

The Influence of Business Network and SME Empowerment Towards Business Sustainability (Study of Handmade Mangrove Batik SME Surabaya)

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Abstract: Business which is included in the category of Small-Medium Enterprises (SME) is the breath of regional and national economy. Some excellent business sectors in East Java are textile commodity manufacturing industries and textile products which are necessarily developed in order to be able to give national Foreign exchange for the sake of society income. A business which is necessary to be developed is small enterprise of handmade mangrove batik in Surabaya. Related to the previous matter, it is important to conduct study towards business network and SME empowerment and its sustainability. The study aims to: examine and analyse the influence of business network towards business sustainability, examine and analyse the influence of business network towards SME empowerment, examine and analyse the influence of SME empowerment towards business sustainability and examine and analyse the influence of business network towards business sustainability mediated by SME empowerment. The object of the study is handmade mangrove batik entrepreneur in Surabaya, East Java. The areas of the study are located in Kedung Baruk, Wonorejo and Gunung Anyar. Total population and sample are 58 respondents of batik mangrove entrepreneurs. The result of the study shows that first, business network insignificantly influences the sustainability of mangrove batik entrepreneurs in Surabaya city, secondly, business network significantly influences SME empowerment of mangrove batik entrepreneurs in Surabaya city. Thirdly, SME empowerment significantly influences towards business sustainability of mangrove batik entrepreneurs in Surabaya city. Forth, business network significantly influences business sustainability which is mediated by SME empowerment of mangrove batik entrepreneurs in Surabaya city.

Key words: Business network, SME empowerment and business sustainability, handmade mangrove batik, Kedung Baruk, entrepreneurs, influences

INTRODUCTION

Role of government as one of requirements of success in developing SME is by discovering various innovations to increase the performance of SME, thus, it can produce high-competent products. According to Winarni (2006), generally, small enterprises have characteristics such as: usually in form of personal business and have not been in state of company firm, legality aspect of business is weak, organizational structure is simple with non-standard job dividing, mostly have no financial report and do not separate personal and company assets, low management quality and rarely have business plan, main source of capital is personal capital, limited human resources, owners have strong internal bound towards the companies, thus, all companies obligations becomes their obligations.

Based on Central Bureau Statistics (2013), population of small-medium enterprises reached 42.5 million units or

99.9% from all business players in the country. SME gives significant contribution in job hiring that is 99.6%. Contribution of SME towards Domestic Gross Domestic Product (GDP) is 56.7%. Meanwhile, in East Java realization of batik export demand in 2009 until 2013 had increased 435.19%. Optimism of business players (entrepreneurs) appeared after batik is recognized by UNESCO, encouraging “batik wearing movement” as national heritage, since, Majapahit kingdom, making it once again becomes trend. Meanwhile, SME still faces classical problems like common obstacle which usually becomes main cause such as limited access of towards productive sources, mainly difficulty in capital access from formal financial sources, lack of technological skill resulted in low productivity and low quality product, limited raw material and the quality of human resources which still has not meet requirement of formal education and knowledge as well as skill possession, lack of partnership with big

companies, unclear standardization of product which should be based on customer's demand product, lack of quality control, lack of export knowledge and limited marketing network.

The benefit of business network stabilization for development of business world, especially, for handmade mangrove batik entrepreneurs is believed to be greatly huge, moreover, some are eager to decide that the existence of business network in small enterprises entrepreneurs will bring into very dominant and positive connection. Business network form can be built for the importance of production, marketing even companies services which is involved in a business network, then will have bigger opportunity in coordinating their good products whether they are the new ones or the ones which are already available in market as well as having access and information and important knowledge about business, having opportunity in reducing production costs, repairing production process technology, able to form efficient and effective marketing as well as distribution networks and giving alternative solution for problems. Business network in handmade mangrove batik entrepreneurs which gets expanded can increase the excellence of skill and sources caused by wide business network, therefore, entrepreneurs should form more corporations with professional service such as management consultant. Therefore, getting better in controlling business network strategy resulted in easier creation of excellence competency. Based on Day and Wensley in Istanto, superior in competency is defined as various competitions in skill and sources superiority. Success of business in industrial sector becomes contributor of Gross Domestic Product (GDP) in economic growth. At least GDP is highly influences by three indicators, they are government as policy and strategy maker, stable market and reaction or respond of entrepreneurs.

Another problem faced as well as becomes weakness of SME is lack of information access about market. It becomes obstacle in distributing products because of limited information about handmade mangrove batik which causes low market orientation and lack of competency in global level. Empowerment in small industries of handmade mangrove batik which is already done by organization/institution through supervising and developing in Surabaya, East Java, seems has not been able to be increased the competency yet. Empowerment concept (Ife, 1995) (Ife, Friedman, Prionoand Pranarka, Hikmat, Melkote and Stevess, Sumodiningrat, Adi, Sunartiningasih) which varies and is contextual from various definition can be concluded that society empowerment as an effort for enabling and making society

to be independent in other words how to help to be able to help ourselves for handmade mangrove batik entrepreneurs. In terms of business sustainability, it necessarily needs the increase of performance, increase of capacity whether in management, financial and professional sides. It is because good or bad condition of a business can be seen from achieved performance. Performance in sustainability of business related to affectivity and efficiency level of business which are done by organization in order to achieve the objectives of organization. The measurement of performance means analyzing data as well as business controlling. Performance in handmade mangrove batik entrepreneurs can be made as basic in evaluating the sustainability of business whether it is done based on what is expected. Companies performances is a concept to measure market achievement of a product. SME empowerment also can mediate relation between business network towards business sustainability, Sabirin (2001) explains that to empower low economic society group or small sector business is by providing accessible source of business costs. The success of handmade mangrove batik SME will be realized, if all stakeholders have role together in line with each responsibility. Both regulator include regional government, handmade mangrove batik SME entrepreneurs and banks which can work based on their tasks and functions, thus, success and improvement of SME will be done fast. Based on background of the study and thought as explained above, it is necessarily needed and benefit to analyze and examine whether business network, SME empowerment significantly influence business sustainability of handmade mangrove batik business in Surabaya city.

Literature review: Depiction of New Institutional Economic (NIE) itself is the effort in its contradiction to develop neoclassical economic ideas in 1930s decade. Ronald Coase is one of NIE founder at that time developed thought about economic organization to balance idea about policy of competition and industrial regulation in United State of America in 1960s decade which is related to economic freedom/free trade market and economic and entrepreneurial freedom. Some of economic experts believe that institution only exists in economic field if its existence is efficient, since, it is the result of potential competition and it is actual among some deals of alternative institutions.

Aristoteles thought in economic development relates it to prosperity, stating that income and wealth are not final objectives but medium to achieve other objectives creating new discovery in the approach of "Capability" Michael *et al.* (2011) that capability to function holds

important role to decide whether someone status is poor or not. Here, capability means freedom owns by someone related to the person's function choice which is bounded on personal characteristics (personal characteristics change towards function or pace in society) and it's controlling level towards certain commodities. An opinion stated by Sen, said that economic growth cannot be seen as aim. Development should pay attention more in the possibility of society's involvement in form of participation which shows community based economic development (Gitosaputro and Rangga, 2015) whether in process or in the utilization of result which is still discriminated on certain groups as capital owners.

Opinion by Mardikanto and Soebiato (2012) about development activity without prioritizing active role of society aspect, stated that it is resulted in society environment which will lose its spirit and will be trapped in social engineering process which places society as merely as supporting object whether it is in government bureaucracy, institution or other donors which bring up society's name for personal or group purposes. Garna and Zainuddin depicted the existence of relation between development and industrialization in general, they are: material used in industrialization process is in one line activity to increase prosperity, industrial development as an effort to increase human resource's quality and skill utilize natural sources, industrial development will trigger and is related to other sectors development which can expand job vacancies which is expected to increase income and buying power of society and in economic development in which will occur harmful imbalance and it has economic and non-economic traits. According to Santoso, he said that small-medium enterprises in realizing independent regional economic development requiring all stakeholders or all parties in society (government, entrepreneurs, university as well as society and or institution) involved in the planning, implementing, controlling, monitoring and evaluating. By Fitriati (2015), explains that an effort of SME development should be seen as internalized in the whole process of economic development. In terms of regional developing, Martini (2011) saw the internalized effort can be facilitated through policy formulating process done by Development Planning Agency at sub-National level (Bappeda in Bahasa Term). Martini (2011) thought, an area is developed based in its core competency, it does not based on excellence export product which is done along this time. The thought is based on the condition that not all regionals have prosperous natural sources. Roger (1997) said that SME adds multiplier effect which will create connection/relation. Small industry is activity of event

done in society's houses whose workers are family members, neighbors without bounding on work time and work place (Tulus, 2006).

There three backgrounds or models which are proposed, they are first, based on changing perspective which was developed by Blau. Second, depending on sources model and third which is known as transaction cost economy model by Williamson. The biggest country's manufacture besides give opportunity to smaller business unit such as distributing, helping in capital, more advanced technology acquisition, they also help to divide various kind of information related to developing smaller business. Based by Prijono and Pranarka (1996), the main purpose of a company in involving itself in a business network is related to long term purpose that is defending the sustainability of company through the increase of competency. Related to SME empowerment, in Act No. 20/2008 about SME, that society empowerment as.

Society empowerment Slamet, Theresia *et al.* (2014) defined it as development supervising process which by Mardikanto and Soebiato (2012) was defined as: "Social, economic and political change process to empower and strengthen the skill of society through togetherness which is participative in order to create change in all stakeholders (personal, group, institution) which involve in development process in order to create more empowered, independent and participative life which is continuously more prosperous". Paul, Prijono and Pranarka (1996) stated that empowerment means fair dividing power resulted in increase of political and power awareness in a group which is recognized by having lack of power as well as growing involving power towards process and result of development. Chamdan (2007) stated that empowerment is relation among personals which continuously runs in developing trust between society and government.

Based on Foster by Ashari (2005), bankruptcy is financial difficulty which shows terrible liquidity problems which cannot be solved except by rescheduling the whole operation and structure of a company. Bankruptcy usually is defined as failure of company in running company's operation to create profit. Based on Hanafi and Halim, information related to prediction of business sustainability is important for other parties which are involved such as: loan givers, investors, government, accountants and managements.

Conceptual frameworks of the study: The research done in the present focuses on variables of business network and SME empowerment as well as the level of their influence towards variable of business sustainability. The

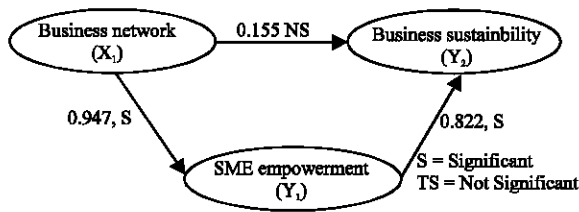


Fig. 1: Conceptual frameworks

writer is interested in analyzing the level of relation among each variable based on existed condition in industrial sector of mangrove batik product of SME in Surabaya, East Java in which the production selling result has not been absorbed optimally by market (Fig. 1).

Hypothesis of the study

The influence of business network towards business sustainability: Based on Sosiawan, the benefit in the creation of business network for the development of business world is greatly huge, moreover, it is very dominant. In truth in some Asian countries which are in currently categorized as industrial countries such as Japan and Taiwan, able to prove the huge benefit from the creation of business network, especially, business network of small and medium industries. The network includes relation whether it is hidden and active how an individual controls and decides the relation whether consciously or unconsciously in various ways to reflect the individual’s needs. It depicts that network in SME is an effort which is done by SME entrepreneurs in achieving business purpose as the reflection of the needs of business sustainability which is done by forming relation with constituent in related industries both vertically or horizontally. A study done by Suyono Ali, found that strong relational network is built vertically between suppliers and SME which are involved in production process. Meanwhile horizontally, relation network between involved SME is still weak caused by low marketing. Based on the explanation above, it is assumed that business network has impact towards business sustainability, therefore, proposed hypothesis is:

- H₁: business network creation can increase business sustainability

The influence of business network towards SME empowerment: The role of Small-Medium Enterprises (SME) in Indonesian economy at least can be seen from: its position as main role in economic activity of various sectors, biggest provider of job vacancies, important player in developing local economic activity and society empowerment, creator of new market and innovation

source and its contribution in maintaining payment scales through SME export activity makes them as main providers of job vacancies and give positive contribution towards economic growth, though economic growth (GDP) is influenced by many factors in a study of Aristeidis *et al.* Then a study is done by Samitas and Kenourgios (2005) about Small-Medium Enterprises (SME) for integrated European economy. A study done by Aylin and Umit (2007) which aims to solve dynamics and activity in strategy process of SME can help readers to understand the practice and language of SME managers about strategy. Aylin and Umit (2007) investigated the topic by doing four deep case studies in England which already survive for a long time in the challenging environment for manufacture industrial sector in the last current years. Based on the explanation above, it is assumed that business network has impact towards SME empowerment, therefore, the proposed hypothesis is:

- H₂: the creation of business network can increase SME empowerment more

The influence of SME empowerment towards business sustainability: Government involvement in SME empowerment is already regulated in Act No. 20 in 2008 about SME. The act contains general regulation, foundation, principle and purpose and objective of empowerment, criteria, business climate growing, business development, costs and loan, partnership and coordination of empowerment, administrative sanctions and criminal decision. In order to empower SME, the involvement of stakeholders strongly decides the success. Abor and Quartey (2010), discussed characteristics, contribution of SME towards economic growth and the obstacle for SME growth in developing countries, especially, Ghana and South Africa that SME in Ghana and South Africa have many similarities in traits and their economic roles. But something that makes them different is in terms of size and regulation. In developing SME, obstacle factors are the lack of access for precise technology, limited access of international market, the existence of act and regulation which obstruct the sector, weak capacity of institution and lack of skill and training in management, it is even difficulty in financial access which still becomes majority problem of SME. It also occurs in a study done by Eka (2014) entitled strategy of woods craft sme empowerment in bali which analyses value chain of carved woods craft in Gianyar, Bali. It analyzed strategic position of carved woods craft industries of Gianyar, Bali. In the result of the chain, it still lacks of raw material supply from Bali Island. Meanwhile in downstream, lack of government support in distributing the product becomes issue. In SWOT analysis, mapping

result of quadrant 2 indicated that the strategy are increasing skill and investment to increase quality and capacity of production to achieve efficiency. The result of AHP obtained, shows that marketing strategy becomes priority factor which decides the prospect of carved woods craft in Gianyar, Bali. Based on the explanation above, it assumed that SME empowerment has impact towards business sustainability, therefore, the proposed hypothesis is:

- H₃: the increase of SME empowerment can increase business sustainability more

The influence of business network towards business sustainability mediated by SME empowerment: SME empowerment in the middle of globalization flow and high competency makes SME should be able to face global challenge such as increasing innovation of product and service, developing human resource and technology as well as expanding marketing area. It is necessarily to be done to add selling value of SME itself, especially, in order to be able to compete with foreign products which overflow in industrial and manufacture sector in Indonesia, noticing that SME is an economic sector which can hire worker the most in Indonesia. The weakness of SME is the lack of information access, especially, market information, it becomes obstacle in terms of products distributing, since, access of market information is limited in which causes low market orientation and weak of competence in global level. Abor and Quartey (2010) issue in SME Development in Ghana and South Africa discussed characteristics, contribution of SME towards economic growth and the obstacle of SME growth in developing countries, especially, Ghana and South Africa. It reveals that SME in Ghana and South Africa have many similarities in terms of characteristics and their economic role. But two things which differ them are size and regulation. In developing SME, problem factors are such as lack of precise technology access, limited access to international market, the existence of act and regulation which obstructs this sector, weak capacity of institution and lack of skill and training in management without considering financial access which still becomes main obstacle of majority of SME. Based on explanation above, it is assumed that business network has impact towards business sustainability which is mediated by SME empowerment, thus, the proposed hypothesis, it is:

- H₄: more business network relation which is mediated by SME empowerment can increase the continuation of business

Operational definition

Business network: Business network is an activity in forming contact with other people or other organizations/institutions which are related with business activity. Business activity has impact in bargaining power of company and helping to indicate new market opportunity and influences market activity of SME becomes more interactive and informal, the reason is network is seen as approach which is more oriented on people in marketing:

- Marketing network
- Services network
- Related government/institution cooperation network
- Network among business groups
- Network in solving problems and challenge

SME empowerment: SME empowerment is an effort to actualize potential which is already possessed by SME itself. Therefore, the core of approach of SME empowerment is emphasizing on the importance of independent SME as a system which organizes itself. The approach of SME empowerment which is stated previously is expected to able to give role towards individual. Singarimbun and Effendi (1989), Act No. 28 in 2008 and Yuliarni:

- Funding
- Media and facilities
- Business information
- Partnership
- Business legitimizing
- Business opportunity
- Institution support

Business sustainability: Business sustainability is a condition of business where activity process runs or occurs and in the inside efforts of defending, developing, protecting and keeping sources exist as well as guarantee fulfilling needs in the future (Utami, 2007) will be able to guarantee sustainable family's financial as well as prosperity of local economy. Based on Hasan (2008) and Kurniasari (2011), realization is an obvious action or movement/change existence from a plan which is already made or done:

- Availability of raw material
- Availability of capital
- Human resources development
- Product innovation
- The need for promotion
- Customer's demand

MATERIALS AND METHODS

The study is an explanatory study which is meant to give explanation of causal relation among variables through hypothesis examination while at the same time explaining. The study employed quantitative approach. The locations of the study are Kedung Baruk, Wonorejo and Gunung Anyar in East Surabaya city. The study was done in 6 months. Data analysis method employed is PLS (Partial Least Square) by using Smart PLS 2.0 M3 program (Imam and Hengki, 2012). Total whole sample of respondents are 58 entrepreneurs of mangrove batik.

RESULTS AND DISCUSSION

- H₁: the influence of business network towards business sustainability

Result obtained shows that correlation coefficient score is 0.155 whose mark is positive and t-statistic score is 0.976 > 1.960 or p = 0.329 < 0.05 indicated that the result analysis between business network and business sustainability is proven to have positive correlation but it is does not influence significantly. It means that if business network gets lower, it cannot increase the sustainability of business. Therefore, the first proposed hypothesis in the present study is not accepted or it is not supported by empirical data. The result of the study is not in line with thought of Farinda *et al.* who explain that business network shows the existence of company's activity between two or more in an economic activity which runs through coordination and cooperation in exchanging and sharing information in order to support business. Similar opinion stated by Hakansson and Ford that a business can develop its business network with various business players, since, directly or indirectly it can influence the sustainability of business. The increase of business sustainability of mangrove batik craft in Surabaya, East Java should be done, since, craftsmen who own qualified business network is the trait of empowered craftsmen and the empowering craftsmen is highly needed to increase their advance and prosperity of life. Based on Friedrichs, entrepreneurship approach

will lead and direct small business to achieve better result. The result of the present study is in line with a study of Miller *et al.* that collective vision in various sources among business network players has insignificant influence, if it is connected with future planning regarding business sustainability. Relevance of business network and business sustainability are placed in well-done economic action which is done related to sustainability of capital, human resources, production and distribution which is tend to be painted by social relationship in network participant activity, in exchanging reciprocity in life circle which has norm that should be profitable in each social relationship which is built with stakeholders, workers, business partners and customers Table 1 and 2.

- H₂: the influence of Business towards SME empowerment

In second hypothesis, it is indicated that analysis result between SME empowerment towards business sustainability is proven to have positive correlation which has significant influence. Correlation coefficient score is 0.947 whose mark is positive and t-statistic score is 54.999 > 1.960 or p = 0.000 < 0.05 meaning score of business network which gets higher will be able to increase the empowerment of SME. Therefore, the second hypothesis proposed in the present study is accepted and is supported with empirical facts. The result of the study means that business network which is measured from wide of business network, marketing expand, service network expansion and wide of cooperation network. The wide of network among, business groups, private groups and state-owned corporation and the wide of business in solving problem as well as challenge directly give influence towards SME empowerment. The result of the study is in line with a research by Van Gils, Aylin and Umit (2007) which stated that SME is an important machine to trigger economic growth of a country. The role of Small-Medium Enterprises (SME) in Indonesia economy at least can be seen through: its position as main player in economic activity in various sectors, biggest provider of job vacancies, important player in developing local economic activity and society

Table 1: Recapitulation of study result

Influence among variable (Sec)	Coefficient path	t-Statistic	p-values	Note
Business network->Business sustainability	0.155	0.976	0.329	Not significant
Business network->SME empowerment	0.947	54.999	0.000	Significant
SME empowerment->Business sustainability	0.822	5.579	0.000	Significant

Table 2: Examination of mediation variable: coefficient of indirect impact and Sobel test

Independent variables	Mediation variables	Dependent variables	Sobel test > 1,960	p-value	Note
Business network	SME empowerment	Business sustainability	5.5503	0.000	Significant/complete

empowerment, main creator of new market and source of innovation and its contribution in maintaining payment scales through export activity. SME is main provider of vacancies and gives positive contribution towards economic growth though economic growth (GDP) is influenced by many factors in research.

- H₃: the influence SME empowerment towards business sustainability

In the third hypothesis, it is indicated that the result analysis between business network and SME empowerment is proven to have positive correlation and has significant influence. Correlation coefficient score is 0.822 which has positive mark and t-statistic score is $5.579 > 1.960$ or $p = 0.000 < 0.05$ meaning SME empowerment which gets higher score will be able to increase business sustainability. Therefore, the third hypothesis proposed in the present study is accepted and is supported by empirical facts. The result of the study means SME empowerment which is measured through funding, media and facilities, business information, partnership, legitimation of business, business opportunity and institution support directly give influence towards business sustainability. The result of the study is in line with a study done by Abor and Quartey (2010) which discussed about contribution characteristics of SME in developing countries, especially, Ghana and South Africa that SME in Ghana and South Africa have many similarities in terms of characteristics and their economic roles. But something that makes them different are in terms of size and regulation. Based on a theory proposed by Sabirin (2001), it is explained that empowering low economy level group society or small enterprises sector is by providing affordable source of business funding. One of funding strategy for the group is micro credit business. Micro funding institution is an institution which provides financial services for citizens with low income including poor group. Micro funding institution has specific trait, since, it unites demand of poor citizens funding for costs availability. Product design of mangrove batik of East Surabaya is one of aspects in creating image. The company also aware more about the importance of marketing value of product design, especially is appearance design:

- H₄: the influence of business network towards business sustainability mediated by SME empowerment

Analysis result of SME empowerment perfectly mediates business network towards business sustainability significantly can be proven. Direct coefficient score towards SME empowerment is 0.947 and sobel test score is $5.5503 > 1.96$ with p-value is 0.000. It means that business network score which get higher can increase business sustainability through various SME empowerments. Therefore, the hypothesis proposed in the present study can be accepted and it is supported by empirical facts. The result of the study is in line with a study by Miller *et al.* entitled strategic networking among small business in small US communities. Small business strategic network investigated that membership in formal network helps to solve limitation and challenge related to community location in remote place in business operational in America. Sample choosing in the study employed the combination of systematic random sampling and purposive sampling. It is stated that collective vision in various sources among business players have insignificant influence, if it is connected to future planning about sustainability of micro business having positive influence. Ability of a small business to grow and develop is definitely different from one kind to other. But generally, the ability is strongly influenced by external condition and internal ability (Haryadi and Chotim, 1998). Industrial environment or rival environment is parts of external environment of a company. Kuncoro (2006) explained that external environment is all patterns of external conditions and influences which influence life and development of a company. One of external environment is rival environment surrounding business players. Marsh and Hitt *et al.* revealed that as time passes, companies which become rivals in an industry do several actions and responds of rivalry. A company which develops strategy more affectively will run better compared with other companies through transaction payment action (Michael *et al.*, 2009). Basically, batik mangrove SME in East Surabaya should implement some points in order to sustain the business better and led it to grow society economic empowerment through capacity building, the elements are: institution, funding and service. Beside internal problem, other problems which should be faced are efficiency, limited human sources and technology. As known, Surabaya batik is different with other batik in which the historical development trace of Surabaya batik is hard to known, since, Surabaya in the past was trade transit area. But if Surabaya batik is seen deeply, the difference can be discovered that is color concept of Surabaya batik which is stronger as the depiction of brave and strong Surabaya natives.

CONCLUSION

Business network is decided among its independency in cooperating with other parties who are related with its business activity. Knowledge possessed by entrepreneurs of mangrove batik in Surabaya about form of cooperation, knowledge of cooperation agreement and knowledge of implementing cooperation are relatively low. SME empowerment of mangrove batik in East Surabaya city is able to create product innovatively which runs along development of model in market. Entrepreneurs of mangrove batik in Surabaya already have proactive trait regarding smooth process and have good respond towards continuity level of production result in the future time resulted in higher production. Business which is continued is a business which is able to produce simultaneously and able to sell product to market continuously.

LIMITATION

The study was done limitedly in entrepreneurs of mangrove batik in Surabaya city, thus, the result of the study cannot be generalized, since, the result will be different in different object of study.

SUGGESTIONS

As consideration for SME businessman and local government, SME is expected to be able to increase cooperation with supplier and distributor parties. SME is necessarily to be given facilitation in form of technology/tools, since, weather factor and limitation of SME become obstacles in production activity.

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