

DOES ENTREPRENEURIAL LITERACY CORRELATE TO THE SMALL-MEDIUM ENTERPRISES PERFORMANCE IN BATU EAST JAVA?

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ABSTRACT

This present study aims at examining entrepreneurial literacy level of small-medium enterprises business actors and its correlation to the performances in Batu East Java. This study is an ex post facto correlational survey study utilizing sequential explanatory mix methods approach beginning with quantitative design and continuing further with qualitative design targeting on micro and medium business actors registered in Cooperatives and Small-Medium Enterprises Office of Batu. The survey result indicates that small-medium enterprises literacy regarding risk in Batu is considered high or well literate, while regarding functional aspects is considered moderately literate. Further, the results reveal no correlation between entrepreneurial literacy and the performance of small-medium enterprises business actors in Batu. To sum up, entrepreneurial literacy does not ensure the succeed of the SMEs.

Keywords: Entrepreneurial Literacy, Small-Medium Enterprises, Performance

INTRODUCTION

Every society and every successful company has key individuals, or entrepreneurs, with the ability to identify opportunities and who have the ability to obtain the resources (economic, technical, and human) necessary to satisfy new needs, and better satisfy existing needs (Hansemark, 1998:28). The contribution of entrepreneurs are not only significant to the developing countries such as Indonesia but, in developed countries such as European countries, entrepreneurs also take a significant role in terms of economic development. As stated by Wennekers and Thurik (1999:46), correlate entrepreneurial and economic development which is identical with correlating individual degree and aggregate degree. The culture of entrepreneurship is believed affecting regional development in several ways (Beugelsdijk, 2004: 201). First, the degree of entrepreneurship possibly encourages new innovation of business. Second, the passion of entrepreneurial within the individual, including the employees (intrapreneurship), enhance company's profit. Social structure's tendency to entrepreneurship possibly affects the ability of country in adopting brand-new technologies. This notion means that in the certain community there is an individual possessing entrepreneurial passion, it determines the development of entrepreneurship of such community (Danuhadimedjo: 1998). According to the data of Cooperatives and Small-Medium Enterprises Office, in 2013, small-medium enterprises increased insignificantly equal to 2.41% from the previous year. Recently, small-medium enterprises are dominated by micro business actors. The Classical issue raised in micro enterprises is the business actor's inconsistency and consequently is difficult to level up

the degree. It indicates that novice entrepreneur in micro enterprises possesses limited knowledge regarding business management. This condition might occur due to entrepreneurial literacy within business actors.

Entrepreneurial literacy functions as a recent paradigm in assessing individual accomplishment regarding business development. Profound understanding and proficient ability regarding entrepreneurship undeniably enhance business development managed by the entrepreneur. Entrepreneurial literacy is imperative since most people willing to open up the business possess limited knowledge regarding financial management, taxation issues, credit management, and development of business projection in the long-run. How significant individual's entrepreneurial literacy is reflected in several aspects such as risk aspect and functional aspect (product, marketing, financial, and human resource management).

Batu city is one of the most popular destinations of tourism in East Java, with visitors average reached 5 million in 2013. The substantial number of Batu visitors encourage the individual to start small-medium enterprises. In fact, in 2013 micro business reached 9.155 units while small enterprises reached 116 units. The significant degree of discrepancy between micro and small business intrigued the authors to reveal how substantial business actors' entrepreneurial literacy and its correlation with the business performance.

METHOD

The sample for this study was taken by utilizing purposive sampling technique. From the total of 520 small-medium enterprises registered in Cooperative and Small-Medium Enterprises Office of Batu, 135 were determined as the research samples. This study is an ex-post facto correlational survey study utilizing sequential explanatory mix methods approach beginning with quantitative design and continuing further with qualitative. As for qualitative design in this study, case study approach was employed. Since the quantitative and qualitative data were taken sequentially, sequential research approach was employed. In addition, explanatory was employed since this study interprets quantitative data obtained and explained the existing outliers. Entrepreneurial literacy coverage is very broad, especially if it is associated with business performance. These two concepts have broad dimensions. Therefore, to focus more on this study, the researcher only limits on the following (1) Business performance is judged by the growth of its business, both asset and financial growth, (2) Literacy is examined from aspects other than the business actor's understanding of the functionalization required in SMEs, such as marketing financial, production and human resources as well as the basic attitudes necessary for business actors and (3) Research is done in one time (not time series)

To obtain the data, the authors collected by employing documentation, questionnaire, and in-depth interview. Quantitative data analysis was conducted by generating descriptive analysis through average calculation, mean and grand mean determination; normal multivariate assumption; outlier assumption; Goodness of Fit Model; Variable Construct Testing; and Hypothesis testing. While qualitative data analysis was performed through data reduction, data presentation, data interpretation, and conclusion drawing or verification.

RESULTS

Descriptive Testing

The variable tested in this study is entrepreneurship literacy which includes risk and functional aspects and business performance of Small-Medium Enterprises. The result of a questionnaire given to 135 respondents is presented in the following Table 1.

NO	REMARK		TOTAL
1.	Business type	Food	67
		Beverages	20
		Farming	3
		Service	9
		Trading	7
		Other	29
		2.	Business Actor Education
Completing Elementary School	17		
Not completing Junior High	5		
Completing Junior High School	22		
Not completing Senior High	4		
Completing Senior High School	54		
College	24		
3.	Sex	Male	67
		Female	68

Source: Data Processed

In table 1, we can see the description of the respondents. Food is the most chosen business type for the owner of SME (49.6%) and farming is the fewest (2.2%). Most of the owner are just completing senior high school (40%), there is very few of them graduated from college (17.8%). According to gender there are more female than man that running the SME in Batu East Java.

In this research, SMEs performance measurement based on some category. The category are include about sales rate, employment acceptance rate, business stability rate, profit, community service contribution, industrial leadership, profit utilization, operational cost and raw-material procurement. Sales rate has the highest score than other category (3.2296) follow by business stability rate about 3.1259 and profit 2.8814, it means SMEs think that if they have high number in sales, profit and always exist in market, they had running the company well. But if we see in other category like employment acceptance rate (2.3851), community service contribution (1.9111), industrial leadership (2.4148), profit utilization (2.6148), operational cost (2.2740) and raw material procurement (2.2666) tend to be low. The performance of 135 SMEs has a wide diversity, some of which have high levels of sales and stability but do not guarantee

other aspects to follow. Many SMEs are unable to create employment and market empowerment due to the uncertain business stability and lack of innovation. The result summary of a questionnaire regarding small-medium enterprises performance is presented in the following Table 2.

CATEGORY	LOWEST SCORE	HIGHEST SCORE	AVERAGE
Sales rate	1	4	3.2296
Employment Acceptance Rate	1	4	2.3851
Business Stability Rate	1	4	3.1259
Profit	1	4	2.8814
Community Service			
Contribution	1	3	1.9111
Industrial Leadership	1	4	2.4148
Profit Utilization	1	4	2.6148
Operational Cost	1	3	2.2740
Raw-material Procurement	1	3	2.2666

Source: Data Processed

The descriptive calculation result of entrepreneurial literacy variable is illustrated in Table 3 and 4 as follows.

a) **Risk Aspects**

According to the descriptive result, risk aspects within entrepreneurial literacy is considered high or good, we can see it in following table 3.

Questions	MEAN
Opportunity Taking	3.2
Business Development	3.17
Product Selling	3.28
Pre-opening business observation	2.94
Business Losses Readiness	3.30
Competition	2.12
Business Uncertainty	2.88
Unsaleable Product in the Market	2.54
Solution for unsaleable product	3

Source: Data Processed

In running its business, the company realizes as the business continues to grow also followed by the increasing number of risks that must be faced. In an effort to address these risks, the company implements a risk management policy aimed at ensuring that risks arising from its business activities are well identified, measurable and well managed. In this aspect of risk, SMEs are given about four questions related to the business opportunity item and five questions about business risk items. On the business opportunity item found that the question of selling the product "I know where to sell my goods / product" has the highest mean of 3.28 this can be interpreted that SMEs clearly know the market/ place of the target. While the lowest mean is in the question of observation before opening the business that is "before I open the business, I

precede it by doing the observation first, to look if there is any probability" that is equal to 2.94. This may mean that SMEs are established not by conducting a feasible market analysis first but, armed only with business intentions, capital support, knowledge and human resources of business owners.

When looking at the question of risk items, the highest mean is derived from the question ready to lose is "in my opinion in opening the business must be ready to lose" of 3.30. The magnitude of this mean means that SME owners are consciously aware that the business they run at any time can lose money and go bankrupt. While the lowest mean is in the question of competition is "at any time my business will be rivaled by others", implied can be interpreted that the owners of SMEs do not do anticipatory steps in facing business competition. Real business competition is felt when the product is not sold maximally and the business suffers a significant loss. Lack of knowledge and capital in the face of the rigors of business competition, to take anticipatory steps such as innovation/ product development or marketing innovation provides a shock therapy for the sustainability of these SMEs. Based on the results of descriptive aspects of risk in entrepreneurial literacy, included in the category of high/ good. This means that knowledge of SMEs on entrepreneurial literacy in risk aspect is sufficient. The large number of business owners who are aware of the risks in the future make most of the SMEs sampled in this study have a sustainable life cycle long enough.

b) Functional Aspects

The functional aspects of the research involve product items, marketing, human resources and finance. When the functional aspects can be managed properly then the company will grow. Some of the problems identified that changes in organizational culture are the main obstacles to the implementation of management strategies such as weak cooperative relations at the functional level (Plowman, 1990). Product items on functional aspect have measurement with highest mean in product according to consumer requirement that is equal to 3.12 and mean lowest in product follow trend/ time that is equal to 2.67. In the distribution of questionnaires it is known that a SME usually stands due to an increasing product demand, an increasing sales trend and so forth. It is not based on an appropriate market analysis, but looking to the needs desired by consumers and the market. But this is not followed by innovation/ product development in reducing the market saturation of a product that once did have a high level of sales.

Functional aspects for marketing items give an idea of how the knowledge of SME owners in running the sales of products that have been produced to the available market. Through the calculations performed, the question of pricing with production costs and profit has the highest mean of 3.27. This figure means that the owner of the SME has a basic knowledge in determining the right selling price, by calculating in detail the cost of production that has occurred plus the desired profit. The lowest mean is the question of pricing with competitors that is 2.51. Due to the absence of a definite market analysis, many SME owners are setting product prices in terms of personal perceptions. Not conducting surveys to targeted markets against the prices on the market, making the resulting product sometimes not able to compete because the set price is too high (not exactly implemented in the intended market).

Finance which is also included in the functional aspect, get the calculation where the highest mean occurs in the question when the business gets profit then the business owner will use it for business and personal (household) of 3.22. While the lowest mean of 2.41 is the

question of the inability of business owners in separating business and personal finances (household). SME owners are aware of the importance of knowledge about finance for business progress but in reality there are still many SME owners who have not been able to consciously separate business finances with personal finance. The use of capital or operating profit for non-business purposes (personal / household) is a real event of very poor financial arrangements. This extremely poor financial arrangement is a major factor that has a very significant impact on the performance degradation of an SME. According to Chepngetich (2016), the performance of MSMEs will greatly increase as financial and budget literacy is applied in business operations, it is recommended that SMEs owners increase their knowledge by training in calculating interest rates and creating a necessary budget.

Measurement of human resource items (HR) shows the highest mean of 2.50 on the question of difficulty in finding employees and the lowest mean is in the decrease in profits when having employees. Uncertainty about the age of a SMEs makes it difficult for SMEs owners to find human resources that help permanently, labor anxiety will decrease business performance make employee turnover in SMEs is very high. The absence of permanent human resources who become experts in a SMEs make the performance of SMEs continue to decline and increasingly abandoned the market. The waste of time to train new workers makes everything related to production, marketing and others to be ineffective and efficient. Based on descriptive result of functional aspect in entrepreneurial literacy, included in medium category. This means that the knowledge of SMEs on entrepreneurial literacy in functional aspects is not very sufficient in running its business. Functional aspect consists of aspects in corporate management, where a business if it can run its management well then the business will be successful. It can be seen at the following table 4.

QUESTIONS	MEAN	QUESTIONS	MEAN
PRODUCT		FINANCIAL	
Product based on consumer's needs	3.12	Understand financial administration	2.98
Distinctive features of product	3.11	Financial administration and business development	3.03
Distinctive taste of product	2.95	Personal and business financial	2.41
Following the trend	2.67	Business financial and planning	2.28
Varied product	2.91	Profit from business and personal	3.22
MARKETING		HUMAN RESOURCE	
Pre-production observation	2.89	Need no employee	2.40
Media utilization	2.55	Lowering profit	2.12
Proper price for consumer	2.54	Employee from family	2.50

Price determination based on cost and profit	3.27	Difficulty on seeking for employee	2.49
Price determination based on business competitors	2.51	Anxiety on employee recruitment	2.41

Source: Data processed

Testing on the correlation between entrepreneur literacy and small-medium enterprises in Batu was carried out by employing SEM analysis technique. The analysis was started by performing normal multivariate assumption testing which serves as fundamentals on SEM model. Normal multivariate assumption testing was performed through skewness and kurtosis method, calculated by AMOS Software with criteria imposed: normal multivariate assumption fulfilled when CR value in skewness and kurtosis statistic testing is less than 2.58.

According to testing result, it obtained the value of CR on skewness and kurtosis statistic testing of 10.669. The value of $CR > 2.58$, thus, it can be stated that normal multivariate assumption does not meet the requirement. However, if it is according to a central limit theorem which states that observation data amounted to more than 30 is considered close to normal (Walpole, 2011:234). This study took 135 respondents as a sample and it is more than 30, hence the data distribution of this study is considered normal multivariate.

In addition to the normal multivariate assumption, before SEM analysis was performed, assumption test which underlies SEM model to prove no outlier within the model was carried out. Outlier assumption testing employed mahalanobis distance method through AMOS software. It is considered no outlier when mahalanobis d-squared is lesser than Chi-Square with degrees of freedom by 89. The value of Chi-Square with degrees of freedom 89 is 112.022. The result of outlier testing is illustrated in the appendices. In accordance with mahalanobis d-squared, it indicates that no value is above 112.022 and hence non-outlier assumption is fulfilled and the entire variable is observable without eliminating one of them from the model.

The theoretical model within the research conceptual framework is considered fit if it is supported by empirical data. The result of the goodness of fit overall model testing is identical with SEM analysis and is presented in the appendices. To notice that the hypothetical model is supported by empirical data, Table 5 provides the testing results of the goodness of fit model.

Kriteria	Cut-of value	Hasil Model	Conclusion
CMIN/DF	$\leq 2,00$	1,478	Fit
Probability	$\geq 0,05$	0,000	unfit
GFI	$\geq 0,90$	0,742	Unfit
AGFI	$\geq 0,90$	0,710	Unfit
CFI	$\geq 0,95$	0,895	Unfit
TLI	$\geq 0,95$	0,888	Unfit
RMSEA	$\leq 0,08$	0,060	Fit

Source: Data Processed

In the goodness of fit overall model presented in Table 5, if one of the tests performed to meet the criteria of cut off, then the model is feasible to be utilized (Hair, et al, 2010: 643-645). The results of the goodness of fit model in Table 1 indicate that there are several criteria such as CMIN/DF, and RMSEA which meet cut-off score, then SEM model in this study is appropriate and feasible to be utilized and further interpretation could be performed.

Variable Construct Testing

a) Entrepreneurial Literacy (X)

Entrepreneurial Literacy (X) is measured through six indicators which include opportunity, risk, product, marketing, financial, and human resource. Each indicator is measured by several questions. Structural model in this study is a second order model, where the variable is measured by indicators and indicators is measured by the question. The initial evaluation aims at evaluating second-order construct in each indicator. Table 6 presents the result analysis of SEM in measurement model of each entrepreneurship literacy indicator.

Indicator	Item	Mean			
		Coeff	CR	p-value	Remarks
Opportunity	X1.1.1	0,517	-	-	-
	X1.1.2	0,620	4,526	0,000	Valid
	X1.1.3	0,691	4,723	0,000	Valid
	X1.1.4	0,570	4,339	0,000	Valid
Risk	X1.2.1	0,621	-	-	-
	X1.2.2	0,692	5,606	0,000	Valid
	X1.2.3	0,559	4,908	0,000	Valid
	X1.2.4	0,623	5,287	0,000	Valid
	X1.2.5	0,536	4,760	0,000	Valid
Product	X2.1.1	0,776	-	-	-
	X2.1.2	0,799	9,377	0,000	Valid
	X2.1.3	0,769	9,001	0,000	Valid
	X2.1.4	0,796	9,344	0,000	Valid
	X2.1.5	0,664	7,637	0,000	Valid
Marketing	X2.2.1	0,831	-	-	-
	X2.2.2	0,839	11,571	0,000	Valid
	X2.2.3	0,788	10,564	0,000	Valid
	X2.2.4	0,859	11,973	0,000	Valid
	X2.2.5	0,808	10,942	0,000	Valid
Financial	X2.3.1	0,647	-	-	-
	X2.3.2	0,686	6,697	0,000	Valid
	X2.3.3	0,797	7,498	0,000	Valid
	X2.3.4	0,788	7,441	0,000	Valid
	X2.3.5	0,798	7,503	0,000	Valid
Human Resource	X2.4.1	0,869	-	-	-
	X2.4.2	0,883	13,842	0,000	Valid
	X2.4.3	0,777	11,072	0,000	Valid
	X2.4.4	0,791	11,412	0,000	Valid
	X2.4.5	0,878	13,705	0,000	Valid

Source: Data processed

According to the results analysis in Table 6, it demonstrates that the entire item of questions of entrepreneurial literacy indicators possesses loading factor score above 0.5, then it explains that the indicators within entrepreneurial literacy are considered as valid instrument and constructed as a decent indicator.

b) **Small-Medium Enterprises Performance (Y)**

Small-medium enterprises performance (Y) is measured by several items of questions. Table 7 illustrates the results analysis of SEM on the model measurement of small-medium enterprises variable (Y).

Variable	Indicator	Mean			
		Coef.	CR	p-value	Remarks
Small and Medium Enterprise's Performances (Y)	Y.1	0,837	-	-	-
	Y.2	0,842	12,216	0,000	Valid
	Y.3	0,672	8,769	0,000	Valid
	Y.4	0,872	12,955	0,000	Valid
	Y.5	0,882	13,218	0,000	Valid
	Y.6	0,756	10,333	0,000	Valid
	Y.7	0,799	11,233	0,000	Valid
	Y.8	0,841	12,199	0,000	Valid
	Y.9	0,753	10,292	0,000	Valid
Sumber: Data Processed					

Small-medium enterprises performance (Y) is measured by nine items of questions. From the results of SEM analysis, it indicates that the entire item of questions on small-medium enterprises performance variable possess loading factor score above 0.5 which explains that small-medium enterprises performance variable is considered as a valid instrument and construct a decent variable.

Hypothesis Testing on Structural Model

Hypothesis testing by testing the path coefficient significance from Structural Equation Model (SEM) indicates the influence of one exogenous variable to endogenous variable is significant. Path coefficient of this study is presented in the following Figure 1.

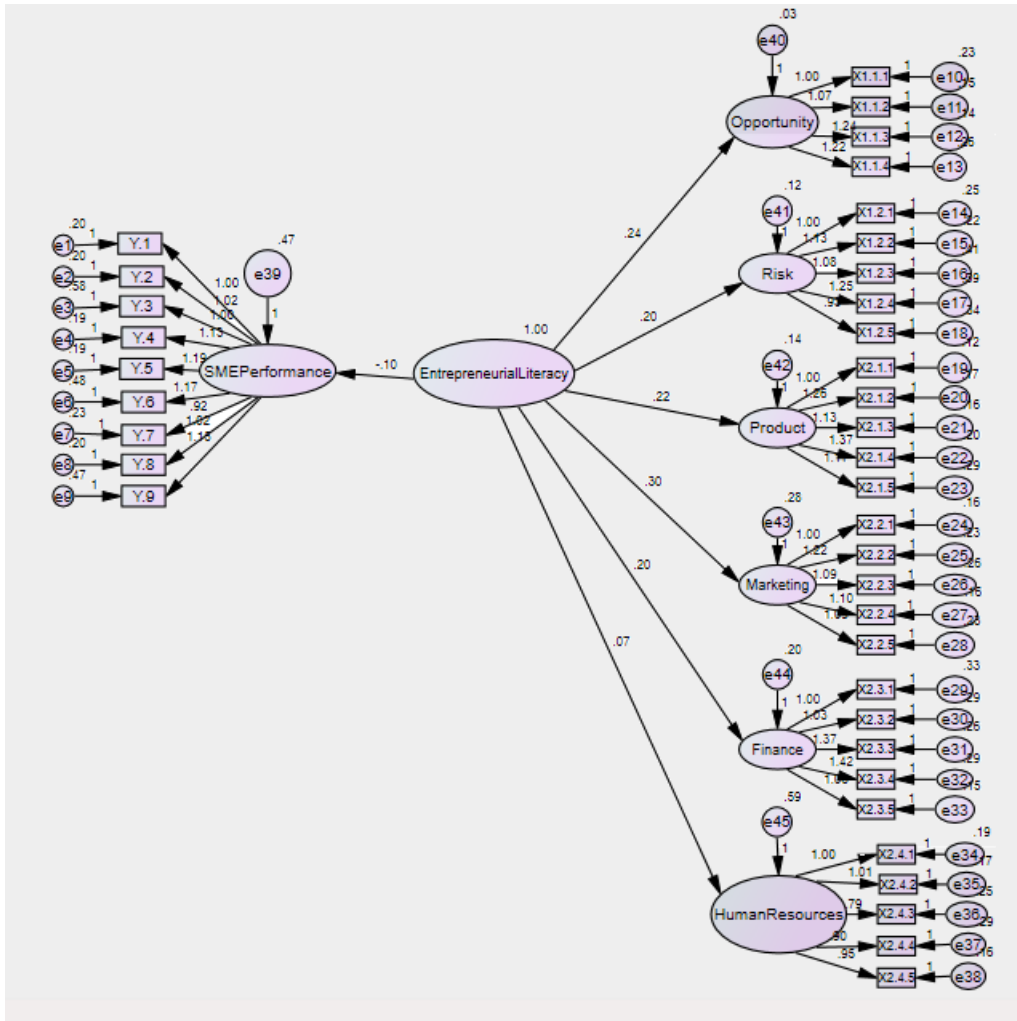


FIGURE 1
COEFFICIENT OF STRUCTURAL EQUATION MODEL (SEM) ANALYSIS RESULT

The value of path coefficient obtained from structural equation model (SEM), then will be used to examine the influence of hypothesis in this study. Structural model in this study examines one correlation between variables (direct influence). The testing was performed by identifying significance score of exogenous variable influence to an endogenous variable. The result of direct influence testing within this study is presented completely in the following Table 8.

Table 8				
RESULTS OF STRUCTURAL MODEL SEM: INFLUENCE TESTING				
Hypothesis	Coefficient	CR	P-value	Remarks
H0: Entrepreneurial Literacy does not influence significantly on Small-medium enterprises performance	-0,097	-1,301	0,193	H0 is accepted
H1: Entrepreneurial Literacy influences significantly on Small-medium enterprises performance				

According to Table 8, it obtained the coefficient value of exogenous variable influence on endogenous variable and p-value of each influenced coefficient. The result of hypothesis testing indicates that the influence of entrepreneurial literacy (X) on small-medium enterprises performance (Y) is not significant on $\alpha=0.05$ which is identified from a p-value of 0.13, the value is greater than 0,05 ($\alpha=5\%$). Coefficient equal to -0.097 (negative) indicates that both correlation facing away from the direction yet insignificant. It means that when the degree of entrepreneurship literacy increases or decreases, it has no influence on small-medium enterprises performance although there is a tendency that the performance will increase if the literacy decreases and vice versa.

DISCUSSION

Fundamental knowledge of entrepreneurship or the extended knowledge within entrepreneurship does not automatically small-medium enterprises performance obtain a successful result. One reason for the failure of a business is possibly caused by the difference of several elements such as age, educational background, and understanding of the business owner or actor of small-medium enterprises.

This is in line with the research conducted by Gray, C (2006) reveals that the difference of age, educational background, and business size influence the acquisition and assimilation of knowledge acquired by the individual. Between successful and failed small-medium enterprises is distinguished by several points as follows (Freel, 1999):

1. Technical ability
2. Managerial competence
3. Low marketing ability

Knowledge obtained in school, social life, counseling, or training is beneficial for the individual to develop the business managed. Zahra and George (2002) develop a concept of perceiving capacity which includes routinity and process of certain organization which the efforts aim at operating and managing knowledge. There are four areas which knowledge is required to be managed in order to generate a successful business as follows:

- a. Acquisition
- b. Assimilation
- c. Transformation
- d. Exploitation

Table 1 presents the summary description of small-medium enterprises which serve as samples of this study. On the point of the educational background of business actors, it is dominated by the business actors who completed senior high school education, equal to 40% (54 people). In this level, entrepreneurial literacy is not given as compulsory or elective subject. Thus, it is possible that the business actors of small-medium enterprises within this study independently obtain and learn the information regarding business from any available resource. On the other hand, 17.8% business actors of small-medium enterprises who completed college (24 people) are not automatically becoming a successful entrepreneur. The research conducted by Matlay (2008) reveals that education regarding entrepreneur remains insignificant in generating graduates who possess decent entrepreneurial passion and knowledge as well as the ethics required. This condition influences the perception of entrepreneurship demand in recent days and in the near future. According to Kolb and Wagner (2014) between businesses actors who complete higher education and do not are significantly distinctive in confronting any challenge within the business in the real world. Five factors served as distinctive elements are extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience. Nevertheless, the developing of SMEs facing a lot of problems namely lack of capital, difficulties in marketing, simple organizational structure with unstandard job description, low quality management, limited human resources, generally it has no financial accounting, low of legality aspect, and low of technology quality (Rahmana, 2012). Owner of SMEs in Batu East Java in particular and Indonesia in general in starting a business is to meet the necessities of life. Business development that should be done is constrained by the thought of business owners who feel that as long as the necessities of life are fulfilled, the business owner is already feeling grateful.

Entrepreneurial literacy ought to be a component to enhance the performance of the business. It is inevitable that the more the individual possesses better knowledge the more significant the profit that the individual will obtain. The failure of knowledge transfer within certain organization serves as an obstacle to operational process in the organization. In addition, the insufficient understanding regarding management, innovation, and conflict management will further affect the profit obtained. However, to manage the business, the individual's knowledge is not adequate, yet it requires the passion and willingness come from the individual to accomplish a desired profit and goals.

CONCLUSION

This study proves that entrepreneurial literacy does not influence the performance of small-medium enterprises in Batu East Java. The knowledge possessed by small-medium enterprises business actors in Batu regarding risk aspect is considered high or good, while knowledge regarding functional aspect is moderately good. The moment the small-medium enterprises business actors possess knowledge regarding business and entrepreneurship, it does not automatically guarantee neither the success nor failure of the business.

SUGGESTIONS

It is suggested to transfer the knowledge obtained from counseling, socialization, training, and any other channel to the all small-medium enterprises to create a continuity of the business. The future researcher can be more specific in classifying business to business type's aspect, performance aspect operationally, and other supporting aspects.

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