined by a work contract, but through the notice.

Fifth, the products marketing is carried out by utilizing a business network relationship with merchants and shop owners. Loram Kulon entrepreneurs' business relationship

with them in marketing process is simply based on trust and simple records. Often the goods that are entrusted to merchants are not paid cash but through consignment, which means they get paid according to the sold ones, and the period can be quite long until the end of the year. At the end of the year, the businessmen of Loram Kulon and the shop owners/traders who become their partners made a business calculation called totalan. If the traders are able to pay in full within a span of one year, the entrepreneurs of Loram Kulon often become successful, because the profits obtained have been multiplied. Conversely, if the business partners go out of business and cannot pay their obligations, they will also suffer loss and may result in the business collapse.

In addition, the entrepreneurs of Loram Kulon market their products by accepting orders from traders or consumers at the production sites. The ordering process among some entrepreneurs is done in traditional (off line) and digital (on line) methods. This service is provided to the consumers through cash payments. When ordering, they make a payment method agreement, that is, if the ordered goods have been finished, they will get paid in cash.

The fact that entrepreneurship activities grows in Loram Kulon, where the entrepreneurs consist of Islamic social groups of *santri*, shows that there is certain relevance from Max Weber's Protestant Ethics theory, especially there is a latent function of religion (Islam) towards the development of entrepreneurship in Loram Kulon. This also shows the validity of Clifford Geertz's view that the entrepreneurs in Loram Kulon consist of *santri* groups. Besides, Clifford Geertz's prevailing view is that the characteristics of *santri* businesses are still traditional, belong to some individuals, and the main obstacle is lack of business organization skills, and personal wealth cannot still be separated from company assets. Barriers and strengths are also motivations for them to perform pilgrimage.

If Lance Castle sees it as an obstacle, and Clifford Geertz views it as a force, then it could actually be interpreted more as a force than an obstacle. It is called strength because the motivation for performing pilgrimage encourages them to work hard and save money that can generate business capital. Meanwhile, it is seen as an obstacle because the capital collected cannot yet be maximized because it is used to perform pilgrimage and other religious affairs, but it turns out there is already a rationality of the entrepreneurs towards financing the pilgrimage, without disrupting the continuity of their business.

With various limitations, both in terms of organizational skills, management, production and marketing techniques, the people of Loram Kulon are constrained to become bigger and more modern entrepreneurs. Loram Kulon community business will still be a small enterprise for some moment ahead.

V. CONCLUSION

Based on the discussion above, it can be concluded into three points. First, the dynamics of small enterprises,

from its emergence and development progress, show that there is a connection with the latent functions of religion resembling in the explanation of Max Weber's Protestant ethics and supporting Clifford Geertz's explanation of entrepreneurial characteristics in the Javanese society.

Second, there is a dynamic that shows the development of small enterprises in Loram Kulon, but it is still within the framework of traditional small business viewed from the characteristics of the businessmen and business managers although it has been experiencing technical progress by using digital technology to support business activities, particularly in the online marketing process besides the traditional (offline) one.

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