

# **Analysis the Effect of Entrepreneurship and Innovation in Food and Beverage SMEs in Jakarta**

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## **Abstract**

Micro, small, and medium enterprises (MSMEs) is one important part of the economy of a country or region. This important role has encouraged many countries, including Indonesia, to continue working to develop SMEs. This is because MSMEs have contributed more than half of Indonesia's GDP, and MSMEs and the largest employer absorber for Indonesia. MSMEs also have a business unit of 99.9% of the total business units compared to large enterprises. Therefore, why MSMEs have become the backbone of the Indonesian economy, especially in the Food and Beverage industry sector, see the contribution of the food and beverage industry to the total GDP of Indonesia. However, SMEs today are still often getting problems and obstacles in the Indonesian industry. One of them is the lack of knowledge about entrepreneurship that hampers the development of a business and the emergence of innovation. The purpose of this study is to determine the variables that affect innovation to improve the competitiveness of SMEs. This study uses the application of the method of Structural Equation Modeling - Partial Least Squares (SEM-PLS). The type of research used is descriptive research with a time horizon used is cross-sectional for once data collection in micro industries that are part of MSMEs. The results of this study are expected to show what variables can be related to and influence entrepreneurship and trigger the innovation of Indonesian SMEs, whose audiences become the driving force of the national economy.

## **Keywords**

Entrepreneurship, Innovation, MSMEs, Food and Beverages.

## **1. Introduction**

The growth of the business world is experiencing rapid progress and development in all fields of business. More and more companies are established, both large companies and micro, small and medium enterprises (MSMEs). SMEs

are often considered one of the pillars of the economic strength of a country or region. This is because MSMEs have the flexibility and ability to adapt to rapidly changing market conditions (Suparnyo, Wicaksono, & Ariyani, 2013). MSMEs in Indonesia, which comprise various business sectors, also contribute greatly to the Gross Domestic Product (GDP) revenue. In addition, UMKM also has several advantages, including lifting the people's economy to increase people's income, creating jobs, and absorbing labour. In addition, the development of MSMEs has also become one of the development priorities in the Government Work Plan (RKP). This is based on the fact that MSMEs have greatly contributed to the national economy. SMEs become very strategic because of their great potential in driving the community's economic activities and, at the same time, become the source of income for most people to improve their welfare (Ariani & Utomo, 2017, Bank Indonesia, 2015) revealed that MSMEs have an important and strategic role in national economic development. In addition to playing a role in economic growth and employment, MSMEs also play a role in distributing development results. MSME is an important sector as the main engine driving the global economy. This can be seen from the dominating number of MSMEs on the world business stage. The importance of the role of MSMEs is also seen in the number of workers absorbed by MSMEs and the size of MSME's contribution to Indonesia's total GDP income. Jakarta, the capital city of Indonesia, is one of the cities with the largest number of MSMEs in Indonesia. Based on data from (Central Statistics Agency, 2016), in 2016, the total business units in Jakarta reached 1,235,651 business units, with Jakarta's area of 661.5 km<sup>2</sup>, or it can be concluded that there were 1,868 MSME business units in every one square kilometer. The number of 1,868 business units is the highest compared to other big cities in Indonesia. As the capital city of Indonesia, Jakarta has become the city with the largest contribution of MSMEs and is the main place looking for livelihoods. Compared to other regions in Indonesia, Jakarta's unique characteristics make almost all business fields in Jakarta able to become capable economic resources. Everything that is developed can have economic potential. Not only in terms of economic resources, but Jakarta also will never run out of consumers who are ready to use the products produced. Jakarta's consumptive lifestyle can drive Jakarta's economy to move forward. The high level of consumption in the capitalist society also has the potential to move the economy (Central Bureau of Statistics, 2016). One of the business categories in Jakarta that has the best development prospects is MSME-based Food and Beverage. This can be seen in the rise of Food & Beverage-based MSME businesses that can be found in Jakarta. Based on the 2006 - 2016 economic census conducted by the Central Statistics Agency 2016, it was also found that the food and beverage business has become one of the businesses with the largest number of business units in Jakarta. In addition, the food and beverage business also experienced growth of more than 20% over the past ten years. This Food and Beverage business growth rate is the largest and most significant compared to the growth of other business categories in Jakarta, even exceeding the average growth of all business units in Jakarta for ten years, which is only 10.04%. So, it can be concluded that the Food and Beverage Business has become a very promising business and has the greatest potential to further develop. Like the previous discussion, Jakarta, which is the capital of Indonesia, has a large number of business units, but with the limited area of Jakarta, which is only 661.5 Km<sup>2</sup>, makes the existing business areas very limited for entrepreneurs. With increasingly limited business land and the number of businesses also cause high rental prices that make business owners more difficult. In addition, the rise in the number of business units in Jakarta also makes competition between businesses very tight, causing business owners to struggle to survive in the business market. The foregoing also proves the need for innovation's ability to be able to continue its business and be able to compete with other businesses in Jakarta, including the Food and Beverage business itself. In addition, according to (Hafni & Rozali 2017), there are still many obstacles and constraints, both internal and external, that must be faced by business actors, such as the level of ability, skills, expertise, and human resource management, entrepreneurship, marketing, and finance. Managerial and human resources have resulted in small entrepreneurs' inability to run their businesses properly. With the description of the above problems experienced by MSMEs, it is found that there are quite a number of severe obstacles that must be faced to strengthen the MSME sector to improve the national economy. As quoted from Sandianga Uno in (Yulianti 2017), it is said that the number of MSMEs has indeed increased rapidly and has become a dominant market in the national economy. Now there are 57 million MSMEs. However, the number of MSMEs, especially in micro-small businesses, should not be that big because they should continue to grow into larger businesses. SMEs should 'grade up' and create formal jobs. It was also said that many of these SMEs have businesses that are still not stable, where the business profit is still very minimal at 3 million/month (Yulianti, 2017). According to (Sholeh, 2017), the word 'grade up' at this MSME is simply where the business of MSME is growing so that productivity can increase, and competitiveness can also increase. This means that all micro businesses have the same potential to move up the class to a higher category, where micro-businesses can move up to small businesses, and small businesses can become medium businesses. Medium businesses can move up to large businesses. The 'upgrade' of the MSMEs will greatly contribute to the national economy. This is because MSMEs that move up the class will also contribute more to GDP due to the increase in total sales and company assets. In addition, the number of employees will also increase,

thereby increasing the number of employment and increasing the quality of Indonesian human resources. Other indicators that also apply are the increase in the amount of taxes paid, and funds accessed from banks will also increase.

It is widely recognized that MSMEs themselves, especially in the food and beverage business, must be able to embrace innovation in the context of a broader definition and develop their collaborative innovation capabilities beyond technical innovation (McAdam, McAdam, Dunn, & McCall, 2014). The theory of leadership (Yan & Yan, 2015) also explained that an entrepreneur is needed to drive an innovative activity in MSME. Several studies (Yan & Yan, 2015) have provided empirical support regarding this theory, with the finding that Entrepreneur Knowledge, Collaboration, Decision Making Styles, Communication, and other personal resources play a direct role in creating Innovation in MSMEs. An explanation (Yan & Sorenson 2003) about Collective Entrepreneurship also explained that with Collective Entrepreneurship, each individual's abilities, intelligence, and experience would be integrated to form a strong Collective capacity and create something new and do innovation.

According to (the Central Bureau of Statistics, 2016), 42% of business operators experience difficulties, and 81% are constrained by materials, marketing, and capital. If the researchers look at the total income of micro and small businesses in food and beverage businesses, there are 287,472 businesses whose monthly income is below IDR. 1,200,000. These factors prove that there are difficulties for business actors and the need for innovation to overcome these difficulties.

The rapid growth of MSMEs each year creates competition among industry players. Every entrepreneur must see the opportunities and risks that may be created and create innovations. (Rosenbusch, 2011) revealed that a business venture without innovation would be difficult to develop and survive in the business industry. Therefore, it is very important for a business, especially small and medium businesses, to continue to do innovation.

For a company to get a better position than its competitors, the company must be able to create, maintain and enhance the quality of its products. Not only that, but companies must also be able to create Innovations in the form of products, services, business processes and new business models to highlight and create the uniqueness that is not found in other companies' products (Rosenbusch, 2011).

In line with the strategy to improve innovation to improve the MSME class, it is necessary to consider how the internal condition of MSMEs is at present. Keep in mind what are the indicators that influence the development of MSMEs. Developments in MSMEs are expected to make a significant positive contribution to efforts to overcome the problems mentioned above.

## **2. Literature Review**

This type of research is used to discuss and analyze data. The data in this study are descriptive-associative research because, in this study, the researcher explains every variable that exists and explains every influence that exists between these variables. Descriptive research is a type of research aimed at explaining or describing something. Descriptive research is characterized by a clear description of the problem, specific hypotheses, and details about the information needed.

This study uses the Online Survey as a data collection method. The online Survey Method to see the factors that influence the Entrepreneurship and Innovation of MSME food and beverages in Jakarta uses a cross-sectional design. The cross-sectional design is a method of collecting data where information is collected only at one particular time. So, the fact that can be described is an activity at a particular time. Furthermore, conclusions can be made based on these facts regarding research problems that are proven or sought for influence.

This study uses six (6) variables: Centralized Decision Making, Collaboration, Communication, Entrepreneur's Knowledge, Collective Entrepreneurship, and Innovation. Centralized Decision Making is a centralized decision making in businesses that are micro or small business owners in this study. Collaboration is a collaboration between the owner and his employees. Communication is communication that exists between the owner and his employees. Entrepreneur's knowledge is entrepreneurial science that is emerging product, market, and technology. Collective Entrepreneurship is the ability of individuals or groups to work together to find opportunities and execute those opportunities. Innovation is the ability of a business owner to make something new in his product/process.

In this study, the data obtained will be analyzed using the Structural Equation Modeling (SEM) analysis method, one type of multivariate analysis in social science. Data analysis will be carried out using WarpPLS 5.0 software, the latest version released in 2015.

#### Evaluation of Measurement Model

Phase Evaluation of the SEM-PLS model that will be carried out in this study, i.e.:

Evaluation of the measurement model defines how each indicator relates to its latent variable. Evaluation of the measurement model is evaluated by convergent and discriminant validity of the indicators and reliability, which can be measured by composite reliability and Cronbach alpha. The evaluation criteria for the measurement model can be seen in Table 1. The significant level of influence between variables can be seen from the results of the path coefficient. At the same time, hypothesis testing is based on decision making, whereas in this study, the basis of decision making is obtained by comparing the p-value with alpha (error rate) of 5% ( $\leq 0.05$ ).

### 3. Results and Discussion

In calculating the aggregate, demand data is needed for the next period. Therefore, it is necessary to forecast the demand for the period for the next year. Forecasting will be done using historical demand data for the past three years, from January 2015 to December 2017.

#### *Measurement Model*

From Table 1, all indicators have a loading factor above 0.70 and can be said to have fulfilled convergent validity because all loading factors are above 0.70, so it can be considered that the indicator is valid.

Table 1. Results of Loading Factor Collaboration Variables

Variables	Result	Parameter	Validity
CLB01←CLB	0.872	>0.70	Valid
CLB02←CLB	0.866	>0.70	Valid
CLB03←CLB	0.898	>0.70	Valid
CLB04←CLB	0.819	>0.70	Valid
CLB05←CLB	0.891	>0.70	Valid
CLB06←CLB	0.785	>0.70	Valid

From Table 2 all indicators have a loading factor above 0.70 and can be said to have fulfilled convergent validity because all loading factors above 0.70 so that it can be considered that the indicator is valid.

Table 2. Results of Loading Factor Communication Variables

Variables	Result	Parameter	Validity
COM01←COM	0.802	>0.70	Valid
COM02←COM	0.88	>0.70	Valid
COM03←COM	0.771	>0.70	Valid
COM04←COM	0.775	>0.70	Valid
COM05←COM	0.804	>0.70	Valid

From Table 3, all indicators have a loading factor above 0.70 and can be said to have fulfilled convergent validity because all loading factors are above 0.70, so it can be considered that the indicator is valid.

Table 3. Results of Loading Factor Entrepreneur's Knowledge Variables

Variables	Result	Parameter	Validity
EKO01←EKO	0.836	>0.70	Valid
EKO02←EKO	0.879	>0.70	Valid
EKO03←EKO	0.745	>0.70	Valid

From Table 4, all indicators have a loading factor above 0.70 and can be said to have fulfilled convergent validity because all loading factors are above 0.70, so it can be considered that the indicator is valid.

Table 4. Results of Loading Factor Collective Entrepreneurship Variables

Variables	Result	Parameter	Validity
COE01←COE	0.932	>0.70	Valid
COE02←COE	0.915	>0.70	Valid
COE03←COE	0.907	>0.70	Valid
COE04←COE	0.887	>0.70	Valid
COE05←COE	0.907	>0.70	Valid

From Table 5, the two indicators have a loading factor above 0.70 and can be said to have fulfilled convergent validity because all loading factors are above 0.70, so it can be considered that the indicator is valid. While three indicators have loading factors below 0.70 so they cannot meet convergent validity and are considered invalid. Invalid indicators will not be included in the next process.

Table 5. Results of Loading Factor Innovation Variables

Variables	Result	Parameter	Validity
INN01←INN	0.689	>0.70	Invalid
INN02←INN	0.66	>0.70	Invalid
INN03←INN	0.717	>0.70	Valid
INN04←INN	0.764	>0.70	Valid
INN05←INN	0.644	>0.70	Invalid

From Table 6 all indicators have a loading factor below 0.70 so they cannot meet convergent validity and are considered invalid. Invalid indicators will not be included for the next process.

Table 6. Results of Loading Factor Centralized Decision-Making Variables

Variables	Result	Parameter	Validity
CDM01←CDM	0.785	>0.70	Valid
CDM02←CDM	0.766	>0.70	Valid
CDM03←CDM	0.72	>0.70	Valid
CDM04←CDM	0.754	>0.70	Valid

### Structural Model

#### Reliability Test

The next test is a reliability test that can be measured by two criteria, namely composite reliability, and Cronbach's alpha. A variable is declared reliable if the composite reliability value is above 0.70 and the Cronbach alpha value is above 0.50. Based on the results of the composite reliability in Table 7, it can be concluded that all variables are declared reliable.

Table 7. Composite Reliability Results

Variables	Composite Reliability	Parameter	Reliability
CLB	0.943	>0.7	Reliable
COM	0.903	>0.7	Reliable
EKO	0.861	>0.7	Reliable
COE	0.96	>0.7	Reliable
INN	0.824	>0.7	Reliable
CDM	0.843	>0.7	Reliable

Based on the results of Cronbach's alpha in Table 8, it can be concluded that all variables are declared reliable.

Table 8. Cronbach's Alpha Results

Variables	Composite Reliability	Parameter	Reliability
CLB	0.927	>0.5	Reliable
COM	0.866	>0.5	Reliable
EKO	0.757	>0.5	Reliable
COE	0.948	>0.5	Reliable
INN	0.732	>0.5	Reliable
CDM	0.751	>0.5	Reliable

*Structural Model*

The next step to explain the structural model test is to evaluate the structural model, which includes a model fit test, R-squared, Q-Squared and Effect Size. In the model compatibility test, there are three test indices, namely average path coefficient (APC), average R-square (ARS) and average variance inflation factor (AVIF), with APC and ARS criteria accepted with the condition that p-value <0.05 and AVIF <5.

*Model Fit Indicator*

The output results in Table 9 explain that the APC has an index of 0.374 with a p-value <0.001, ARS has an index of 0.406 with a p-value of P <0.001, the AVIF value must also be below five already fulfilled because based on these data AVIF has a value of 1,788, AARS has an index of 0.395 with a p-value of P <0.001, an AFVIF value of 2,262 has also been fulfilled because, under 5, the TenenhausGoF (GoF) value of 0.517 is included in the large category, the Simpson's Paradox Ratio (SPR) value is greater than 0.7 which is 1,000. The value of R-Squared Contribution Ratio (RSCR) of 1,000 is greater than 0.9, the value of Statistical Suppression Ratio (SSR) is greater than 0.7, which is 1,000, and the value of Nonlinear Bivariate Causality Direction Ratio (NLBCDR) is greater than 0.7 which is 1,000 meet the conditions to be able to proceed to the next testing.

Table 9. Model Fit Indicator Results

Model Fit Indicator	Result	Provisions
<i>Average Path Coefficient (APC)</i>	0.374, P < 0,001	p < 0.05 then good
<i>Average R-Squared (ARS)</i>	0.406, P<0.001	p < 0.05 then good
<i>Average Block VIF (AVIF)</i>	1.788	AVIF < 5 then good
<i>Average Adjusted R-Square (AARS)</i>	0.395, P<0.001	p < 0.05 then good
<i>Average Full Collinearity VIF (AFVIF)</i>	2.262	AFVIF < 5 then good
<i>TenenhausGoF (GoF)</i>	0.517	0.1 – 0.24 = Small 0.25 – 0.35 = Medium GoF > 0.36 = Large

<i>Simpson's Paradox Ratio (SPR)</i>	1.000	SPR > 0.7 then good
<i>R-Squared Contribution Ratio (RSCR)</i>	1.000	RSCR > 0.9 then good
<i>Statistical Suppression Ratio (SSR)</i>	1,000	SSR > 0.7 then good
<i>Nonlinier Bivariate Causality Direction Ratio (NLBCDR)</i>	1.000	NLBCDR > 0.7 then good

**R-Squared**

As shown in Table 10, as much as 32% of the CDM variable is influenced by CLB, where 68% is influenced by other factors outside the study. As many as 37% of the CDM variable is influenced by COM, where 63% is influenced by other factors outside the study. As many as 24% of CLB variables are influenced by EKO, where 76% are influenced by other factors outside the study. As many as 56% of COE variables are influenced by COM and CLB, where 44% are influenced by other factors outside the study. And as many as 54% of INN variables are influenced by CDM, EKO, and COE, where 46% are influenced by other factors outside the study.

Table 10. R-Square Results

<b>Variables</b>	<b>R-Squared Value</b>	<b>Level of Influence</b>
CDM→CLB	0.32	Weak
CDM→COM	0.37	Weak
CLB→EKO	0.24	Weak
CLB→COE COM→COE	0.56	Moderate
CDM→INN EKO→INN COE→INN	0.54	Moderate

**Q-Squared**

Based on Table 11, a Q-Squared value greater than zero indicates that the independent variable has predictive relevance to the affected dependent variable. From the results of the table above, it can be concluded that 32.2% of the CDM variable has predictive relevance for the CLB variable. As many as 36.7% of the CDM variable has predictive relevance to the COM variable.

As much as 24.8% of CLB variables have predictive relevance to the EKO variable. 56.5% of CLB and COM variables have predictive relevance for COE variables. As many as 49.9% of the CDM, EKO and COE variables have predictive relevance to the INN variable.

Table 11. Q-Squared Results

<b>Variables</b>	<b>Q-Squared Results</b>
CLB	0.322
COM	0.367
COE	0.565
EKO	0.248
INN	0.499

### Effect Size

Based on Table 12, the CLB variable has a weak influence on EKO, worth 0.075, and the CLB variable has a medium effect on COE, worth 0.216. The CLB variable has a weak influence on INN, worth 0.025. The COM variable has a medium effect on EKO, worth 0.169, and the COM variable has a medium effect on COE, worth 0.342.

COM variable has a weak influence on INN, which is worth 0.072, EKO variable has a weak influence on INN that is 0.091, COE variable has a major influence on INN that is 0.368, CDM variable has a medium effect on CLB that is 0.318, CDM variable has a large influence on COM that is 0.366, The CDM variable has a weak influence on EKO that is 0.102. The CDM variable has a medium effect on COE, worth 0.318. The CDM variable has a medium effect on INN, which is 0.244.

Table 12. Effect Size Results

<b>Variables</b>	<b>Effect Size</b>	<b>Level of Influence</b>
CLB→EKO	0.075	Weak
CLB→COE	0.216	Medium
CLB→INN	0.025	Weak
COM→EKO	0.169	Medium
COM→COE	0.342	Medium
COM→INN	0.072	Weak
EKO→INN	0.091	Weak
COE→INN	0.368	Large
CDM→CLB	0.318	Medium
CDM→COM	0.366	Large
CDM→EKO	0.102	Weak
CDM→COE	0.318	Medium
CDM→INN	0.244	Medium

### Direct, Indirect and Total Effects

From the results of Table 13, it can be concluded that the total effect of CDM on INN is 0.564 without any indirect effect from mediation. The total effect of EKO on INN is 0.605 without the indirect effect of mediation. The total effect of COE on INN is 0.160 without any indirect effect from mediation. The total effect of CLB on COE is 0.518 without the indirect effect of mediation.

The total effect of COM on COE is 0.174 without the indirect effect of mediation. The total effect of CDM on CLB is 0.360 without the indirect effect of mediation. The total effect of the CDM on COM was 0.478 without the indirect effect of mediation. The total effect of CLB on EKO is 0.187 without the indirect effect of mediation. The total effect of COM on EKO is 0.320 without the indirect effect of mediation.



Table 13. Results of Direct, Indirect and Total Effects

NO.	Results Between Variables			Influences	
				Direct	Indirect
1.	CDM	To	INN	0.564	-
2.	EKO	To	INN	0.605	-
3.	COE	To	INN	0.160	-
4.	CLB	To	COE	0.518	-
5.	COM	To	COE	0.174	-
6.	CDM	To	CLB	0.360	-
7.	CDM	To	COM	0.478	-
8.	CLB	To	EKO	0.187	-
9.	COM	To	EKO	0.320	-

#### 4.5 Hypothesis Tests

Hypothesis testing can be done by looking at the p-value results, while the path coefficients are used to see the level of significance of the relationship. The decision of the hypothesis is obtained by comparing the p-value with alpha (error rate) of 5% ( $\leq 0.05$ ). The results of data processing with WarpPLS can be seen in Table 14.

Table 14. Results of Path Coefficients and p-values

Variables	p-values	Path Coefficients
CDM→CLB	<0.001	0.564
CDM→COM	<0.001	0.605
CDM→INN	0.050	0.160
COE→INN	<0.001	0.518
EKO→INN	0.036	0.174
COM→EKO	<0.001	0.360
COM→COE	<0.001	0.478
CLB→EKO	0.027	0.187
CLB→COE	<0.001	0.320

#### 4. Conclusion

Based on the results of an analysis of research conducted on "Analysis of the Effect of Entrepreneurship and Innovation on MSME Food and Beverage in Jakarta", the conclusions can be taken as follows: There is a positive and significant influence between Centralized Decision Making on Collaboration. There is a positive and significant influence between Centralized Decision Making on Communication. There is a positive and significant influence between Collaboration on Entrepreneur Knowledge. There is a positive and significant influence between Communications on Entrepreneur Knowledge. There is a positive and significant effect of Collaboration on Collective Entrepreneurship. There is a positive and significant effect between Communications on Collective Entrepreneurship. There is a positive and significant influence between Entrepreneur Knowledge on Innovation. There is a positive and significant influence between Collective Entrepreneurship on Innovation. There is a positive and significant influence between Centralized Decision Making on Innovation.

#### 4.1 Suggestions

To enhance cooperation, business actors must be able to see the nature and behavior of other business actors in carrying out their duties and developments. Business practitioners should make centralized decisions only in certain situations to determine the company's future. Businesses must be more open to information about products, markets, and technology. Businesses must collaborate and communicate more with each employee to establish a harmonious influence within one company and prioritize the concept of Collective in problem-solving and finding solutions.

Business owners themselves must focus on building innovation while maintaining Internal to produce superior output and increase output. Business owners should consider innovation bottom-up to establish linkages with employees.

This research still has some limitations, but it provides an opportunity for further research. This research was conducted using a micro business sample in Jakarta's food and beverages. Different societal environments will provide different views as well. Therefore, it is recommended that further research be carried out using a wider and more diverse sample in the business.

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