

# JURNAL EKONOMI KUANTITATIF TERAPAN

Analysis Of Pollution Haven Hypothesis In World Trade Organization Member Countries  
**Gita Ayu Kusuma, Ni Putu Wiwin Setyari, Ni Putu Wiwin Setyari**

The Economic Sanctions Channel For The Curse Of The Petro-State Of Iran: Evidence From The  
Synthetic Control Method  
**Malik Cahyadin, Basem Ertimi Ertimi, Tamat Tamat Sarmidi**

Early Marriage And Human Development Index In Indonesia  
**Bayu Kharisma**

Post Covid-19 Pandemic Economic Growth With Human Capital As A Long Term Drive  
**Lambok DR Tampubolon**

The Role Of Economic Digitalization On Economic Performance In Indonesian  
**Ratna Arvianti, Muhammad Sri Wahyudi Suliswanto**

Actor Analysis In Sustainable Village-Based Enterprises: Examining The Role Of Stakeholders  
**M. Rudi Irwansyah, Bagus Shandy Narmaditya, Diota Prameswari Vijaya**

Effect Of Payment Gateway, Financial Literacy, Financial Inclusion On The Performance Of Smes In  
Mataram City  
**Dhiya Auliana**

Sustainability Study Of Small And Medium Industries Based On Local Wisdom In Denpasar City  
**I Gede Yudiantara, I Ketut Sudibia, Ni Nyoman Yuliarmi**

Analysis Of Macroeconomic Conditions On The Performance Of Protected Mutual Funds In Indonesia  
In Moderated Age And Size Of Mutual Funds For The Period January 2018 – August 2023  
**Tinjung Desy Nursanti, Nugraha, Ika Putera Waspada, Maya Sari, Erric Wijaya,  
Tinjung Desy Nursanti**

The Effect Of Intellectual Capital On Competitive Advantage And Company Performance As A  
Moderating Variable  
**Ahmad Badawi, Lucky Nugroho, Nurul Hidayah, Anees Jane Ali**

The Role Of Job Satisfaction As A Mediating Influence Of Leadership And Organizational Climate On  
Employee Performance  
**Ida Bagus Bagus Udayana Putra, Melissa Percilla Sutrisman, I Made Suniastha Amertha**

## Sustainability Study of Small and Medium Industries Based on Local Wisdom in Denpasar City

### ABSTRACT

Small and Medium Industries are the foundation of the people's economy which plays a role in channeling the creative and innovative spirit into superior products and local wisdom. This research aims to analyze the sustainability study of local wisdom-based SMEs in Denpasar City. This research uses an associative quantitative approach with primary data from 144 respondents. Using the purposive sampling method and the data analysis technique used in this research is SEM Partial Least Square. The research results show that social capital, entrepreneurial orientation and local wisdom have a positive and significant effect on business performance, while the role of government does not have a significant effect on business performance. The role of government, social capital, entrepreneurial orientation, and business performance have a positive and significant effect on the sustainability of SMEs. Local wisdom moderates the influence of social capital on SME business performance. Meanwhile, social capital and entrepreneurial orientation have an indirect effect on sustainability through business performance, while the role of government has no indirect effect on sustainability through SME business performance.

**Keywords** : industry, sustainability, economics

**JEL classification** : A10, A11, A13

### INTRODUCTION

Small and Medium Industry is an economic subsector which is the economic foundation of society which plays a role in channeling its creative, innovative and productive spirit in the form of products that have superior value and local wisdom. The huge potential of SMEs will not be maximized if their performance is still poor, so there is a need to improve the performance of SMEs so that they are able to contribute

to sustainable development (Fandeli et al., 2020).

SMEs that perform well will have a stronger contribution to the national and regional economy. Wibowo's research, (2017), also shows that business performance assessment can be seen from the implementation of strategies consisting of three perspectives, namely the first financial perspective which is assessed by increasing income and cost efficiency,

the second perspective increasing the number of customers and minimal complaints, and the third perspective learning and business growth.

The development of the number of SME businesses in Bali Province from 2021 to 2022 has increased by 1.82%. Then the development of the number of workers increased by 0.37% and the investment value also increased by 0.03% (Balisatudata, 2023). The development of SMEs in Denpasar combined with various local wisdom, especially local culture, really supports the development of SMEs in having global competitiveness. Local wisdom-based SMEs are industries that produce products with creative, aesthetic and cultural meaning values in accordance with the uniqueness of the region and are capable of becoming superior cultural products (Geriya et al., (2010).

Research by Eliza et al., (2018) states that policies issued by the government have a role in community empowerment efforts. This can stimulate, encourage or motivate every business actor to have the ability or empowerment to

determine the course of the business in a sustainable manner. The government's role is very important in empowering business actors, such as issuing business permits, providing stimulus and capital support, training programs, and other program aspects for the sustainability of SMEs.

Social capital plays an important role in functioning and strengthening the economic resilience of modern society (Fukuyama, 1995). The weak role of social capital in society can cause various problems and irregularities in the business world. Social capital is a series of processes of relationships between people which are supported by trust, norms and social networks as a form of efficiency and effectiveness of coordination and cooperation for mutual benefit, placing greater emphasis on broader dimensions on the basis of togetherness, and within which are bound by growing values. and obeyed (Thobias et al., 2013).

Entrepreneurial orientation for business actors is an attitude in realizing optimal business performance in managing the

resources they have (Hendrawan and Wijaya, 2020). The dimensions of entrepreneurship in supporting business performance include an innovative and creative attitude, a proactive attitude, and a commitment to taking risks to take new steps in entering market competition amidst the increasingly tight existence of the industrial sector today.

The continuation of small and medium industrial businesses is a process that supports progress towards better businesses in the future. The sustainability of IKM which produces products based on local wisdom is a strengthening of identity for IKM to be able to compete in producing products based on culture, creative and innovative elements so that they can compete globally and have an impact on economic equality and improving community welfare.

## RESEARCH METHODS

This research uses a quantitative research design in associative form. The scope of this research includes a study of the sustainability of local wisdom-

based SMEs in Denpasar City which is supported by the relationship of exogenous variables, namely social capital which includes three indicators, namely trust, norms and social networks (Fukuyama, 1999). The role of government consists of three indicators, namely the role of regulator, dynamist and facilitator (Prasetyo, 2020). Entrepreneurial orientation consists of three indicators, namely creative attitude, proactiveness and commitment in running a business (Khasanah et al., 2023). The moderating variable is local wisdom which consists of three indicators, namely cultural, aesthetic and philosophical values (Geriya et al., 2010). The mediating variable is business performance which consists of three indicators, namely increasing income, increasing the number of customers and business growth (Siswanti, 2020), as well as the endogenous variable in this research, namely sustainability which consists of three indicators, namely economic, social and environmental sustainability (Fauzi, 2019).

The sampling technique used is non-probability sampling with a purposive sampling method. Determining the number of representative samples for SEM according to (Hair et al., 2010), namely the recommended minimum sample size is 5 to 10 times for each parameter estimated with the number of samples in this study being 144 SMEs. The data collection method used in this research was structured interviews with questionnaires and supported by in-depth interviews with key informants. The analysis technique used in this research is data analysis using the Partial Least Square (PLS) approach as an alternative approach that shifts from a covariance-based to a variance-based SEM approach (Ghozali and Hengky, 2015).

## RESULTS AND DISCUSSION

The model evaluation in Figure 1 explains that the indicators that play a major role in social norms are social networks in the form of harmonious relationships or social networks to realize effective and efficient business performance. The government role

variable shows indicators of regulators who have a big role in the government role variable in the form of ownership of business permits to guarantee legal business and facilitate access to credit.

The entrepreneurial orientation variable shows the dominant indicator that has an influence, namely the creative attitude of business actors in the form of skills and expertise to develop businesses and produce trending products on the market. The variable local wisdom as moderation, the dominant indicator that influences is aesthetic value in producing products that have artistic and beautiful value.

The business performance variable shows that the dominant business growth indicators are related to business development in terms of increasing productivity and opportunities for business expansion in the long term. Business sustainability variables with indicators that have a dominant influence are economic sustainability in increasing income, capital turnover, investment and other

economic aspects to build a sustainable business.

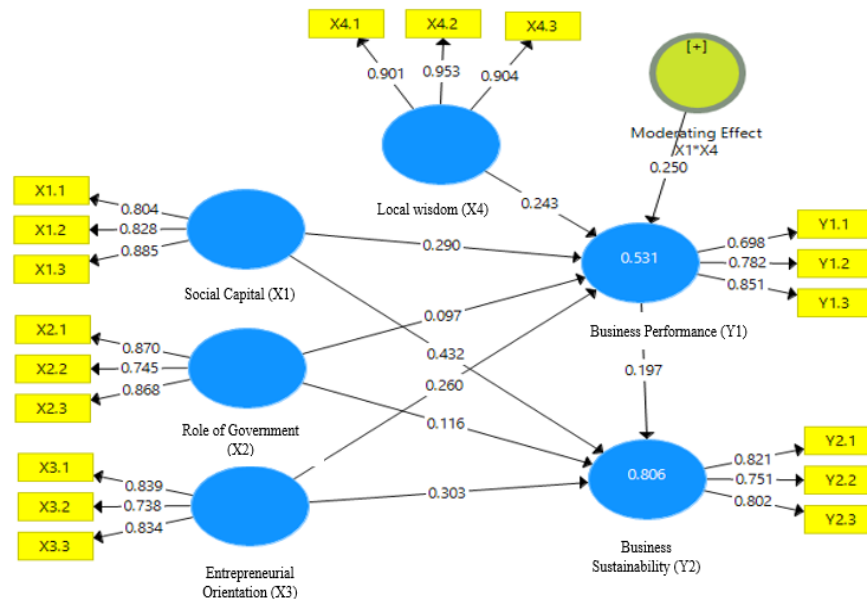


Figure 1: Full Structural Equation Model

### Direct Effect Test Results

Table 1. Test of Direct Influence Between Research Constructs

Variable Connections	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Explanation
Social Capital -> Business Performance	0,290	0,129	2,249	0,025	Significant
Social Capital -> Sustainability	0,432	0,083	5.196	0,000	Significant
Government Role -> Business Performance	0,097	0,080	1,207	0,228	Non significant
Government Role -> Sustainability	0,116	0,056	2,052	0,041	Significant
Entrepreneurship Orientation -> Business Performance	0,260	0,124	2,092	0,037	Significant
Entrepreneurial Orientation -> Sustainability	0,303	0,081	3.729	0,000	Significant
Local Wisdom -> Business Performance	0,243	0,094	2,595	0,010	Significant
Business Performance -> Sustainability	0,197	0,074	2,653	0,008	Significant
Moderating Effect of Social Capital*Local Wisdom -> Business Performance	0,250	0,087	2,883	0,004	Significant

Source: Research Results, 2023

Social capital has a positive and significant effect on business performance and business sustainability of SMEs. This means that the better the implementation of the dimensions of social capital by SMEs in carrying out business activities, the better it will have an impact on sustainable business performance. Social capital is a form of collective energy that plays a role in facilitating business performance effectively and efficiently. The dimension of social capital which includes three elements, namely trust, norms and social networks applied by SMEs in running a business by applying the principle of trust given to suppliers and distributors/resellers.

Hadi and Purwati's research, (2020); Santosa et al., (2020); Fanani and Fitriyani, (2021); Susanto and Sukarno, (2022), who stated that social capital has a positive and significant effect on business performance. The important role of social capital in improving business performance is closely related to business performance from the internal and external side which will

encourage business progress. When the application of dimensions of social capital such as trust, norms and social networks can be carried out well in carrying out business activities, for suppliers, consumers and the public, it will have an impact on the effectiveness and efficiency of SMEs in running their business.

Research by Prayitno et al., (2019); Ermawati et al., (2021); Bado et al., (2023) which states that social capital has a positive and significant effect on business sustainability. Social capital is a form of collective energy that includes aspects of trust, norms and social networks. The element of trust, the implementation of norms and social networks in running a business will have a good impact on the running of a business starting from implementing economic activities in addition to increasing income, also paying attention to aspects of social networks in building social interactions for regional progress and prioritizing applicable norms in preserving the environment so that it can remain sustainable. maintained

sustainably.

The role of government does not have a significant effect on SME business performance. This means that the government's role given to IKM actors does not have a significant influence on the performance of IKM businesses both in the implementation of production, distribution and marketing activities. This means that the government's role is not optimal in ensuring the welfare of SMEs. The formulation of priority policies is basically very necessary to support the performance of SMEs, considering that economic conditions have just recovered from the impact of the Covid-19 pandemic (Masruroh et al., 2021).

Research by Santosa et al., (2020); Eniola and Entebang, (2015), that the policies issued by the government do not have a significant effect on the performance of small and medium enterprises. So, in terms of policy formulation, it must be able to adapt to relevant conditions and situations to develop appropriate schemes for improving business performance.

The role of government has a positive and significant influence on the sustainability of SMEs. This means that when the government's role is better given to SMEs in the sustainability of their business, it will have an impact on the sustainability of SMEs.

The government's concern in supporting the empowerment of SMEs which are increasingly growing and developing sustainably, through this aspect of providing guidance and direction, business actors will become more aware and increase their insight regarding good business management starting from paying attention to social aspects and also environmental sustainability. Other support provided, such as regular training and support for exhibition events for SMEs, is a form of strengthening in the aspects of improving performance and promoting products so that they are known by the public and sell well in the market to support sustainability.

Research by Marwan and Isnaeni, (2022); Masruroh et al., (2021); Sentanu and Mahadiansar, (2020), who stated



that the role of government has a positive and significant influence on business sustainability. The role of government in the form of regulators, dynamists and facilitators is very important in formulating policy programs that are included in the priority scale in supporting the sustainability of SMEs.

Entrepreneurial orientation has a positive and significant effect on business performance and sustainability of SMEs. This means that the better the implementation of entrepreneurial orientation for SMEs, both in terms of creativity, proactiveness and commitment, will have an impact on increasing the performance of SMEs in a sustainable manner.

Research by Susanto and Sukarno, (2022); Setiawati and Ahdiyawati, (2021); Zaini and Handoyo, (2021); Ludiya and Kurniawan, (2020), stated that entrepreneurial orientation has a positive and significant effect on business performance. Entrepreneurial orientation is a form of action taken by business actors by paying attention to

aspects of creativity, innovation and commitment in running a business so that it continues to grow and develop. High business performance is a form of achievement from the active running of a business which can be seen in terms of increasing income, increasing the number of customers and improving and sustainable business growth.

Research by Abubakar and Nurhidayanti, (2020); Aulia et al., (2021); Khasanah et al., (2023) stated that entrepreneurial orientation has a positive and significant effect on business sustainability. The existence of an entrepreneurial spirit possessed by business actors in producing products that have an element of creativity and commitment to running a business in a more advanced direction in an effort to increase income and business growth, then this will have an impact on the sustainability of SMEs in the future. So that the continuation of this business will have an impact on the existence of the business which can be passed on well to future generations.

Local wisdom has a positive and

significant effect on SME business performance. This means that the better the application of local wisdom elements in running a business will have a better impact on the performance of SME businesses in Denpasar City. Local wisdom is a combination of cultural elements, artistic elements and historical elements which are combined comprehensively into a product element that has identity and competitiveness in the market.

Research by Suparsabawa and Sanica, (2020); Nugroho and Andriani, (2020) stated that local wisdom has a positive and significant effect on business performance. Local wisdom is a form of energy that has its own characteristics and appeal when a product is combined with elements of creativity. It can also be said that local wisdom emerges from elements of local culture related to a developed way of life, and is shared by a group of people, and passed down from generation to generation.

Business performance has a positive and significant effect on the sustainability of SMEs. The higher the business

performance run by SMEs, the better the impact on the sustainable running of the business. Business performance is a form of achievement of a business related to increasing the income generated, increasing the number of customers, and the business being run can grow and develop both in terms of increasing the number of workers, using technology and expanding the business.

Rahayu and Musdolifah's research, (2017); Rajnoha et al., (2017), stated that business performance has a positive and significant effect on business sustainability. High business performance achieved by a business cannot be separated from the increase in the amount of income generated, the number of customers and business growth in a more advanced direction such as business expansion and an increase in the number of workers. The high business performance achieved by SMEs will have an impact on business sustainability. The sustainability of SMEs in carrying out business takes into account the economic, social and environmental dimensions which have

an influence on business development in a better direction in the future in providing maximum contribution to the progress of regional development and increasing community welfare.

Local wisdom moderates the influence of social capital on business performance. This means that local wisdom strengthens the influence of social capital on business performance. Local wisdom is a form of regional cultural elements expressed in a product that has elements of culture, art and history.

**Indirect Effect Test Results**

Table 2. Indirect Influence Test Between Research Constructs

Variable Connections	Mediation Variables	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Information
Social Capital -> Sustainability	Business Performance	0,057	0,029	1,986	0,048	Significant
Government Role -> Sustainability	Business Performance	0,019	0,016	1,210	0,227	Insignificant
Entrepreneurial Orientation -> Sustainability	Business Performance	0,051	0,025	2,027	0,043	Significant

Source: research results, 2023

Social capital has an indirect effect on the sustainability of local wisdom-based SMEs through business performance in

According to research by Salim, (2023); Sagajoka and Immaculate, (2023); Jannati et al., (2020), that social capital combined with local wisdom can strengthen implementation as a basis or guideline in running a business to support strengthening business performance and sustainable development. The element of local wisdom combined with the dimension of social capital is a form of harmonious combination for improving business performance.

Denpasar City. This means that high business performance achieved by SMEs is directly influenced by the application

of the dimensions of social capital which include elements of trust, norms and networks in building sustainable businesses by paying attention to economic, social and environmental aspects.

However, the government's role does not indirectly influence the sustainability of SMEs through business performance. This means that the high business performance achieved by SMEs in running their businesses is not necessarily influenced by the government's role. The high performance of SME businesses will have an impact on the sustainability of the business on an ongoing basis, this aspect of sustainability includes economic, social and environmental preservation aspects.

Entrepreneurial orientation has an indirect effect on business performance and sustainability of SMEs. This means that the good business performance achieved by IKM actors cannot be separated from the influence of the entrepreneurial orientation possessed by business actors related to thinking

creative ideas, proactiveness and commitment of IKM actors in running businesses in a sustainable manner.

## CONCLUSION

Social capital, entrepreneurial orientation, and local wisdom have a positive and significant effect on SME business performance, while the role of government does not have a significant effect on SME business performance in Denpasar City. Social capital, the role of government, entrepreneurial orientation, and business performance have a positive and significant effect on the sustainability of SMEs in Denpasar City.

Local wisdom moderates the influence of social capital on business performance. This means that local wisdom strengthens the influence of the relationship between social capital and SME business performance in Denpasar City. Indirectly, social capital and entrepreneurial orientation have a positive and significant effect on the sustainability of SMEs through business performance. However, the government's role does not have a

significant indirect effect on the sustainability of SME businesses through business performance in Denpasar City.

The suggestion from this research is that the government hopes that the results of this research can be used as input in preparing policy programs such as: (1) Comprehensive data collection program for SMEs; (2) Preparing a business guarantee insurance program for SMEs to anticipate the impact of the continued pandemic; (3) Support in using applications to increase the competitiveness of online marketing of IKM products; (4) There needs to be support for an event/exhibition calendar for SMEs so that they can regularly market their products so that they can be recognized by the public globally.

For academics, we hope that the results of this research can be input for improving the studies that will be prepared to preserve Balinese culture and safeguard the Balinese generation so that they can continue to maintain Balinese culture in a sustainable

manner.

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