

BUSINESS DEVELOPMENT SERVICE (BDS) PROGRAM AS MODERATING VARIABEL TO THE EFFECT OF EXTERNAL ENVIRONMENT, INTERNAL ENVIRONMENT, COMMITMENT, ENTREPRENEURIAL COMPETENCE ON SMALL ENTERPRISE PERFORMANCE IN EAST JAVA PROVINCE, INDONESIA

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Abstract

Purpose - The purpose of this paper is to analyze Business Development Service (BDS) program as a moderating variable to the effect of external environment, internal environment, commitment, and entrepreneurial competence on small enterprise performance in East Java Province, Indonesia.

Design/methodology/approach - Using questionnaire, data were collected from 118 of the 235 small enterprises in East Java that are operated under the supervision of the Department of Cooperative and SMEs of East Java Province. Data were analyzed using Structural Equation Modelling by Partial Least Square Path Modelling (PLS-PM) approach.

Findings - internal environment, commitment, entrepreneurial competence, and BDS program have significant direct effect on small enterprise performance in East Java province. External environment has no significant direct effect on small enterprise performance in East Java province; BDS program as a moderator of the effect of external environment, internal environment, commitment, and entrepreneurial competence on small enterprise performance in East Java province were proved to have no significant effect.

Research Implication - The study includes only small enterprises under the supervision of Department of Cooperatives and SMEs, East Java provincial government, Indonesia

Practical implication - The programs provided by Clinic for Cooperatives and SMEs, Department of Cooperatives and SMEs, East Java provincial government as the major providers in the implementation of *Business Development Service* (BDS) must socialize more intensively on the important roles and benefits of *Business Development Service* (BDS) program, both for prospective start up entrepreneurs and their employees.

Originality/value - The study supports the importance of internal environment, commitment, entrepreneurial competence and BDS program to increase the performance of small enterprises in East Java province.

Key words: Business Development Service (BDS) program, external environment, internal environment, commitment, entrepreneurial competence, performance

Introduction

Although many studies have been done to investigate micro, small and medium enterprises (SMEs) problems in Indonesia, the problems of micro are still existed. Six fundamental problems faced by micro and SMEs in Indonesia, are due to limitations of: (1) Market opportunity and market share expansion, (2) Capital structure, (3) Human resource management, (4) Business networks among small enterprises, (5) Conducive environment and business climate, and (6) Unintegrated supervision and lack of trust as well as awareness of the community toward small enterprise (Kuncoro, 2009:333)

Indonesian SMEs have very important roles and contribution to economic growth, employment and new business opportunity creations, in line with rapid economic activities. Indonesian government pays more attention to SMEs growth and performance sectors, including the government of East Java province through the Department of Cooperatives and SMEs. East Java province government creates a Cooperatives and SMEs Clinic in East Java, to provide guidance for cooperatives and SME institutions, through Business Development Service (BDS) program. BDS program aims a to improve business performance, market access and competitiveness, which are non-financial and dynamic with a broad scope, and focus on the needs of cooperatives and SMEs.

SME owner's high business commitment, ability to create a conducive business environment, and entrepreneurial competence in running the business have significant effect on small enterprise's growth and performance through Business Development Service (BDS). In addition to that, stimulant from the owner to generate business commitments towards is very important to create higher business commitment.

Commitment is an attitude of entrepreneurs to remain in the organization and involve in every effort to achieve the missions, values and goals of a company. A number of factors include in the commitment are: confidence in the business success, motivation, and a strive to develop better business (Sianto, 2001, in Elimawaty, 2007:59). Employer's commitment and competence are indispensable intellectual capital needed to achieve corporate objectives (Ulrich, 1997:28). High employer's commitment and entrepreneurial competence will improve business performance.