

FACTORS AFFECTING ENTREPRENEURIAL PERFORMANCE OF INFORMAL SECTOR ENTERPRISES IN BATURAJA

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Abstract

The research objective is to examine factors affecting entrepreneurial performance of informal sector enterprises in Baturaja. The research applied area sampling, a method of sampling used when no complete frame of reference is available. Cross sectional primary data is collected by observation and structured interview. The data was analyzed by MLR model by using SPSS; as to meet requirement of MLR model, the normality, multicollinearity and heteroscedasticity tests are performed. The model confirms that the observed change in entrepreneurial performance attributed to the identified factors are 28,50% while the remaining 71,50% could be explained by other factors. Results from analysis of variance where $F(8; 71) = 4,934$; $P < 0,001$; $R^2 = 0,357$; adjusted $R^2 = 0,285$; proved that the model is fit to explain and to yield t test results. In other words, the overall regression model was highly significant. The MLR analysis reveals that startup capital does significantly affect entrepreneurial performance of informal sector enterprises ($P = 0,001$; $P < 0,05$); working capital does significantly affect the entrepreneurial performance of informal sector enterprises ($P = 0,003$; $P < 0,05$); and labor employment does significantly affect entrepreneurial performance of informal sector enterprises in Baturaja ($P = 0,032$; $P < 0,05$). On the contrary, academic degree, vending location, operating hour, gender, and business establishment age are not found to have significant affect on entrepreneurial performance of informal sector enterprises in Baturaja.

Keywords: *entrepreneurial performance, informal sector enterprise, multiple linear regression*

Abstrak

Penelitian ini bertujuan untuk mengkaji beberapa faktor yang mempengaruhi kinerja kewirausahaan usaha sektor informal di Baturaja. Penelitian ini menggunakan teknik sampel area, suatu metode pengambilan sampel yang digunakan ketika tidak ada kerangka kerja lengkap yang tersedia. Data primer cross sectional dikumpulkan melalui observasi dan wawancara terstruktur. Data kemudian dianalisis menggunakan model regresi linier berganda dengan menggunakan SPSS agar memenuhi kriteria model, maka dilakukan uji normalitas, multikolinieritas, dan heteroskedastisitas. Hasil analisis mengungkapkan bahwa kinerja kewirausahaan dikaitkan dengan faktor-faktor yang digunakan adalah 28,50%; sedangkan sisanya 71,50% dapat dijelaskan oleh faktor-faktor lain, diperkuat dengan $F(8; 71) = 4,934$; $P < 0,001$; $R^2 = 0,357$; adjusted $R^2 = 0,285$; membuktikan bahwa model ini layak untuk menjelaskan dan menghasilkan uji t. Dengan kata lain, model regresi linier berganda ini secara keseluruhan sangat signifikan. Terungkap bahwa modal awal berpengaruh signifikan terhadap kinerja kewirausahaan usaha sektor informal ($P = 0,001$; $P < 0,05$); modal kerja berpengaruh signifikan terhadap kinerja kewirausahaan usaha sektor informal ($P = 0,003$; $P < 0,05$); dan pekerjaan tenaga kerja secara signifikan mempengaruhi kinerja kewirausahaan usaha sektor informal di Baturaja ($P = 0,032$; $P < 0,05$). Sebaliknya, tingkat pendidikan, lokasi usaha, waktu operasional, jenis kelamin, dan usia berdirinya usaha tidak ditemukan adanya pengaruh yang signifikan terhadap kinerja kewirausahaan usaha sektor informal di Baturaja.

Kata Kunci: formalisasi, sektor informal, pengusaha informal, usaha sektor informal, lokasi usaha



INTRODUCTION

The informal sector term became widely used since 1972 study of Kenya, it has served as a conceptual term for number of activities that are not included in the law or are out of reach the scope of regulation and taxation. The informal sector is also broadly studied and is dominant in developing countries economy; for the reason that, 80% business entities are informal enterprises. In developed world is estimated 18,40% of its GDP is contributed by informal sector enterprises. The informal sector enterprises contribution is very important to income generation and employment.

The informal sector enterprises are elemental component of local and national economic development, and a primary element in the endeavor to boost countries out of poverty (Wolfenson, 2001). Informal sector is one of driving force for economic growth, job creation, and poverty eradication in developing countries. They are channeling the rapid acceleration of economic growth and recognized as a feeder service to large scale industries (Fabayo, 2009). However, the development of informal sector confronts daunting challenges and obstacles.

The problem can decelerate local and national economic growth due to its sizeable contribution to GRDP and GDP. Failure of informal sector and small scale businesses in developing countries are higher than in developed countries, despite the support and incentive program. Therefore, people cannot depend on the informal sector as a long term source of income. The operation survival rate for over 5 years of informal sector enterprises in Baturaja is 55%, in view of the fact that 45% endures operation under 5 years. Entrepreneurs in informal sector meet many obstructions that limit their long term survival and progress. Starting an informal business is a very risky venture, and the odds of surviving over the 5 years mark are very small.

Business failure is not a sudden event, but a dynamic process. Understanding the origin helps to prevent failure in future. Informal sector enterprises deal with common obstacles that weaken performance and survival rate. Apart from that, regardless of special strong points such as flexibility and adaptability, they must face series of hardships compared to the larger ventures. This weakness demands a special policy response. Timmons and Spinelli (1994) also assert that more than 20% are new ventures failed in one year, and 66% failed in the first six years of operation.

The later findings confirmed that the failure rate of small businesses in the first five years is more than 50% (Desjardins 2017).



Obstacles and harsh challenges do not suppress the informal sector to grow at rapid rate in Baturaja; therefore, informal sector enterprises need to perform at maximum capacity in order to develop and grow. Consequently, informal sector enterprises need competence to perform at certain level to meet tough business environment of informal sector. Microeconomic approach is employed to figure out determinants of the performance of individual informal sector entrepreneur. Abuodha (1992), Ongile and McCormick (1997), Bowen (1997) and Ngui (2008) considered that entrepreneur performance is crucial for informal sector enterprises to survive and thrive, so it is reliable in long term as a source of income and employment.

Baturaja plays an important role as the focal point of Ogan Komering Ulu Regency capital and business hotspot, where the informal sector enterprises are dominant. The vending locations are distributed on the main business hotspot of the town along street side. The informal sector enterprises growth is align with the town development and expansion toward urban settlement. In general, the informal sector enterprises offer culinary, fresh produce, service and apparel to people of Baturaja and nearby rural settlements.

In OKU Regency, micro, small, and medium enterprises (MSME) had reach 75.622 units; whereas 57.600 can be classified into micro enterprises. The growth of informal sector enterprise in Baturaja continues at rapid ascending rate due to town expansion, rural migration to urban area, and interprovincial migration. Furthermore, this will correspond to the growth rate of informal businesses, for instance micro, small and street vending enterprises.

LITERATURE REVIEW

There is general misconception that the informal economy is reviewed illegal, or somehow criminal. A clear border line must be made, *i.e.* illegal activities go against the law; but informal activities are *extralegal*, in the sense that they are not officially declared and do not take place in the reach of the laws which regulate them. The recent re-convergence of interest in the informal economy stems from the recognition that the informal economy is growing; that it is a long term not a short-term, phenomenon. Therefore, it should be viewed not as a marginal or peripheral sector, but as a basic component of the total economy (Wiralaga, 2018).


Concerning to the statistical society, the application of precise terminology is important. The terms informal sector, informal sector enterprise, and informal economy, may seem to be exchangeable. In fact, they are not; the fine distinctions associated with each term are very critical from a technical point of view. The following can serve as a simple reference for the terminology associated with informality and its technical definitions 1) informal economy: all economic activities carried out by workers or economic units which-in law or in practice-are not or insufficiently covered by formal arrangements (based on ILC, 2002); 2) Informal sector: a group of production units (unincorporated enterprises owned by households) including informal enterprises on own account and enterprises of informal employers (according to the 15th ICLS); and 3) informal sector enterprises: small unincorporated and unregistered private enterprises engaged in non-agricultural activities in which at least some of the goods or services are intended for sale or barter (on the basis of the 15th ICLS) (ILO, 2004).

15th ICLS resolution summarizes the criteria for defining informal sector enterprises, as follows (ILO, 2013):

- 1) enterprise is not constituted as a legal entity separate from its owner(s);
- 2) enterprise owned and controlled by member(s) of household(s);
- 3) no complete set of accounts, including balance sheets and book keeping;
- 4) product destination for at least some market output;
- 5) exclusion of enterprises engaged in agricultural or related activities or employing paid domestic workers; and
- 6) Non-registration of the enterprise and/or of the employees of the enterprise.

Entrepreneurship is fundamental trait of developing countries, factors that lead to the growth in their performance is very important to study. In addition, traditional factors such as human capital, demography (age, sex, religion, status, etc.) and other factors such as business characteristic and environment, an significantly affect entrepreneurial performance in the informal economy (Faustine and Roger, 2017). Parker (2009) distinguishes entrepreneurship between modern theories of entrepreneur; people who work for their own account (self-employment) and traditional innovation theory. The first goal of entrepreneur is to achieve profits as well as workers who are looking for jobs to get better income.

Performance is a multidimensional scale and to date the empirical literature shows very diverse set of indicators for measuring performance (Venkatraman and Ramanujam, 1986 and Murphy *et al.*, 1996). Many studies on performance measurement originate from organizational theory and strategic management (Murphy *et al.*, 1996).



Organizational theory shows three different approaches regarding performance measurement and that is the goal based approach, system approach and constituency approach.

The measurement of performance is taken from the work of Honig (1998), Itaddy & Moutouat (2014), and Mallaye *et al.* (2014). The income generated by the informal and the profit business is the endogenous variables of performance. The choice of income as endogenous variable of performance of informal entrepreneur is justified by the fact that entrepreneur's income is one of the most significant variables used in studies that analyzed performance in the informal sector. In addition, a high level of income that leads to a better standard of living for the household. Finally, the income generated by enterprise can be related to the income of entrepreneur, particularly to individual's firms.

Cooper *et al.* (1992) investigated various factors that influence small business performance, *i.e.* experience, education, occupation of parents, gender, race, age, and entrepreneurial goals. Whereas, Lerner *et al.* (1997) conducted research on Israeli women entrepreneurship and categorized the factors that influence performance into 5 perspectives *i.e.* 1) motivation and goals, 2) social learning theory (entrepreneurial socialization), 3) network affiliation (contact and membership in the organization), 4) human capital (education and skills) and 5) environmental influences (location, partial participation, and socio-political variables).

Thibault *et al.* (2002) suggested that the factors affecting small business and informal sector enterprise performance may be associated with personal factors such as demographic variables and business factors *i.e.* financing, technology, business age, location of operations, business structure and the number of full time employees as imperative factors in studying performance.

METHODOLOGY

Cross sectional data are in collected by observation and structure interview supported by *Google Form*. Area sampling is applied in view of the fact that complete frame of reference is not available. Subsequently, area under investigation is divided into sub-areas which are sampled at random or according to a restricted process. Sample size is 80 informal sector enterprises operate within 5 vending location in Baturaja; encompassing 19 samples in Taman Kota (Town Square), 10 samples in Pasar Impres 15 samples in Pasar Baru 25 samples in Pasar Pucuk, and 11 samples in Citimall Baturaja.

The drawback in data collection transpired in operating income as measurement of entrepreneurial performance of informal sector enterprises; for the reason that none of the samples are exercising book keeping on daily basis.



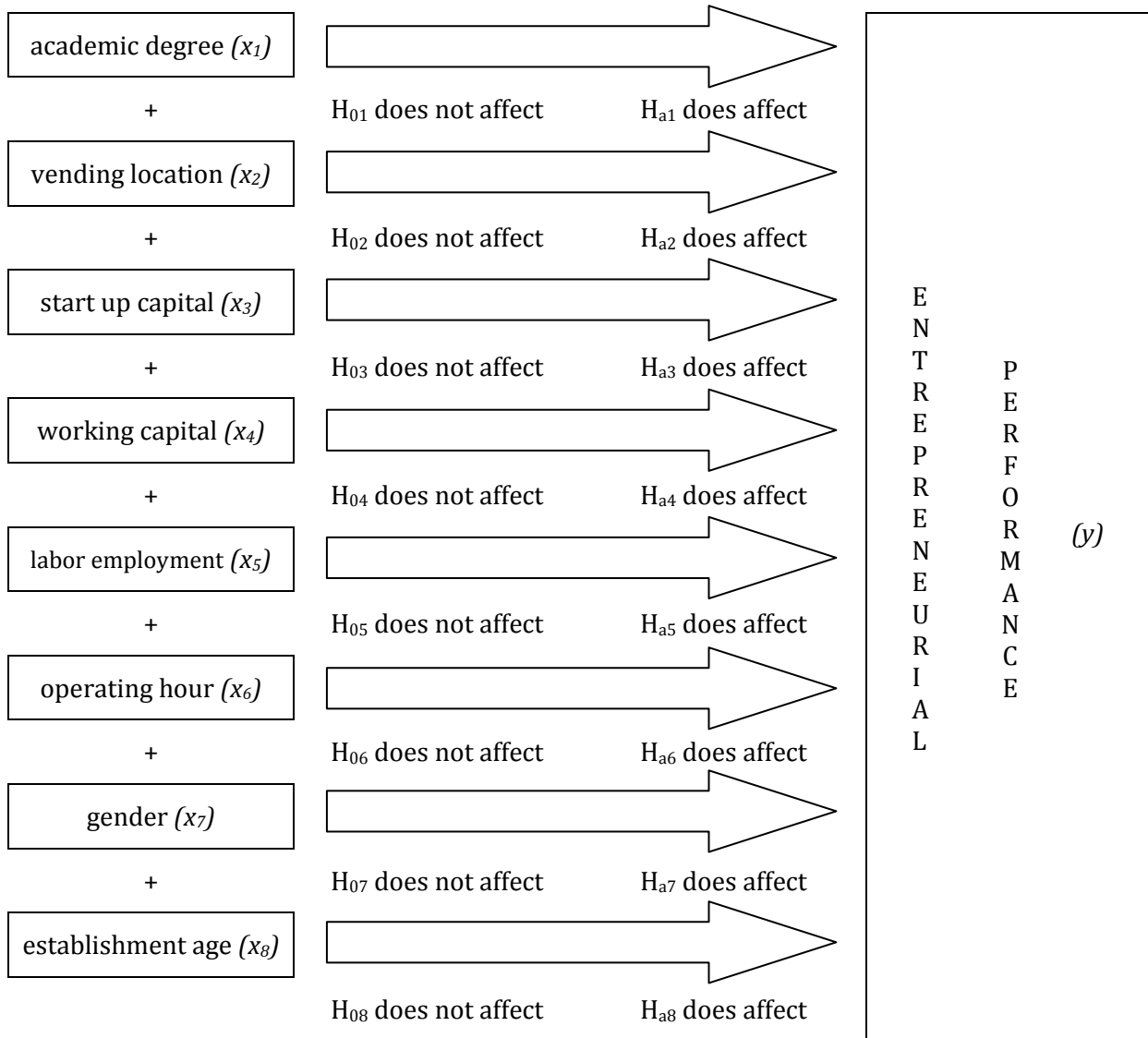
The data is analyzed by multiple linear regression (MLR), as to meet requirement of a sound data set, the test for normality, multicollinearity, heteroscedasticity and data transformation is performed.

MLR analysis was used to predict the overall factors affecting entrepreneurial performance of informal sector enterprises in Baturaja. The MLR model is based on an equation; where *ln* is natural logarithm of variables; *y* is dependent variable; *x₁* to *x₈* is independent or predictor variables; *β₁* to *β₈* is regression coefficient; and *ε* is the model’s error terms or residuals; and expressed as:

$$\ln y = \beta_0 + \beta_1 \ln x_1 + \beta_2 \ln x_2 + \beta_3 \ln x_3 + \beta_4 \ln x_4 + \beta_5 \ln x_5 + \beta_6 \ln x_6 + \beta_7 \ln x_7 + \beta_8 \ln x_8 + \epsilon$$

Referring to MLR equation of the model, where *y* = entrepreneurial performance of informal sector enterprise; *x₁* = academic degree; *x₂* = vending location; *x₃* = start up capital; *x₄* = working capital; *x₅* = labor employment; *x₆* = operating hour; *x₇* = gender; and *x₈* = business establishment age. Accordingly, the MLR and hypothesis model are illustrated as below:

Figure 1. MLR Research Model





RESULT

Informal Sector Enterprises Profile

Cross sectional data of sample profile revealed that largest portion of informal sector enterprises in sampling areas are run by women (55%), whereas the rest are run by men (45%). Age disparity is 16 to 75 years old, and the average is 36 years old. One sample had been engaged in informal sector for 36 years, and five others are new comers who had engaged not more than a year, and the average period of business establishment age is 7,6 years. The finding confirmed that informal sector flourished in the past 10 years in Baturaja.

Informal sector entrepreneurs in Baturaja are educated, since 50% of them are senior high school graduates and 5% are university graduates; whereas 28,7% are junior high school graduates and 16% are elementary school graduates. The variety of tribal origin is diverse, the dominant is Oganese (35%) followed by Javanese (30%). Oganese is native in the OKU Regency, whereas Javanese is migrant or non-native. The natives are the Oganese, Leng kayapnese (2,5%), and Komer ingnese (5%), the others *i.e.* Javanese, Palembangnese (2,5%), Maduranese (3,75%), Batak nese (2,5%), Padang nese (7,5%), Semendanese (3,75%), and Sundanese (7,5%) are non-natives.

Wiralaga (2018) previously confirmed that informal sector enterprises and street vendors in Baturaja do not always provide goods and services to the poor. As a consequence, social class market segmentation is not practical in many cases, excluding several in Citimall Baturaja and Taman Kota. The reason for that is street vendors provide less expensive goods and services, and the perceived quality of goods and fresh produces they offer are sufficient; not to mention people in Baturaja are accustomed to buy individual and household supplies on daily basis. In most cases, street vendors in Pasar Pucuk and Pasar Inpres have developed pleasant mutual relationship to customers residing in neighboring rural settlements, due to easy access and prolong dependency.

In addition, 96,25% informal sector entrepreneurs affirmed that they were engage in informal sector to support household finance in order to feed their family, for the reason that well paid job is hard to acquire. On the contrary, 3,75%, declared that the purpose they entered the informal sector is for passion and leisure time activity. In most cases, informal sector enterprises are source of income and employment. They provide livelihood to household and family members involved. Overall, 23,75% informal sector enterprises give support to 2 family members, whilst only 10% of the vendors are responsible to more than 5 family members.

The other portion 15% give support to 1 family member; 21,25% give support to 3 family members; 17,5% give support to 4 family members; and 12,5% give support to 5 family members.

MLR Assumption Test and Data Analysis

This section presents the data analysis of factors affecting the entrepreneurial performance of informal sector enterprises in Baturaja by exploiting SPSS. Statistical tests rely on particular assumptions about the variables used in the analysis. When the assumptions do not pass the test, thus the results may not be accountable scientifically. Basically, there are three MLR assumption tested, *i.e.* normality, multicollinearity, and heteroscedasticity; whereas autocorrelation was not tested due to the data are cross sectional. The test results confirmed that variable data do not meet the expected result and value of normality test. The test gives confirmation that, in general, variable data are in state of substantial positive skewness. Therefore, the complete sets of cross sectional data are transformed by natural log in order to meet requirements of normal distribution and Cook’s distance value. Consecutively, Cook’s distance value test confirmed that were all less than 1. The test result are presented as below:

Figure 2. Distribution of Cross Sectional Data

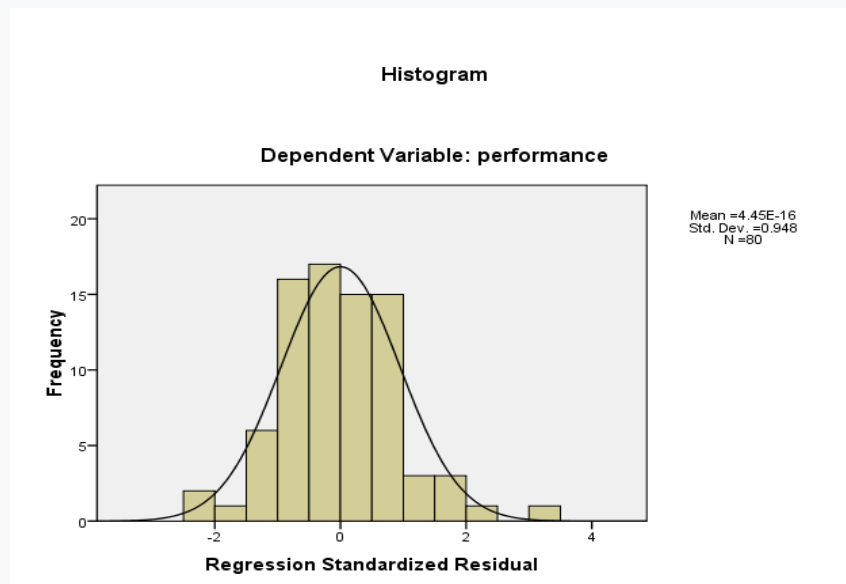
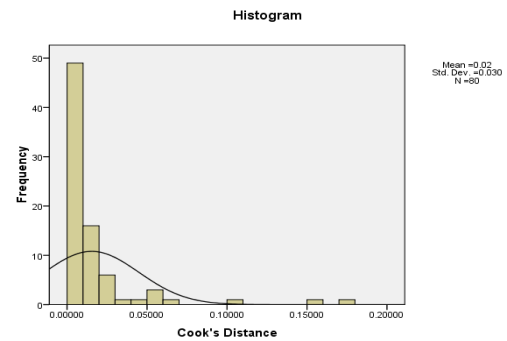
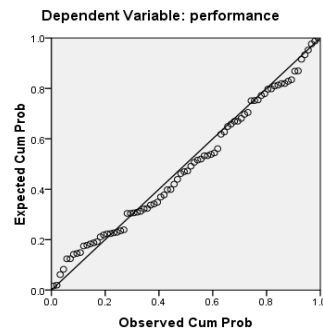




Figure 3. Residual Value of Regression and Cook's Distance Value

Normal P-P Plot of Regression Standardized Residual



The multicollinearity test by applying VIF (variance inflation factor) and tolerance confirmed that the predictors in the model are not highly correlated. For the assumption to pass the test values are for VIF < 10,00 (or < 5,00) and tolerance > 0,10 (or > 0,20). The variance inflation factor for the *i*-th regressor VIF can be defined as:

$$VIF_i = [1/(1 R^2_i)]$$

where R^2_i is the coefficient of determination obtained when x_i is regressed on the other regressor variables. So if x_i is nearly linearly dependent on a subset on the other regressor R^2_i will be close to unity and the value of the corresponding variance inflation factor will be large. variance inflation factor value exceeding 10 is usually assumed as a signal that multicollinearity is present (Montgomery and Runger, 2003). The result of multicollinearity test is shown in the following:

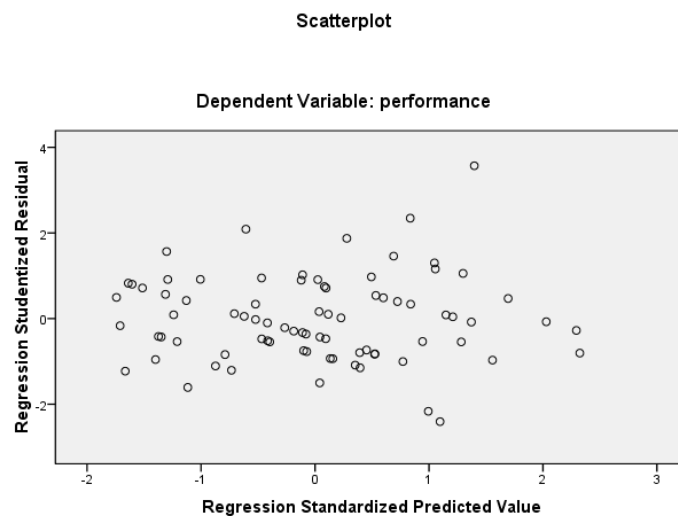
Tabel 1. Multicollinearity Test Result

No.	Variables		Collinearity Statistics	
			Tolerance (> 0,10)	VIF (< 10)
1.	academic degree	x_1	0,756	1,323
2.	vending location	x_2	0,811	1,233
3.	start up capital	x_3	0,787	1,270
4.	working capital	x_4	0,869	1,151
5.	labor employment	x_5	0,822	1,217
6.	operating hour	x_6	0,906	1,103
7.	gender	x_7	0,872	1,147
8.	establishment age	x_8	0,789	1,268

The heteroscedasticity indication occurred when the variance of errors differ at different value of the independent variables. Berry & Feldman (1985) and Tabachnick & Fidell (1996) pointed out that slight heteroscedasticity has little impact on significance tests. However, when heteroscedasticity is marked it can lead to serious distortion of findings and seriously weaken the analysis; thus, increasing the possibility of a type I error. This assumption can be verified by visual examination of a plot of the standardized residuals (the errors) by the regression standardized predicted value.

Preferably, the residuals are randomly scattered around 0 (the horizontal line) providing a relatively even distribution. Heteroscedasticity is indicated when the residuals are not evenly scattered around the line. There are many forms heteroscedasticity can take, such as a bow-tie or fan shape, whereas the heteroscedasticity is not present within the independent variables. The test result of heteroscedasticity is shown in Figure 4.

Figure 4. Scatter Plot to Visually test Heteroscedasticity



The output of regression analysis presents that the regression summary model (Table 2), indicates that the coefficient of determination (R^2) = 0,357 or 35,57%; and the adjusted R^2 is 0,285 or 28,50%. Regression output interpretation suggested on using adjusted R^2 in order to have better explanatory judgment relating to predictors. There is one distinction between R^2 and the adjusted R^2 , *i.e.* R^2 assumes that each one of predictor variable explains the variation in the dependent variable. The adjusted R^2 informs the percentage of variation explained by only the independent variables that actually affect the dependent variable.

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimation
1	0,598	0,357	0,285	0,714

The findings confirm that the observed change in entrepreneurial performance attributed to the identified factors was 28,50% while the remaining 71,50% could be explained by other factors. In social science, low value of R^2 is usual; nonetheless, If the model exhibited was less trustworthy, for that reason, further study is required to uncover more accurate predictive model. However, result from analysis of variance (Table 3) where $F(8;71) = 4,934$; $P < 0,001$; $R^2 = 0,357$; adjusted $R^2 = 0,285$; proved that the model is fit to explain and to yield *t test* results or partial test of hypothesis. In other words, the overall regression model was highly significant.

Table 3. Table of ANOVA

Model		Sum of Squares	df	Mean Squares	F	Sig.
1	Regression	20,111	8	2,514	4,934	0,000
	Residual	36,179	71	0,510		
	Total	56,290	79			

The results analysis from Table 4 reveals that start up capital was significantly affecting entrepreneurial performance (y) of informal sector enterprises ($P = 0,001$; $P < 0,05$). Hence, the null hypothesis (H_{03}) that start up capital (x_3) does not significantly affect entrepreneurial performance of informal sector enterprises in Baturaja is rejected.

The following finding indicates that working capital (x_4) does significantly affect the entrepreneurial performance of informal sector enterprises ($P = 0,003$; $P < 0,05$). As a result, the null hypothesis (H_{04}) that working capital does not significantly affect entrepreneurial performance of informal sector enterprises in Baturaja is also rejected.

Moreover, finding ascertains that labor employment (x_5) was found to have significant affect on entrepreneurial performance of informal sector enterprises ($P = 0,032$; $P < 0,05$). Hence, the null hypothesis (H_{05}) that labor employment does not significantly affect entrepreneurial performance of informal sector enterprises in Baturaja is rejected.



Table 4. Table of Coefficients

Model	Model	Unstandardized Coefficients		Standardized Coefficients (β)	t	Sig. (0,05)
		β	Std. Error			
1	(Constant)	1,873	0,947		1,978	0,052
	Academic degree	0,079	0,213	0,041	0,371	0,712
	Vending location	0,084	0,157	0,057	0,538	0,593
	Start up capital	0,215	0,061	0,379	3,534	0,001
	Working capital	0,197	0,064	0,314	3,072	0,003
	labor employment	0,357	0,163	0,230	2,189	0,032
	Operating hour	0,240	0,284	0,084	0,845	0,401
	Gender	0,069	0,248	0,028	0,277	0,782
	Establishment age	0,068	0,092	0,080	0,742	0,460

Dependent variable: entrepreneurial performance.

On the contrary, result indicates that academic degree (x_1) was not to significantly affect entrepreneurial performance ($P = 0,712$; $P > 0,05$). Consequently, the null hypothesis (H_{01}) academic degree does not significantly affect entrepreneurial performance of informal sector enterprise in Baturaja sector is accepted. Vending location (x_2) was found not to significantly affect entrepreneurial performance ($P = 0,593$; $P > 0,05$), so the null hypothesis (H_{02}) vending location does not affect entrepreneurial performance of informal sector enterprises in Baturaja is accepted.

Moreover, operating hour (x_6) does not significantly affect entrepreneurial performance means that null hypothesis (H_{06}) is accepted. Gender (x_7) was found not to significantly affect on entrepreneurial performance as well; so that null hypothesis (H_{07}) is accepted ($P = 0,782$; $P > 0,05$). Finally, finding proved that establishment age (x_8) of informal sector enterprises (H_{08}) do not significantly affect entrepreneurial performance ($P = 0,460$; $P > 0,05$); therefore null hypothesis was not rejected.

CONCLUSION AND RECOMMENDATION

The model confirms that the observed change in entrepreneurial performance attributed to the identified factors was 28,50% while the remaining 71,50% could be explained by other factors. Results from analysis of variance where $F(8; 71) = 4,934$; $P < 0,001$; $R^2 = 0,357$; adjusted $R^2 = 0,285$; proved that the model is fit to explain and to yield t test or partial test of hypothesis. In other words, the overall regression model was highly significant.

The MLR analysis discloses that startup capital was significantly affect entrepreneurial performance of informal sector enterprises ($P = 0,001$; $P < 0,05$); working capital does significantly affect the entrepreneurial performance of informal sector enterprises ($P = 0,003$; $P <$

0,05); and labor employment was found to have significant affect on entrepreneurial performance of informal sector enterprises ($P = 0,032$; $P < 0,05$).

On the contrary, result indicates that academic degree was not to significantly affect entrepreneurial performance ($P = 0,712$; $P > 0,05$); vending location was found not to significantly affect entrepreneurial performance ($P = 0,593$; $P > 0,05$); operating hour does not significantly affect entrepreneurial performance ($P = 0,401$; $P > 0,05$); gender was found not to significantly affect on entrepreneurial performance ($P = 0,782$; $P > 0,05$); and establishment age does not significantly affect entrepreneurial performance of informal sector enterprise in Baturaja ($P = 0,460$; $P > 0,05$).

The results proposed that financial support for start up capital, working capital, and employing labor can improve entrepreneurial performance. Therefore, stakeholders should give more attention and effort to finance the informal sector enterprises in Baturaja, so that the informal sector enterprises become more reliable as long term source of income and employment.

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