

# *The Role of Government, Entrepreneurship, and Business Competence In Order To Improve The Competitiveness of Micro, Small, and Medium Enterprises (MSMEs)*

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**Abstract** - Micro, small and medium enterprises (MSMEs) have a very large role in the Indonesian economy. For this reason, MSMEs must be empowered by increasing their competitiveness. The seriousness of the government's role in improving the performance and competitiveness of MSMEs is needed, including how to foster entrepreneurial spirit and business competence. It is hoped that the role of MSMEs will become larger and become the mainstay of the community in achieving prosperity. This study aims to produce findings related to the role of government, entrepreneurship and business competence in improving the competitiveness of MSMEs. The results of this study are expected to contribute as a basis for consideration of government policies in advancing MSMEs in Indonesia. There are four variables in the study, i.e.: (1) government policies related to MSMEs, (2) Entrepreneurship and (3) MSME business competencies. The dependent variable is (4) the competitiveness of MSMEs. To achieve the research objectives, the subject of the study is the owner and administrator of MSMEs in the Province of Bali. The sample chosen using probability sampling that is proportionate cluster random sampling. Data were analyzed using Partial Least Square Path Modeling (PLS-PM). The results of the study prove that the role of government, entrepreneurship and business competence partially has a significant effect on the competitiveness of MSMEs. The results also prove that the role of government, entrepreneurship and business competence simultaneously have a significant effect on the competitiveness of MSMEs.

**Keywords:** Role of Government; Entrepreneurship; Business Competence; Competitiveness; MSMEs

## I. INTRODUCTION

In addition to being a business sector that contributes the most to national development, MSMEs also create considerable employment opportunities for domestic workers, so their role is very important in helping the government's efforts to reduce unemployment. From the juridical aspect, the existence of MSMEs has been regulated legally through Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. The central government policy tool can be used as a foundation for a sustainable facilitation process. MSMEs in their existence as a group of the largest economic actors in the Indonesian economy have proven to be a safeguard of the national economy in times of crisis, as well as a dynamic economic growth after the economic crisis.

The Indonesian government policy continue to be refined to grow small, medium and medium enterprises (MSMEs), though it is not yet fully conducive. This can be seen from the occurrence of unfair competition between small entrepreneurs and big entrepreneurs. If this condition is not immediately addressed, it will reduce the competitiveness of Micro, Small and Medium Enterprises. Likewise, the role of MSMEs in Bali Province, although well known for the tourism sector, only a few people work directly in this sector. Balinese people depend more on the MSME sector for their lives. Some of the dominant MSME sectors in Bali include: trade, handicraft, agriculture and tourism supporting industries. The seriousness of the government's role in improving the performance and competitiveness of MSMEs is needed.

Entrepreneurship is a creative effort that is built on innovation to produce something new, has value added, provides benefits, creates jobs and results are useful for others. Entrepreneurship means entrepreneur or entrepreneurship which is a branch of economics that teaches how we can be independent in starting a business in order to achieve profit and develop all the economic potential that is owned. Entrepreneurship is the process of creating something new in value using the time and effort needed, bearing the financial risk, physical and social risks that accompany it, receiving the monetary rewards generated and satisfaction and personal freedom [1]. The concept of entrepreneurship and small business is very closely related but there are some characteristics of differences from the two even though the difference is very small. The independence of the entrepreneurial spirit will be able to improve the competitiveness of MSMEs.

This research aims to analyze: (1) The influence of the role of the government in order to improve the competitiveness of MSMEs, (2) The influence of entrepreneurial spirit in order to improve the competitiveness of MSMEs, (3) The influence of business competencies in order to improve the competitiveness of MSMEs, (4) The influence of government roles towards entrepreneurial spirit and business competence in order to improve the competitiveness of MSMEs.

## II. LITERATURE REVIEW

The role of the government in service to small-scale industrial entrepreneurs in a number of countries, especially in the United States, has been running since the Thomas Jefferson administration, long before Indonesia achieved its independence. One prominent role of the function of government is the effort to encourage the growth of small industries through the help of facilities and technological development. The governance function has been patterned in a function that permanently encourages the growth of small-scale industries, proven to have participated in strengthening the growth of small industries to develop with other types of businesses [2].

When the government gave birth to many large companies that dominated the economy through *economic-scale products* with multi-national networks, then at that time the government acted to regulate with the aim of protecting small and medium-sized businesses from exploitation and domination of large companies known as multi-national companies [3]. Along with the dominance of the big companies, small industries in many countries made adjustments to become more specialized

business *incubators* to continue to get rice amid a market that increasingly led to market globalization [4].

Government regulation of small industries and also develops by using various small-scale industry models in economic zone areas where the regional economic zone model is the right vehicle to be used throughout the world, from the regional industrial sector to large entrepreneurs as foster fathers of small-scale entrepreneurs who are incorporated in the area of small industry cooperation. The government can also carry out various taxes through fiscal stimulus that can be given to small industry governments.

Entrepreneurship is a creative effort that is built on innovation to produce something new, has value added, provides benefits, creates jobs and results are useful for others. Entrepreneurship means entrepreneur or entrepreneurship which is a branch of economics that teaches how we can be independent in starting a business in order to achieve profit and develop all the economic potential that is owned. From this definition emphasizes four basic aspects, i.e.: first, entrepreneurship involves the process of creation where the creation here is creating a new value. Second, entrepreneurship requires a certain amount of time and effort. Third, entrepreneurship involves appreciation of being an entrepreneur where this award is personal freedom and satisfaction. The last aspect is entrepreneurship is an action that contains risks, it said to be because this action takes time but the future results are unpredictable.

The concept of entrepreneurship and small business is very closely related but there are some characteristics of differences from the two even though the difference is very small. As we know that Dell Computer began as a business of one person who grew into a giant company, Dell's growth spurred on the imagination and skills of Michael Dell as the person who founded the company. The difference between entrepreneurship and small business so-called entrepreneurs are those who bear the risk of owning a business with growth and expansion as a primary goal. Often small business owners characterize themselves as entrepreneurs but many of them do not have the ideals of expanding their businesses as do true entrepreneurs.

Competence is the ability to carry out or carry out a job or task based on skills and knowledge and supported by the work attitude demanded by the job. Competence is the basic character of a person who identifies the way of behaving or thinking, which applies in a very wide range of situations and plays a role for a long time [5]. Competence is a fundamental characteristic of each individual that is related to the criteria referenced to superior or

effective performance in a job or situation. Competencies can be grouped into four levels: (1) *Core competencies*. Core competencies describe the most important competencies for an entire organization. Each core competency is unique to the organization. Therefore core competencies must be identified through group discussions with middle and top management. These core competencies are adapted to suit the demands of various works in the organization. (2) *Role competencies*. Role competencies are only relevant for employees who hold managerial positions. Role competencies are categorized into competencies related to activities, people, resources and information. Role competencies are a pillar for the organization to achieve its goals. (3) *Behavioral competencies*. Behavioral competencies are a hidden characteristic that is related to effective or superior performance. Behavioral competencies are classified into tasks, personal attributes, relationships between individuals and services. (4) *Functional competencies* [5].

Competitiveness is a concept commonly used in economics, which usually refers to commitment to market competition in the case of companies and success in international competition in the case of countries. With increasingly global world economy and free competition, competitiveness has become one of the key concepts for companies, countries and regions to succeed in their participation in globalization and free trade in the world [6].

Using the concept of competitiveness, a model is created to relate the characteristics of the manager or owner of SMEs and long-term company performance. The conceptual model for competitiveness consists of: the scope of the company's competitiveness, the organizational capabilities of the company, the competence of entrepreneurs/business owners, and performance. Competitiveness is the ability of companies, regional industries, countries or regions to produce income factors and relatively high and sustainable employment factors in the context of facing international competition.

The main competitiveness of Michael Porter is known the term *Porter's Five Forces Model* states that entities also compete with their potential competitors, i.e. those who will enter suppliers, consumers, and producers of substitute products. So there are five forces that determine the characteristics of an industry, namely: (1) the intensity of competition between existing players, (2) the threat of entering newcomers, (3) the power of supplier bargaining, (4) the bargaining power of buyers, and (5) Threat of substitution products.

### III. RESEARCH METHOD

This study aims to examine the role of the government so far in order to improve the competitiveness of MSMEs. In addition, other variables were tested, the entrepreneurial spirit of MSME entrepreneurs and their business competencies to improve the competitiveness of MSMEs. There are four variables in this study which include 3 independent variables and 1 dependent variable. The independent variables consist of: (1) government policies related to MSMEs, (2) Entrepreneurship and (3) MSMEs business competencies. While the dependent variable includes: Competitiveness of MSMEs.

The population in this study was MSMEs in Bali Province. To determine the number of samples selected using *probability sampling* that is *proportionate cluster random sampling* that if a sample size of  $n$  drawn from a population size of  $N$ , so that each unit in the sample has an equal chance to be selected in each *cluster*. Data collection method used in this study is to use a combination of several methods: (1) the observation method and (2) the interview method. To be able to achieve the research objectives, the data that has been obtained is analyzed by quantitative analysis using *Partial Least Square Path Modeling* (PLS-PM).

### IV. RESULTS AND DISCUSSION

The sample chosen using probability sampling is the proportionate cluster random sampling. By this method determined the number of samples as many as 43 samples. Characteristics of respondents of this study include gender variables, entrepreneur education, type of business, level of production and age of respondents.

#### A. *Effect of the role of government on the competitiveness of MSMEs*

The role of government policy turned out to have a positive and significant impact on the competitiveness of MSMEs, based on an error rate of 5 percent, obtained  $t$  value of 5,112 which was still greater than the table  $t = 1,933$ . Thus it can be stated that the role of government has a positive and significant influence on the competitiveness of MSMEs. The results of statistical tests  $t$  become a research guideline to state that the role of government is very strategic and relevant in order to improve the competitiveness of MSMEs. Prediction of the effect of the government's role on the competitiveness of MSMEs is obtained at 2.6371 which indicate that the predicted value is still higher than the sample average of 1.1773. Thus, it can be stated that the role of

government can still change and increase based on perceptions obtained from predictions.

*B. Effect of the entrepreneurial spirit on the competitiveness of MSMEs*

The role of entrepreneurial spirit turned out to have a positive and significant impact on the competitiveness of MSMEs, based on the error rate of 5 percent, obtained t value of 4.886 which was still greater than the table  $t = 2.856$ . Thus it can be stated that entrepreneurial spirit has a positive and significant effect on the competitiveness of MSMEs. The results of statistical tests t become research guidelines to state that entrepreneurial spirit is very relevant in order to improve the competitiveness of MSMEs. Prediction of the effect of entrepreneurial spirit on the competitiveness of MSMEs is obtained at 3.1181 which indicates that the predicted value is still higher than the sample average of 1.8662. Thus, it can be stated that entrepreneurial spirit can still change and increase based on perceptions obtained from predictions.

*C. Effect of business competence on the competitiveness of MSMEs*

Business competence turned out to have a positive and significant impact on the competitiveness of MSMEs, based on an error rate of 5 percent, obtained t value of 5.229 which was still greater than the table  $t = 3.770$ . Thus it can be stated that business competence has a positive and significant effect on the competitiveness of MSMEs. The results of statistical tests t become a research guideline to state that business competence is very relevant in order to improve the competitiveness of MSMEs. Prediction of the effect of business competence on the competitiveness of MSMEs is obtained at 3.6221 which indicate that the predicted value is still higher than the sample average of 2.5991. Thus, it can be stated that business competencies can still change and increase based on perceptions obtained from predictions.

*D. Effect of the government's role on entrepreneurial spirit and business competence in order to improve competitiveness*

Government policy has a significant effect on the competitiveness of MSMEs, in addition it is seen from the process of indirect effect of the role of government policy on competitiveness through entrepreneurial spirit and business competence, that it has a t value of 4.955 which is still greater than the t table of 1,774. Based on the criteria for the t test, it can be stated that the role of government policy has

succeeded in giving impetus to increase competitiveness through government empowerment in education and training that can improve the competence of human resources, thus ultimately increasing the competitiveness of MSMEs. Government policy is stated to have a multi-dimensional character, with formative latency, so that changes in government policies will potentially change the competitiveness of MSMEs if the training and government empowerment budget is to be increased in the future.

This study proves the role of government as a trigger in improving the competitiveness of MSMEs. The role of the government is also a supporter in improving entrepreneurial spirit. In addition, the role of the government is also able to improve the competence of MSME businesses. Besides having a direct impact on the competitiveness of MSMEs, the role of the government also has an indirect impact on increasing competitiveness through entrepreneurial spirit and business competence. This study found the need for the involvement of all components in improving the competitiveness of MSMEs, namely the role of government, entrepreneurial spirit and business competencies together to improve the competitiveness of MSMEs.

## V. CONCLUSION

Based on the results of the research and analysis that has been done, it can be concluded that the results of the study prove that the role of government, entrepreneurship and business competence partially has a significant effect on the competitiveness of MSMEs. The results also prove that the role of government, entrepreneurship and business competence simultaneously have a significant effect on the competitiveness of MSMEs. This study proves the role of government as a trigger in improving the competitiveness of MSMEs. The role of the government is also a supporter in improving entrepreneurial spirit. In addition, the role of the government is also able to improve the competence of MSME businesses. Besides having a direct impact on the competitiveness of MSMEs, the role of the government also has an indirect impact on increasing competitiveness through entrepreneurial spirit and business competence.

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