

# Determinant Factors Affecting the Business Performance of Silk Enterprises in Wajo Regency

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**Abstract**— This study aimed to examine the causal relationship among variables of business competitiveness development, learning orientation, entrepreneurial commitment, and business performance of the small-sized silk enterprises in Wajo Regency. The population of this study involves all business actors from 5,137 small-sized silk enterprises spread in 14 sub-districts in Wajo Regency. The size of the sample, based on the Krejcie and Morgan table, is 357. The technique of data analysis used is the structural equation modeling. The results of the analysis show that business competitiveness development and learning orientation partially have a significant effect on entrepreneurial commitment, as well as on business performance. Furthermore, business competitiveness development and learning orientation have an indirect effect on business performance through entrepreneurial commitment. The suggestion of this research is that business development that is oriented to business performance is not enough to be based solely on strengthening knowledge and skills, but the important thing is related to personality development of business actors.

**Keywords**— Competitiveness, learning orientation, entrepreneurial commitment, business performance

## I. INTRODUCTION

One of the industrial sectors developed by small and medium-sized enterprises contributing to the growth of Gross Domestic Product (GDP) until 2016 is the silk industry sub-sector. In that year, the average growth of national silk production reached 10% -15% per year (BPS - Statistics Indonesia of South Sulawesi, 2016). In the last three years, the average growth of the silk production has not been proportional to the needs of silk, either nationally or for export to foreign countries. In line with this, the production rate of world natural silk yarn in 2015 only reached 83,393 tons per year, while the world demand for natural silk was 92,743 tons per year. Domestic natural silk production was less than 500 tons per year, while domestic demand was 2,000 tons per year. The increase in world demand for silk is estimated to be between 2% and 3% per annum of the existing production rate. Some also estimate that silk demand will reach 5% per year. In Indonesia alone, its growth rate is estimated to be 12.24% of already achieved production [1].

One of the main natural silk producing regions, known as Silk Town in South Sulawesi is Wajo Regency. In 2009, in Wajo Regency, there were 312.50 ha of mulberry plantation and 1.5 ha of mulberry seedlings. Wajo Regency can absorb silkworm of 562.25 boxes and produce 12,104.80 kg of cocoon and 1,644.00 kg of raw silk with 25 farmer groups consisting of 506 families. In downstream sector, weaving industry in Wajo Regency as weaving center involves 5,806 business units employing 17,418 workers with investment value of Rp 10,931,989,000. There was a simultaneous decline in cocoon production in Wajo Regency for five consecutive years: 64,071,000 kg (2005), 45,867.00 kg (2006), 27,267.15 kg (2007), 35,141.60 kg (2008) and 12,104.80 kg (2009). Referring to the background and condition aforementioned, the objective of this study is to analyze the current business performance of natural silk enterprises in Wajo Regency viewed from various aspects holistically, although later this study is limited to downstream industries only.

Natural silk industry is one of the efforts to support land rehabilitation program by increasing the carrying capacity of the land through the preservation of mulberry plants combined with the cultivation of silkworm and post-harvest handling. The development of natural silk business is seen as one of the businesses aimed at prospering community by utilizing the abandoned forest land. Indonesia has a favorable agro climatic condition for the development of natural silk business as dry season is not too hot and rainy season is not too cold. This allows mulberry as a silkworm feed to grow and preserve throughout the year so that silkworms can be cultivated in several cycles.

Natural silk in South Sulawesi has long been a part of people's cultural life. Natural silk cultivation has been known since the 1950s and until now still done by some rural communities. Silk sarong is one of the tools used in every cultural ceremony such as weddings and traditional festivities [2] so that silk fabric and its production process are full of local wisdom containing moral messages and cultural values. Natural silk enterprise is one of the agribusiness activities that have a long process including mulberry cultivation, silkworm breeding, silkworm cultivation, cocoon processing, spinning and weaving.

Placing the agribusiness system as a new paradigm in silk enterprise allows it to have a complete agribusiness subsystem; procurement of production facilities, cultivation, processing industry, marketing and supporting institutions.

Natural silk enterprise has contributed to the availability of employment, so it should be able to improve the welfare of society especially in the countryside. Accordingly, it is necessary to identify what subsystems are involved in the activities of silk production and what the problems are in the subsystem. Furthermore, competition is crucial to a company's success. Competition determines the activities necessary for a company to achieve goals through innovation, culture, and good implementation for business performance achievement. In this case, competitiveness and learning orientation are needed based on its ability to create novelty in the form of ideas that have more value than before. Superior value for customers can be realized through efforts to create and maintain a culture that is capable of generating the behavior necessary to create high business performance.

[3] argue that business performance can be measured from profitability compared to predetermined targets. Company performance can also be measured by reviewing its productivity seen through the number of products produced, and in order to achieve competitive advantage, the resulting products should be pursued efficiently and effectively with adequate quality standardization because quality becomes very important for consumers besides price. The purpose of measuring company performance is to know what has been achieved by the company at a certain period. Measuring its performance is not only to reveal the financial achievement of the company, but also to show how the company can give satisfaction to its customers, the productivity, the competitiveness, and the efficiency and effectiveness of the company in the use of its resources.

In terms of business performance achievement, it is not enough to rely solely on competitiveness and learning orientation without a strong desire to maintain company values and goals through entrepreneurial commitment. Entrepreneurial commitment is the awareness of a person to keep and maintain the company values and goals by creating something new and different: the goal is to add value both to the company and to other parties.

The performance measurement is used to monitor whether management can utilize input to produce output properly. [4] assume that performance measurement positively correlates directly with the achievement of organizational performance, both private sector organizations and nonprofit organizations.

Market orientation and learning orientation are the most effective and efficient organizational culture in shaping behavior to create superior value for customers and sustainable superior performance for a business. A market-oriented company will formally engage in activities that generate market intelligence and spread the results across departments and will quickly respond to what consumers need and expect. Furthermore, [3] indicate that market orientation, business characteristic, and environmental factors affect business performance. Similarly, Horne and

[5] remark that market orientation affects business performance. Similar research conducted on small and medium enterprises by [6] also reveals that market orientation affects business performance.

The high commitment of an entrepreneur is shown through his dedication to his company and his efforts to advance. To have such commitment, an entrepreneur must learn, work, and be strong-willed. The advancement of entrepreneurship depends on commitment to the company. A highly committed entrepreneur will have inner freedom. Inner freedom is characterized by alignment within oneself. With a high commitment, an entrepreneur will have the will to solve various business problems to lead to success. In addition, an entrepreneur with a high commitment will have loyalty to his work in order to advance. In line with this, this study seeks to further analyze the causal relationship of competitiveness development and learning orientation to business performance through entrepreneurial commitment.

## II. RESEARCH METHODS

The data collected through questionnaires containing questions related to the variables studied, namely competitiveness, learning orientation, entrepreneurial commitment, and business performance. Furthermore, the technique of data analysis used was structural equation modeling.

The analysis used in this study is the causal relationship between latent variables, each of which is built through some dimensions and indicators. The latent variables include exogenous variables ( $\xi$ ) consisting of Business Competitiveness Development ( $\xi_1$ ) and Learning Orientation ( $\xi_2$ ), and endogenous variables ( $\eta$ ) consisting of Entrepreneurship Orientation ( $\eta_1$ ) and Business Performance ( $\eta_2$ ). The first exogenous variable is competitiveness development built through three dimensions, namely market availability, risk of failure, and pricing. The second exogenous variable is learning orientation built through three dimensions, namely willingness to learn, openness to new ideas, and shared vision. Furthermore, the intervening variable is entrepreneurial commitment built through commitment to consumers, to environment, and to business ethics. The endogenous variable is business performance built through two dimensions, namely financial and non-financial dimensions. The total number of indicators is 33. Furthermore, the empirical hypothesis testing was done by using structural equation modeling through *Lisrel Software Version 8.5*. SEM analysis aims to explain the direct and indirect effects of exogenous variables on endogenous variables and that of endogenous variables on other endogenous variables.

Determination of the sample size is based on the assumption that the representation of the population by the sample in the study is an important condition for generalization. In the use of Structural Equation Modeling, the determination of the sample size is done with the consideration that if the sample size is too large then the model becomes very sensitive that it is difficult to obtain goodness of fit. Therefore, the suggested sample size is 5-10 times the number of manifest variables (indicators) of all latent variables. The number of indicators in each latent

variable is 9 with the number of constructs or latent variables is 4, so the number of indicators or manifest variables is at least 36 items. In this study, the number of manifest variables is 36, so the minimum sample size can be used; between 180 respondents and 360 respondents. This minimum and maximum limit of sample size allows the researcher to determine the number of respondents by taking the average of both numbers, so the number of respondents is 270. Furthermore, to determine the sample size in each sub-district, the proportionate Random Sampling is used with the formula ( $n_i = N_i / N \times n$ ):  $n_i$  is the sample size in each sub-district,  $N_i$  is the population in each sub-district,  $N$  is the total population, and  $n$  is the total sample size.

### III. RESULTS AND DISCUSSION

#### A. Respondents Response to Business Competitiveness Development ( $X_1$ )

Some of the 270 respondents gave answers categorized as "Fair", including those relating to indicators X1.1.1 and X1.1.2 of the market availability dimension, X1.2.2 and X1.2.3 of the risk of failure dimension, and X1.3.3 of the pricing dimension. Meanwhile, the ability to innovate and the courage to take risks are still lacking as generally, the quality and quantity of the products are not as expected, the motifs still seem simple, and they have not been able to meet the needs of national and international markets. Furthermore, some respondents gave answers categorized as "Low", including those relating to indicators X1.1.3 of the market availability dimension, and X1.2.1 of the risk of failure dimension. In addition, there were answers categorized as "Less" related to indicators X1.3.1 and X1.3.2 of the pricing dimension. The respondents' answers indicate that product development to follow the market trend has not been done optimally because most business actors have not dared to make changes, both in terms of products, production patterns and marketing systems that have novelty value.

#### B. Respondents Response to Learning Orientation ( $X_2$ )

Some respondents gave answers categorized as "High" to learning orientation of the willingness to learn dimension, revealing that willingness to learn from experience (X2.1.2) received a "strong" response by the respondents in general. On the other hand, there are responses categorized as "Fair" to each dimension of learning orientation variable. These dimensions include willingness to learn for indicator of commitment to learn production and marketing skills (X2.1.1) and indicator of willingness to learn from failure (X2.1.3), openness to new ideas for indicators of innovation (X2.2.1) and accepting constructive suggestions from others (X2.2.3), and shared vision for indicator of vision understanding by all employees (X2.3.3). Answers, categorized as "Less" and "Low", indicate that generally respondents have not responded well that their attitudes and behaviors do not encourage changes oriented to learning. Moreover, the indicator of X2.2.2 categorized as "Low" describes the low willingness of business actors to produce products that follow new trends. Similarly, the indicators of X2.3.1 and X2.3.2 are categorized "Less" indicating the low awareness of business actors in understanding the company's vision in order to achieve it.

#### C. Respondents Response to Entrepreneurial Commitment ( $Y$ )

These three dimensions include nine indicators, where there are indicators that have high scoring categories, related to business ethics dimension, where respondents generally have a response to answers that have a high weight. The indicator relating to this dimension is commitment to pricing. In this case, generally the respondents remain committed to the pricing done in a simple and manual way, making it difficult to determine the profitability level of business activities undertaken. The facts found in the study sites show that not all business actors ran their business by building entrepreneurial character that is oriented to consumer needs, environment and business ethics.

#### D. Respondents Response to Business Performance ( $Z$ )

Generally, respondents are very responsive to business performance, especially related to the financial dimension where the respondents' answers are categorized high. Meanwhile, the indicator relating to the level of profit is generally categorized as fair. This indicates that most of the business actors have not been able to produce the maximum profit as expected. Furthermore, in the case of nonfinancial dimension, business actors have not been able to evaluate and improve the production and marketing process indicated by the score of responses that are categorized as fair. Furthermore, for the indicators related to customer improvement in the last five years, and desire to evaluate the quality of products have not been done optimally as indicated by the low-categorical answers. This indicates that generally business actors have not been too responsive to matters relating to nonfinancial issues, but more likely to problems about asset increase, working capital turnover, and sales turnover.

The findings show that most small-sized silk business actors still use simple production equipment known as ATBM (*Alat Tenun Bukan Mesin*) or non-mechanized loom. In addition, the production system is relatively simple, where the integration system between structural and functional components has not been well ordered. Generally, small-sized industries have structural components consisting of raw materials, machinery, production equipment, labor and information but they have not been optimally utilized. In addition, the functional components that include supervision, planning, control, and coordination between members and leaders have not been well established. Thus, business activities are not well organized that can cause intermittent production process. This can happen because the production process is not standardized. A research by Sahabuddin (2017) suggests that entrepreneurial commitment has a significant and positive impact on business performance.

The results of the analysis indicate that competitiveness has not been developed as expected to improve business performance. The involvement of women dominates the activities of the silk industry. In this case, the products produced are still limited to certain market segments, and the market coverage is limited on offering products that have not followed the market trend. The limitations of space and time to make changes in the production process and that of product motifs and availability of business capital cause

most of the business actors not to dare to take risks of failure.

Willingness to learn and always try is a message that is always delivered by some of the business owners who are heads of their households to the family members who are also employees of the family owned silk enterprises. They always instill entrepreneurial commitment and encourage open-mindedness. Organizational learning might occur when organizational members act as learning agents within the organization, responding to changes in the internal and external environment of the organization by detecting and correcting errors in the organizational theory used, and incorporating the results of research conducted in personal and organizational perspective. Thus, it can be argued that organizational learning is a process through which an individual's knowledge is transferred to the organization so that it can be used by other individuals. Furthermore, the organization will learn if, through its information processing, the level of potential behavior can change.

Competitiveness development is not enough to improve business performance without entrepreneurial commitment. In addition to the development of competitiveness, learning orientation is needed in increasing commitment and business performance. According to [6], a company that has made market orientation its organizational culture will focus on external market needs, will make market demand a basis for developing strategies for each business unit within the organization and for determining the company's success. As an organizational culture, market orientation is conceptualized in terms of level, and the high level of market orientation is influenced by various organizational factors [7]. In [8] research, market orientation is a determinant of company performance regardless of the external environment in which it operates.

#### IV. CONCLUSION

The results of the scoring of responses on each dimension of research variables show that in general every variable dimension studied is not good enough, where some dimensions are still at a fairly good degree. Model estimation results show that business competitiveness development has a significant effect on entrepreneurial commitment of small-sized silk enterprises. Furthermore, learning orientation has a significant effect on entrepreneurial commitment of small-sized silk enterprises. In contrast, business competitiveness development does not have a significant effect on business performance of small-sized silk enterprises in Wajo Regency.

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