

# The Role of Market Regulation in Enhancing Productivity Based on Business Capacity Development and Business Interest: The Case of Street Vendors in Banda Aceh City, Indonesia

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## Abstract

This study examines and analyzes the role of market regulation in promoting productivity based on business capacity building and business interests of street vendors in Banda Aceh, Indonesia. A total of 225 street vendors were chosen as respondents in this study using quota sampling techniques. By using a Moderating Regression Analysis (MRA) based on Structural Equation Modelling (SEM), this study found that business capacity development and business interest have a positive effect on street vendor productivity. Market regulation moderates the effect of developing business capacity on increasing street vendor productivity. Conversely, market regulation does not moderate the effect of business interest on street vendor productivity. This research implies that to increase street vendors' productivity, strengthening market regulations is needed to support the development of street vendors' capacity in the city of Banda Aceh.

**Keywords:** Market regulation; Business capacity development; Business interest; Street vendors; Business productivity.

## 1. Introduction

Street vendors (in Indonesia, so-called *pedagang kaki lima*) are usually described as an embodiment of hidden unemployment or widespread underemployment commonly in cities in developing countries, including in the city of Banda Aceh, Indonesia. Engaged in the informal sector, street vendors are traders with small-scale economic ventures that sell goods and services on the streets in crowded city centres. The presence of street vendors has made an essential contribution to urban development because the informal sector has absorbed labour, especially the lower class economic community.

However, street vendors' business activities that are not well managed have caused chaotic urban planning. They often do business activities in public areas, such as on sidewalks, bus stops, and city parks. Often the presence of street vendors has disrupted the flow of traffic because consumers who purchase products and services sold by street vendors park their vehicles on the side of the road and dispose of garbage so that the areas where street vendors do business become slums. As a result, street vendors are often driven out, disciplined, and relocated by market-regulated officials. This has made it difficult for street vendors to increase their productivity because they always have to move from one place to another.

Indeed, the main target of regulation of street vendors is intended to provide comfort for street vendors' business activities and urban orderliness, but these regulations also often harm street vendors due to eviction and relocation. This has led to a decline in their productivity, marked by a decrease in sales volume. This shows that market regulation can play a positive or negative role in increasing street vendor productivity.

This is in accordance with research by [Kitching et al. \(2015\)](#), which mentions that regulation has various effects on the performance of small companies. The effect of regulation critically depends on how small business agents with whom they interact adapt to regulation. The regulation allows small companies to access market opportunities and motivate product processes and innovation, thus contributing to higher levels of business performance. However, regulations can become burdens and costs or constraints that hamper business performance. As a result, regulation can negatively impact business productivity ([Crafts, 2006](#)) and ultimately lead to an increase in the unemployment rate ([Feldmann, 2008](#)).

Previous researches show that business people can adapt to market regulations ([Kitching et al., 2015](#)) and adapt to capacity development strategies ([Forés and Camisón, 2011](#); [Manfreda et al., 2014](#); [Tsai, 2001](#)) and business interests ([Mahesa and Rahardja, 2012](#)) will be able to support the success of the business and their productivity. Conversely, perceived market regulation that is not in accordance with the capacity building plans and business interests of traders can reduce business performance. This phenomenon has made the topic of market regulation's role in supporting the business activities of small-scale traders always interesting to study.

Studies on the effect of business capacity development and business interest on business productivity have been conducted before. For example, Ramadoan (2014) found that capacity building has increased farmer's productivity. Antara *et al.* (2017), also found a positive influence on the productivity and well-being of woven fabric industry entrepreneurs in Bali, Indonesia. Syafri (2014), study's related to business interests and their impact on performance found that business interests had a positive effect on company productivity. Dinan (2017), also found the same effect of business interest on work productivity.

All the above-reviewed research, however, has only examined the effect of developing business capacity and business interest on the productivity of business ventures. They have ignored the role of market regulation in supporting the development of traders' business capacity and interest in increasing business productivity. As far as the authors are concerned, no research has examined the role of market regulation in supporting the development of street vendors' business capacities and business interests in increasing their productivity. To fill the gap of previous researches, this study aims to examine and analyze the role of market regulation in supporting the business capacity development and business interests of street vendors in increasing their productivity in the city of Banda Aceh, Indonesia.

The results of this study are expected to be a reference for the government in formulating and implementing market regulations that can support the increased productivity of street vendors. For street vendors, the results of this study are also expected to be useful for adjusting market regulations so that they can improve their business performance.

The next part of the study is discussed in the following systematic. Section 2 reviews the literature and theories and relevant prior research. Section 3, in turn, highlights empirical data and estimation models, followed by discussion and implications of research findings in Section 4. Finally, Section 5 concludes the study.

## **2. Literature Review**

### **2.1. Business Productivity**

All businessmen intend to have a continuous improvement in their business performance. The level of productivity often measures this performance. In general, productivity implies a comparison between output and input. Mathematically, according to Sinungan (2014), productivity is the ratio between the output produced and the overall input used in business activities. This shows that all components that affect the input and business processes will affect the amount of output produced (Omar *et al.*, 2007; Saad *et al.*, 2006).

In his research, Sinungan (2014) states that to measure the level of productivity, several indicators can be used. These indicators include: (i) the quality of goods produced or traded; (ii) quantity of products manufactured or sold; (iii) reduction in operational costs of activities; (iv) time savings in production and business activities; and (v) labour savings used. In other words, the efficiency of production activities and business activities is an essential aspect of productivity (Ismail *et al.*, 2013; Syamni and Majid, 2016).

Previous research found that productivity in industries, either small-scale, medium-scale, or large-scale industries, is influenced by various factors. In general, these factors are labour, leadership, raw materials, machinery, business management, and so on. Lilly *et al.* (2007), state that increased productivity is influenced by management, raw materials, costs, technology, and leadership systems. Other studies state that productivity is very dependent on labour, machine capacity, raw materials (Gitosudarmo, 2014), knowledge, human resources, expertise (Tambunan, 2002). In more detail, business productivity is influenced by business capacity, business interests, market regulation, business competition, and government participation. This research only focuses on business capacity development, business interest, and market regulation as a determinant of business productivity.

### **2.2. Business Capacity Development**

Capacity is defined as the ability to create value from various forms of resources owned to produce output in accordance with market needs within a specific period (McNair and Vangermeersch, 1998). In the context of management, capacity is the amount of input available to produce the output needed for a specific time (Jacobs *et al.*, 2004). In this context, capacity building is a process carried out by individuals or groups to improve their ability to perform their duties to achieve the desired results. From this understanding, it can be seen that capacity building is a process of growth, internal development, and oriented towards increasing results. Bolger (2000), states that capacity building is intended to carry out essential functions, problem-solving, and sustainably achieving goals.

To measure business capacity development, Grindle (2014) proposed five indicators, namely: (i) Human resources development; (ii) organizational strengthening; (iii) institutional reforms; (iv) increased knowledge; and (v) improving management capabilities.

### **2.3. Business Interest**

Business interest is the desire and ability to live independently in running a business. Someone who has a business interest is willing to design, determine, manage, and control businesses (Garjito, 2014). Thus, business interest is the ability to meet the needs of life and solve life problems, promote business, or create new businesses with strengths that exist in them (Wang and Wong, 2004). He is a psychological phenomenon to focus attention on and do something about the entrepreneur with a feeling of pleasure because it brings benefits to him. Subandono (2007), concludes that business interest in one's heart tends to be interested in creating a business that then organizes, organizes, bears risks, and develops the business that it creates.

To measure business interest, [Sucipta et al. \(2016\)](#) proposed five indicators, consisting of: (i) having an entrepreneurial spirit; (ii) having skills; (iii) having patience; (iv) train yourself and be diligent; and (v) have expertise in selling products and services.

## 2.4. Market Regulation

Regulation is a regulation that is made to help control a group, institution, organization, and community to achieve specific goals in life together, in society, and socializing. Regulations are made to control people or society with certain restrictions ([Andrews, 1998](#)). In general, the word regulation is used to describe a rule that applies in social life. Market regulation is a policy that regulates all aspects of seller and buyer transactions related to supply and demand, sales, bargaining in value (price), and the occurrence of a transfer of ownership through an agreement between the buyer and seller. In other words, business regulation is a rule of ethics that must be fulfilled by business people in running their business. The function of business regulation is to discipline the behaviour of entrepreneurs and consumers within certain restrictions ([Braithwaite and Drahos, 2000](#)). These business regulations are binding and control people's behaviour within the scope of business.

Market regulation indicators, according to [Wiryomartono \(2008\)](#), include: (i) place regulations; (ii) cleanliness regulations; (iii) security regulations; (iv) uptime; and (v) place order.

## 2.5. Previous Related Studies

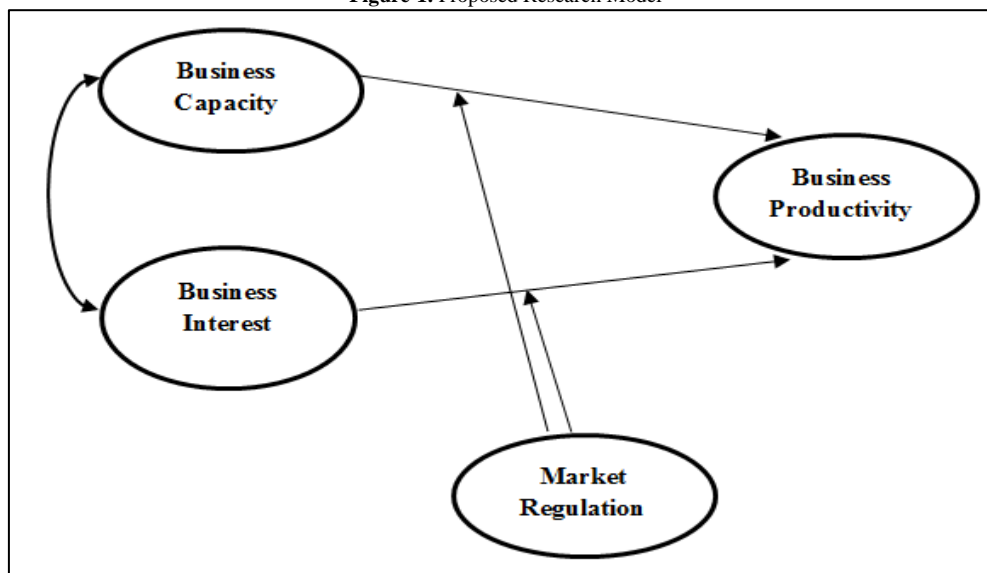
[Fauzi \(2018\)](#), found that the productivity of the woven sarong business in Samarinda City, Indonesia, was influenced by human resources, raw materials, and business equipment. [Antara et al. \(2017\)](#), in their research, found that industrial capacity and business empowerment had a significant positive effect on business productivity. The results of the study by [Antara et al. \(2017\)](#) are also supported by [Wanyama and Mutsotso \(2010\)](#). They also find evidence that capacity development plays a vital role in increasing business productivity.

Business people who can adapt to market regulations ([Kitching et al., 2015](#)) and adapt to capacity development strategies ([Forés and Camisón, 2011](#); [Manfreda et al., 2014](#); [Tsai, 2001](#)) and business interests ([Mahesa and Rahardja, 2012](#)) would support traders' success and productivity. Conversely, perceived market regulation that is not in accordance with the capacity building plans and business interests of traders can reduce business performance.

Furthermore, [Aidha \(2016\)](#) found that business interests determine the performance of business units. [Ramadoan \(2014\)](#), found that the development of business capacity increased farmer's productivity. [Antara et al. \(2017\)](#), also found a positive influence on the productivity and well-being of woven fabric industry entrepreneurs in Bali, Indonesia. [Syafri \(2014\)](#), research related to business interests and their impact on performance found that business interests had a positive effect on company productivity. [Dinan \(2017\)](#), also found the same effect of business interest on work productivity.

Based on the explanation and previous research reviews, this study proposes the following research model, as illustrated in [Figure 1](#).

**Figure-1.** Proposed Research Model



Referring to the proposed research model in [Figure 1](#), the study proposes the following hypotheses:

1. Business capacity development affects business productivity.
2. Business interests affect business productivity.
3. Market regulation moderates the effect of business capacity development on business productivity.
4. Market regulation moderates the influence of business interest on business productivity.

### 3. Research Method

The purpose of this study is to examine and analyze the role of market regulation in supporting the business capacity development and business interests of the street vendors in increasing their productivity in the city of Banda Aceh, Indonesia. A total of 225 street vendors in the city of Banda Aceh have been selected as the sample of this study using quota sampling techniques.

The sample selected in this study has met the minimum sample size requirement. Hair *et al.* (2014), state that a minimum sample must be at least as large as the number of indicators multiplied by 5 to 10. Because each of the four variables examined in this study each has five indicators (a total of 20 indicators), the minimum sample size required is 100 (20 indicators x 5). The selection of 225 street vendors that exceed this minimum sample size is believed to provide reliable research results.

This study collected primary data for analysis by distributing structured questionnaires to respondents. Respondents' responses to each indicator were measured using a Likert Scale: strongly disagree, disagree, somewhat agree, agree, and strongly agree. Each variable is measured by five indicators used in previous studies. The measurement of business capacity development variables is confirmed using the 5-indicator proposed by Grindle (2014), the business interest variable with the 5-indicator introduced by Sucipta *et al.* (2016), the productivity variable is measured using the 5-indicator introduced by Sinungan (2014). Finally, the market regulation variable is measured by the 5-indicator proposed by Wiryomartono (2008).

The Moderated Regression Analysis (MRA) based on Structural Equation Modelling (SEM) is used to test the proposed hypotheses. This MRA is very suitable to be used in this study to examine the effects of moderation. Whereas, SEM is used because of its ability to confirm the dimensions of a concept or factor that is commonly used and its ability to measure influence between variables theoretically Hair *et al.* (2014). However, before the MRA and SEM are estimated, to ensure the suitability of the indicators to measure variables, the test instrument, and the goodness-of-fit model will be tested first.

Based on Figure 1, the mathematical equation of the MRA that will be estimated with SEM can be written as follows:

$$\text{BUPRO} = \gamma_{11}\text{BCABU} + \gamma_{12}\text{BSINT} + \zeta_1 \quad (1)$$

$$\text{BUPRO} = \gamma_{21}\text{BCABU} + \gamma_{22}\text{BSINT} + \gamma_{23}\text{MAREG} + \gamma_{24}\text{BCABU}*\text{MAREG} + \gamma_{25}\text{BSINT}*\text{MAREG} + \zeta_2 \quad (2)$$

where BUPRO is the business productivity, BCABU is the business capacity development, BSINT is the business interest, MAREG is the market regulation, \* is the interaction between variables (moderating effect),  $\gamma_{ii}$  is the estimated value of each variable, and  $\zeta_i$  is a structural error term. The t-statistic test is used to test all hypotheses raised in the study.

## 4. Findings and Discussion

### 4.1. A Brief Overview of Street Vendors in Banda Aceh City Indonesia

The number of street vendors in the city of Banda Aceh is currently around 500 persons who can take turns every day, month, and year. They engage in various kinds of businesses, ranging from selling of Ice Cendol, religious books, clothing, ring stone, accessories for children and parents, light food, cigarette, betel, popcorn, fresh fruits, and so on.

As for the place of sale, some street vendors bring carts and rickshaws in the yard of the shop. The arrangement and empowerment of street vendors in the city of Banda Aceh are under the supervision and guidance of the Trade Office of the Banda Aceh City Small and Medium Enterprises Cooperatives Office. This street vendor is regulated by Banda Aceh City Regulation (*Qanun*) No. 3 of 2007.

Of the 228 street vendors studied in this study, 63.6% were male, and the remaining 36.4% were female. Thus the street vendors in Banda Aceh city are dominated by male traders. In terms of age, 2.6% were between 20-29 years old, 29.8% were 30-39 years old, 46.5% were 40-49 years old, and 21.1% were over 50 years old. In terms of marital status, 15.8% are single, 79.8% are married, and 4.4% are widowed/widower.

Furthermore, in terms of educational background, 9.6% had attended high school education, 11.8% had attended Diploma III, 62.7% had Bachelor degrees, and 15.8% had attended postgraduate class. As many as 11.8% have monthly income of IDR 2.5-3 million, 26.8% have monthly income of IDR 3.5 - 3.5 million, 35.1% have monthly income of IDR 3.5 - 4 million, 15.8% have monthly income of IDR 4-5 million 4.5 million, and as many as 10.5% have a monthly income of more than IDR4.5 million. This shows that overall, street vendors in the city of Banda Aceh are dominated by male traders, aged 40-49 years old, married, educated, and average monthly income of IDR 3.5 - 4 million.

### 4.2. Measurement Model Testing

Before the research model is estimated, the test instrument and goodness of fit will be tested first. Of the 20 indicators used to test the four research variables, only one indicator of business capacity development variables, one indicator of business productivity variables, and one indicator of market regulation variables that are not valid, while others are found to be valid. Invalid indicators are eliminated in the estimation of research models. These 17 valid indicators also meet the reliability requirements.

Furthermore, the goodness-of-fit model is tested to ensure the compatibility of the estimation model with the data in this study. The results of the index goodness of fit test are reported in the following Table 1.



**Table-1.** Findings of Goodness of Fit Indices (GoFI)

GoFI	Cut-off-value	Finding	Remark
$\chi^2$ (Chi-Square)	260.992	121.817	Best fit
Significant Probability	$\geq 0.05$	0.068	Best fit
GFI	$\geq 0.90$	0.942	Best fit
AGFI	$\geq 0.90$	0.911	Best fit
TLI	$\geq 0.90$	0.977	Best fit
CFI	$\geq 0.90$	0.983	Best fit
RMSEA	0.05 – 0.08	0.031	Best fit

As observed in Table 1, this study found that all goodness-of-fit indices showed the best fit. All of these indices, which consist of X2-Chi-Square, Probability Significance, Root Mean Square Error of Approximation (RMSEA), Goodness of Fit Index (GFI), Augmented Goodness of Fit Index (AGFI), Tucker and Lewis Index (TLI), and the Comparative Fit Index (CFI) estimation value is above the cut-off value. This shows that the SEM estimation model was found to be very suitable for measuring interactions between variables based on the proposed hypothesis.

### 4.3. Effect of Business Capacity Development and Business Interest on Productivity

After the instrument testing and model compatibility are carried out, the results of SEM-based MRA estimates to test the effect of business capacity development and business interest on street vendor productivity will be reported in Table 2.

**Table-2.** Standardized Regression Weights

Variables			Std. Estimate	P-value
Endogenous		Exogenous		
Productivity	<---	Business capacity development	0.228***	0,006
Productivity	<---	Business Interest	0.221***	0,007

Note: \*\*\* indicates significance at the 1% level.

As illustrated in Table 2, business capacity development was found to have a significant positive effect on street vendor productivity with an estimated value of 0.228 at a significance level of 1%. This means that any increase in business capacity development by 1 point on the Likert scale has led to the rise in street vendor productivity of 2.28 points on the Likert scale. The results of this study support Hypothesis 1, showing the critical role of business capacity development in increasing business productivity.

When conducting business activities, street vendors who have self-improvement, strengthen operational and business management, business efficiency, and increase knowledge and skills in business have been able to increase their productivity. This is as explained by Grindle (2014) about the importance of all these aspects in supporting business productivity. This study's results are also in line with the results of Maupa (2004) research, which found an essential role in the development of human resource capacity in improving organizations. The results of this study are also supported by Antara *et al.* (2017), Wanyama and Mutsotso (2010), and Ramadoan (2014), who found that business empowerment capacity had a significant positive effect on business productivity.

Furthermore, Table 2 also shows that business interest has a positive effect on street vendor productivity at a significance level of 1% with an estimated value of 0.221. This means that a 10% increase in business interest has led to the rise in street vendor productivity of 2.21% on the Likert scale. The results of this study support Hypothesis 2. This underscores the importance of having a business interest in carrying out high-productivity business activities. In other words, traders who do business without the support of high business interest will be tough enough to increase the productivity of their businesses. With the high business interest owned by traders will have an impact on increasing trader productivity.

The results of this study are consistent with Hidayatullah (2012) research stating that a person's interest is one of the factors that determine the suitability of a person to his job. Business interests strongly support the success of traders and their productivity (Mahesa and Rahardja, 2012). Aidha (2017), also found that business interests determine the performance of business units. Likewise, Syafri (2014) and Dinan (2017) found that business interest has a positive effect on company productivity.

### 4.4. The Role of Market Regulation in Increasing Productivity

Table 3 reports the results of estimating the role of market regulation in moderating the effect of developing business capacity and business interest in increasing street vendor productivity.

The SEM-based MRA estimation results illustrated in Table 3 show that moderating market regulation positively influences business capacity development on street vendor productivity with an estimated coefficient of 0.141 at a significance level of 5%. This indicates that the strengthening of market regulations based on business capacity development by 1 point has been able to increase street vendor productivity by 1,141 points on the Likert scale. Market regulation functions as a pure mediator variable, indicated by the influence of regulatory variables and the interaction variables between market regulation and business capacity development on street vendors' productivity.

Table-3. Moderating Effect of Market Regulation

Variables			Std. Estimate	P-value
Endogenous		Exogenous		
Productivity	<---	Market Regulation	0.395 <sup>***</sup>	0.000
Productivity	<---	Market Regulation*Business Capacity Development	0.141 <sup>**</sup>	0.017
Productivity		Market Regulation*Business Interest	0.026	0.687

Note: <sup>\*\*\*</sup> and <sup>\*\*</sup> indicate significance at the 1% and 5% levels, respectively.

These findings conclude that market regulation oriented to business capacity development has played an essential role in increasing the productivity of street vendors in the city of Banda Aceh. These results are in accordance with the statement of [Kitching et al. \(2015\)](#), [Tsai \(2001\)](#), [Forés and Camisón \(2011\)](#) and [Manfreda et al. \(2014\)](#) that business people who can adapt to market regulations and adapt to their capacity development strategies, then the presence of regulations can support increasing their productivity.

Furthermore, [Table 3](#) shows that market regulation does not significantly influence the influence of business interests on street vendor productivity. This indicates that strengthening market regulation cannot increase street vendors' productivity because it is not yet entirely in line with their business interests. In this case, market regulation functions as a moderating predictor variable, indicated by the significant influence of the regulatory variable and the insignificance of the interaction variable between market regulation and business interest in street vendor productivity.

In terms of benefits, the presence of market regulations can be seen from two sides, namely from the side of the government as a regulator and from the side of business people as the implementation of ing regulations. For the government, market regulations, such as licensing, are needed to maintain public order and provide protection to the public. In terms of business, the presence of regulations, such as processing licenses and other business legality documents, can reduce business interest ([Agustina and Sularto, 2011](#)). This is among the reasons market regulation does not significantly influence the influence of business interests on street vendor productivity. Street vendors who are reluctant to adapt to market regulations have reduced their business interest and, in turn, will also reduce their productivity ([Kitching et al., 2015](#)).

Overall the results of this study indicate the importance of developing business capacity and interest in doing business in increasing productivity. Besides, the presence of market regulations has moderated the effect of developing business capacity on increasing street vendor productivity. However, the presence of market regulations does not significantly influence the influence of business interest on increasing street vendor productivity. This shows that the increase in a business capacity and business interests must be continuously strengthened and supported by market regulations oriented to the business capacity development of business people.

## 5. Conclusion

This research has examined and analyzed the role of market regulation in increasing productivity based on business capacity building and business interests of street vendors in the city of Banda Aceh, Indonesia. By using a Moderating Regression Analysis (MRA) based on Structural Equation Modelling (SEM), this study found that capacity development and business interest have a positive effect on street vendor productivity. Market regulation has moderated the effect of developing business capacity on increasing street vendor productivity. Conversely, market regulation has not moderated the effect of business interest on street vendor productivity.

The results of this study provide the implication that strengthening business capacity and business interest must be increased to increase street vendor productivity. In addition, strengthening market regulations is needed to support business capacity development. The development of street vendors' business capacity should continue to be fostered to give birth to entrepreneurs that are reliable and able to improve the community's economy. To increase the productivity of street vendors, market regulation should provide legal certainty for traders so they can run their business comfortably and calmly without having to fear the existence of market supervisors.

Future studies can incorporate internal and external factors that determine street vendor productivity to enrich the findings on this topic. Increasing the sample size by including more street vendors in all cities in Indonesia can also improve existing findings of enhancing business productivity.

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