

# ***Analysis of Degrees in Sustainable Competitiveness of Local Wisdom-Based Crafts Industry***

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## **ABSTRACT**

This study aims at analysing the factors that influence the competitiveness of small and medium-sized woodcraft industries in Bali. These variables include social capital, human resource competence, and digital technology. Furthermore, it is analysed the causes of the decline in the competitiveness of small and medium-sized wood handicraft industries in Bali. The data were collected using observation and interviews and then analysed. The research subjects were small and medium industry players in Bali Province by determining the sample using probability sampling. Data analysis using multiple linear regression. The results showed that social capital, human resource competence, and digital technology have a significant effect on the competitiveness of the small and medium-sized woodcrafts industry in Bali. The implementation of social capital in the form of community facilitation is an incentive and directed mentoring activity to create similar communities that are beneficial in terms of business discussions, production techniques, market expansion, and resource sharing. In its implementation, the development of social capital in Indonesia still requires the attention of the government, society, and companies.

**Keywords:** *Competence, Competitiveness, Government role, Marketing performance*

## **1. INTRODUCTION**

Small and Medium Industries are business actors engaged in various business fields, which touch the interests of society. In addition to being the business sector with the largest contribution to national development, small and medium-sized industries also create quite large job opportunities for domestic workers, thus helping to reduce unemployment. The small and medium industry is the largest group of economic players in the Indonesian economy and has proven to be a safeguard for the national economy during times of crisis, as well as a dynamist for economic growth after the economic crisis. In Indonesia, currently small and medium industries are considered as an effective way of reducing poverty. From the statistics and research conducted, small and medium industries represent the largest number of business groups. Small and medium-sized industries have been legally regulated through the Minister of Industry Regulation No.6 of 2016 concerning Small and Medium Industries. Based on the Regulation of the

Minister of Industry No.6 of 2016, Small and Medium Industries are industries that have small and medium scale industries. According to the Ministry of Industry Regulation No. 6 of 2016, a small industry is an industry that has a maximum employee of 19 people, has a value of fewer than 1 billion rupiahs, excluding land and buildings where the business is located. Meanwhile, what is meant by medium industry is an industry that has a maximum of 19 employees and an investment value of at least 1 billion rupiahs or has employees of at least 20 people and maximum investment value of 15 billion rupiahs. Currently, the SMIs which dominate the industrial population in the country play an important role in the development of the national economy. This is due to the relatively stable growth of small and medium industries.

There are several characteristics of Indonesia's small and medium industries that export. The first characteristic, most of them do not export directly but through partnerships or large exporting companies, or sell locally to foreign tourists [1]; second, not all Indonesian small and medium industries involved in

export activities are fully export-oriented, because many exports only a small part of their total output. However, small and medium-sized industries made a significant contribution to the growth of manufactured exports even during the New Order they grew quite large by discovering market opportunities and their ability to make adjustments to costs and product quality to changes in market demand in the world [2]; third, in general, the small and medium industries involved in export activities are concentrated in the same location for the same product, which is one of the characteristics of the small and medium industries in Indonesia which form clusters; fourth, small and medium industrial exports are mostly from the category of goods with medium to lower technology; and fifth, small and medium industrial exports are concentrated in which wages are the main determinant of global competitiveness.

Spatially, the constellation of the development of small and medium industries in Indonesia is increasing and spread throughout Indonesia, both formal and informal, directly contributing to the economic growth of the people. One of the areas that have contributed to the development of small and medium industries in Indonesia is Bali Province. As one of the famous tourist areas in Indonesia and even the world, Bali Province is the epicenter of not only tourism but also an economic business. This condition can directly or indirectly provide a multiplier effect for regional economic growth. The types of Balinese export commodities are grouped into 5 groups, as follows: handicrafts, in the form of wood crafts, furniture crafts, silver handicrafts, bamboo crafts, metal crafts, rattan handicrafts, terracotta crafts, leather crafts, solid stone crafts, woven crafts, ceramic crafts, shell crafts, painting crafts, stationery crafts; Industrial products, in the form of textiles and textile products, shoes, bags, plastics, fish in cans, and components/finished houses; agriculture, in the form of tuna, grouper, lobster, live ornamental fish, snapper, other fish, crabs, shark fin, fruits, live birds, seaweed; Plantation Products, in the form of vanilla and coffee; Etc.

## **2. LITERATURE REVIEW**

Competitiveness has three characteristics, namely, potential, process, and performance. Apart from this, competitiveness is also characterized by long-term orientation, controllability, relativity, and dynamics. Also, three important aspects affect the competitiveness of SMEs, namely: internal company factors, external environment, and the influence of entrepreneurs/business owners. The competitiveness of a company is reflected in the competitiveness of the products produced by the company. The competitiveness of companies is determined by seven very important factors, including the expertise or level

of education of workers, the expertise of employers, the availability of capital, a good organizational and management system (according to business needs), the availability of technology, the availability of information, and the availability of other inputs, such as energy, and raw materials [2].

Competitiveness analysis (TCD) mostly refers to the Trade Competitiveness Diagnostic [3] which is an approach that aims to provide an understanding of the position, performance, and capabilities of a country in the export market, as well as the factors that affect its competitiveness. Trading activity is a useful lens for measuring competitiveness. The export market generally has a high level of competition so that countries with high competitiveness in exports are generally also superior in terms of domestic factors. This is in line with the interrelationship between trade and productivity. Productive business actors become exporters and will be more productive with demand from the export market.

According to [4], the factors of production which are generally categorized as land, labor, and capital are too general to be able to show competitive advantages in the strategies of different industries. The factors can be grouped into several broad categories such as human resources, physical, scientific, capital, and infrastructure.

According to [5], the competitive selection factor depends on the superiority of a commodity produced by a company or industry. Also, depending on consumer demand for products, it is quite significant to encourage companies to be more competitive. Based on this, the competitiveness of a commodity in the current trading pattern does not see the market approach as a basis for conducting a strategy in conducting international trade, but is also based on the importance of an approach called a resource-based strategy where the resource factor becomes more important. The competitiveness theorem which also relies on competitive advantage in its development is Thurow's theorem. According to [6] in the era of economic globalization, competitive advantage is a factor that cannot be ignored because in the context of competitiveness the commodities to be traded have comparative advantages in terms of abundance of factors but are not yet competitive.

According to [6] that the concept of comparative advantage will shift to consider technology as a dynamic element, this is because the mastery of science and technology has been able to produce sophisticated equipment to shift most of the human workforce so that the capital and labor ratio is no longer a variable. an important variable, although labor is still needed, its role is very insufficient in the production process. According to [2] that the competitiveness of a commodity is also determined by its technology. In the future, technological demands are characteristic of the export development process by taking the basis of thought and

assumptions built by classical theory. However, classical theories do not see the importance of the influence of technological processes on world trade patterns. Because in the end, competitive advantage will determine the power of a country or a commodity rather than its comparative advantage.

International trade is a positive game for Adam Smith. Criticizing mercantilism, [7] shows how all forms of government interference, such as granting monopolies, subsidizing exports, prohibiting imports, and regulating wages, can inhibit the natural growth of economic activity. In contrast, [7] revealed the advantages of specialization by region and country. Starting with reasoning like this, Adam Smith shows how every country can do much better economically by concentrating on what it can do best rather than following the mercantilist doctrine of national self-sufficiency.

[8], explain that comparative advantage arises from differences in labor productivity, but does not explain satisfactorily why labor productivity differs between countries. At the beginning of the twentieth century, an important new theory of international trade, the Heckscher-Ohlin (HO) model, was developed by two Swedish economists, Heckscher and Ohlin. Both argue that comparative advantage arises from differences in factor endowments. According to the HO model, there are two basic characteristics of a country and a product. Countries differ from each other according to the production factors they have. Goods differ from each other according to the factors required in their production.

Many manufactured goods go through a product cycle consisting of introduction, growth, maturity, and decline. So, the comparative advantage of these goods changes over time and from one country to another. The product cycle hypothesis begins with the assumption that stimuli to innovation are usually triggered by threats or opportunities in the market. In other words, companies tend to be stimulated by the needs and opportunities that exist in the nearest market, namely the home market. The home market plays a dual role in this hypothesis. The home market not only acts as a source of stimulation for innovation companies but also the preferred location for carrying out production [9].

From some of these opinions, it can be stated that competence is the basic character of a person which is based on knowledge, skills, and attitudes in a certain field so that someone can carry out a job and achieve extraordinarily. Competence is a fundamental characteristic of each individual associated with criteria referenced to superior or effective performance in a job or situation. There are five types of competency characteristics, which are described below [10].

### 3. METHOD

This study analyzes the variables that affect the competitiveness of the small and medium-sized woodcrafts industry in Bali. These variables include social capital, HR competencies, and digitalization technology. By examining these variables, it will be possible to analyze the causes of the decline in the competitiveness of the small and medium woodcrafts industry in Bali. In-depth analysis of the research variables to the full extent of the indicators is expected to provide a comprehensive analysis related to the causes of the decline in the competitiveness of the small and medium-sized woodcrafts industry in Bali so that policies can be taken to further improve the sustainable competitiveness of the small and medium-sized woodcraft industry. By Undiksha's research roadmap, especially about the theme of human development and national competitiveness, this study aims to produce findings in the form of a new theory related to improving the competitiveness of the small and medium-sized woodcraft industry in Bali. It is hoped that these findings will contribute to the framework as one of the bases for the government's new policy considerations in advancing the small and medium-sized woodcraft industry in Bali.

The study will simultaneously analyze its six independent variables to prove their effect on competitiveness. The research was carried out in 2020 with the research location in the small and medium-sized woodcraft industry in Bali Province. The population in this study were all woodcraft IKM players in Bali Province. To determine the number of samples selected using probability sampling, namely proportionate cluster random sampling, that is, if a sample of size  $n$  is drawn from a population of  $N$  magnitude, such that each unit in the sample has an equal chance of being selected in each cluster [11]. The data collection method used in this study is to use a combination of several methods, namely: 1) The observation method is a non-behavioral observation method to collect secondary data from related agencies. 2) Interview method, namely interviews conducted both structured and in-depth. Structured interviews are used to collect primary data which is carried out through interviews with respondents using a list of questions that have been prepared in advance. In-depth interview (in-depth interview), which is used to obtain primary data from representatives of relevant government officials who are competent to provide information by the objectives of this study.

To be able to achieve the research objectives, the data that has been obtained is analyzed by 1. Descriptive analysis, especially for qualitative dimensions/indicators; 2. Quantitative analysis, in the form of hypothesis testing using statistical tests. Quantitative analysis is used to reveal the behavior of

the research variables. By using a combination of the two analytical methods above, comprehensive generalizations can be obtained. In quantitative analysis, data were analyzed using multiple regression. For example, in PLS, the estimation of model parameters is carried out in 2 stages, namely: (1) the score of the construct/latent variable is calculated using the Heuristic Algorithm, and (2) the OLS method is applied to the scores formed to estimate equation parameters. The final step, namely in-depth analysis, involves all variables and indicators of research variables.

**4. RESULTS AND DISCUSSION**

The number of respondents used in this study was 100 respondents, all respondents were people who knew the task, authority, and function of being the owner of a wood handicraft business. Based on the results of filling out the questionnaire, the following is a description of the characteristics of the respondents in terms of gender, age, education, and years of service of respondents in the small and medium industry where the respondent works.

Based on the results of the analysis, the analysis shows that of the 100 respondents studied in this study, most of the respondents were between 30-40 years old (46%), while the remaining 11% of respondents were <20 years old, as many as 20% of respondents aged 20-30 years and 23% of respondents were >40 years old. This shows that most of the small and medium industry players in the wood handicraft sector in Bali are in their productive age.

In this research, descriptive analysis is not only used to describe the characteristics of the respondents, but also to see the description of social capital, HR competencies, and digitalization technology. Descriptive analysis of the value of each research variable was carried out by making a table of the frequency distribution of the respondent's score on each question item followed by calculating the average value of each indicator, dimension, and variable. Because the respondent's answer score is measured using a Likert scale of 1-5, the average value of the respondent's score on each indicator, dimension, and variable can be categorized into 5 categories, namely very high, high, medium, low, very low. Because the respondent's answer score in this study is measured with a scale of 1-5, the lowest score for the respondent's answer is 1 and the highest value is 5. Based on the lowest and highest values, the respondent's score range is 0.8 so that the score interval respondents' answers in each category are as follows:

The following are social capital, human resource competence, and digitalization technology in the woodcraft sector in Bali Province based on the results of

**Table 1.** Interval Categorization of Respondents' Answers Score

	Interval	Category
1	1 - 1,8	Very Low
2	1,8 - 2,6	Low
3	2,6 - 3,4	Moderate
4	3,4 - 4,2	High
5	4,2 - 5	Very High

filling out the questionnaire: all of these questions are related to the social capital owned by the small and medium-sized woodcraft industry in Bali Province. The following is a description of the social capital of the small and medium-sized wood handicraft industry in Bali Province based on the results of filling out the questionnaire:

Based on the results of the descriptive analysis that the average score of respondents' answers tends to be high, this shows that most of the small and medium industry players in this study have high social capital, this is especially in terms of taking a friendly, warm, and personal approach. various parties to build trust.

This study uses an instrument in the form of a questionnaire that has previously been through a trial process. The instrument trial stage in this study used google form due to the Covid-19 pandemic condition which was difficult to conduct the direct distribution of questionnaires, and the validity and reliability tests were directly measured using the research sample.

The validity test used in this study was the validity test using the corrected item-total correlation with the help of the SPSS program, while the reliability test used in this study was the Cronbach's Alpha reliability test which was carried out by looking at the Cronbach's Alpha value of each instrument. Validity testing using the corrected item-total correlation is carried out by comparing the calculated r-value and r table at the n-2 degrees of freedom at the 5% significance level [12]. Based on the results of the comparison between the r-count and r-table, if the rcount> r-table then the item or question or indicator is declared valid, whereas if r-count <rtable then the item or question or indicator is declared invalid. The number of samples in this study was 100 respondents, so that the r-table value to be compared with the r-count value for each question item was 0.355 (r table at n=100 and a significant level of 0.05), thus the question item was declared valid if rcount >0.355 and the question item is declared invalid if r-count <0.355. Based on the results of data analysis, it shows that all question items in the research instrument have rcount >0.360 which indicates that all question items are valid and can be used to measure research variables. After all the question items are

proven valid, the test is continued to the instrument reliability test. In this study, the reliability test was carried out using the Cronbach's Alpha reliability test. In this test, the instrument is declared reliable if it has a Cronbach's alpha  $>0.7$ .

Based on the reliability test results, the test results show the Cronbach's alpha value of all instruments  $> 0.7$  which indicates that all instruments are quite reliable in measuring the research variables. In this study, testing the effect of social capital, human capital, and digital technology on the competitiveness of small and medium industries will be analyzed using multiple linear regression analysis techniques. Before the regression analysis, the data were tested using several classical assumption tests, which included tests for normality, heteroscedasticity, multicollinearity, and autocorrelation. After all, assumptions are met, the test is continued to test the regression model which includes the t-test and the coefficient of determination.

The classical assumption test in multiple linear regression analysis includes a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The following are the results of the regression model classic assumption test that will be estimated in this study:

According to [12] the multicollinearity test aims to test whether the regression model found a correlation between independent (independent) variables. To test for multicollinearity by looking at the VIF value of each independent variable, if the VIF value is  $<10$  and tolerance  $>0.1$ , it can be concluded that the data is free from multicollinearity symptoms. The heteroscedasticity test aims to test whether the regression model is not unequal invariance from one observation to another. The heteroscedasticity test can be done statistically, namely by using the Glacier Test. In this test, the model is declared free from heteroscedasticity if the significance value of all independent variables is  $>0.05$ .

The results of the Glacier test show that all independent variables have a significant value  $>0.05$ , which means that there is no heteroscedasticity in the regression model. The absence of heteroscedasticity in the regression model can also be seen from the scatterplot graph of the data distribution that spreads and does not form a certain pattern. An autocorrelation test can be done by looking at the value of the Durbin Watson. Durbin Watson's value exceeding 2 indicates that the regression model is free from autocorrelation. The results of multiple linear regression analyses include the results of the partial effect test (t-test), simultaneous effect test (F test), and the coefficient of determination (R square). Partial test results (t-test) can be used to test the research hypothesis.

In multiple linear regression analysis, the partial test (t-test) is used to test the partial effect of each

independent variable on the dependent variable. The test hypothesis used in this test is as follows:

H<sub>0</sub>: the independent variable partially does not affect competitiveness

H<sub>a</sub>: the independent variable partially affects the competitiveness

Through the 95% confidence level, H<sub>0</sub> will be rejected if the significant value is  $<0.05$  and H<sub>0</sub> will be accepted if the significant value is  $> 0.05$ . Testing can also be done by comparing the t table, the number of respondents in this study was 31 respondents with the number of variables studied as many as 4 ( $n=100$ ,  $k=3$ ), so that the df for t table is equal to  $df=n-k=100 - 4=96$ , the value of t table at a significant level of 0.05 with  $df=96$  for a two-way test is 1.703, so that H<sub>0</sub> will be rejected if t count  $>1.703$ .

Based on the results of the partial test on the test table, the following results were obtained:

- 1) The significant value of the influence of the social capital variable on competitiveness is 0.002 with t-count of 3.942 and the regression coefficient is positive at 0.415. Because the significant value obtained is  $<0.05$ , t count  $>$  t table is 1.703 and the regression coefficient is positive, H<sub>0</sub> is rejected and it is concluded that social capital has a positive and significant effect on the competitiveness of small and medium enterprises. This shows that the higher the social capital, the higher the competitiveness of small and medium enterprises. Furthermore, the path coefficient value of 0.415 indicates that the contribution of social capital to competitiveness is 41.5%.
- 2) The significant value of the influence of the human capital variable on competitiveness is 0.004 with t-count of 3.023 and the regression coefficient is positive at 0.356. Because the significant value obtained is  $<0.05$ , t count  $>$  t table is 1.703 and the regression coefficient is positive, H<sub>0</sub> is rejected and it is concluded that human capital has a positive and significant effect on the competitiveness of small and medium enterprises. This shows that the higher the human capital, the higher the competitiveness of small and medium enterprises. Furthermore, the path coefficient value of 0.356 indicates that the contribution of human capital to the competitiveness of small and medium industries is 35.6%.
- 3) The significant value of the influence of the digital technology variable on the competitiveness of small and medium enterprises is 0.026 with t-count of 2.667 and the regression coefficient is positive at 0.271. Because the significant value obtained is  $<0.05$ , the absolute t count  $>$  t table is 1.703 and the regression coefficient is positive, H<sub>0</sub> is rejected and it is concluded that digital technology has a positive and significant effect on the competitiveness of small and medium enterprises. This shows that the higher the application of digital technology, the higher the

competitiveness of small and medium enterprises. Furthermore, the path coefficient value of 0.271 indicates that the contribution of transaction costs to the success of MSMEs is 27.1%.

Based on the results of the regression analysis, the regression constant was 7.524, the social capital variable regression coefficient was 0.415, the human capital variable regression coefficient was 0.356 and the digital technology variable regression coefficient was 0.271. Based on these values, the regression equation between all independent variables on firm value is obtained as follows:

$$Y = 7.524 + 0.415 X_1 + 0.356 X_2 + 0.271 X_3$$

Information:

Y=competitiveness of small and medium industries

X1=social capital

X2=human capital

X3=digital technology

In multiple linear regression analysis, the coefficient of determination shows the simultaneous influence of the independent variables on the dependent variable. The coefficient of determination is seen from the value of R Square.

The results of the regression analysis in the table above show that the R Square value of the regression model is 0.825 and the adjusted R square is 0.781. This shows that the contribution of social capital, human capital, and transaction costs to the success of MSMEs is 78%, while the remaining 22% of the variance in the competitiveness of small and medium industries is influenced by other factors outside of social capital, human capital and digital technology. This study has 3 hypotheses that will be tested based on the results of regression analysis, the following is a summary of the results of hypothesis testing in this study:

Based on the results of the descriptive analysis, the results of the analysis show that the average score of respondents' answers tends to be high, this indicates that most of the small and medium industry players in this study have human capital that tends to be high, this is especially in terms of education. Most of the small and medium industry players have education by their work, to increase the human capital of the small and medium industry players it is necessary to do the following: (1) Small and medium industry players should have education by their field of work; (2) Small and medium industry players should take part in training to hone their skills in running a business; (3) Small and medium industry players should be able to apply ideas obtained from their experience and (4) Small and medium industry players should increase their knowledge in their field of work.

#### ***4.1. The Effect of Social Capital on the Competitiveness of Small and Medium Industries***

The results of the analysis in this study indicate that the significant value of the influence of the social capital variable on the competitiveness of small and medium industries is 0.001 with a regression coefficient that is positive as large as 0.415. Because the significant value obtained is <0.05, t count> t table and the multiple regression coefficients are positive, Ho is rejected and it is concluded that social capital has a positive and significant effect on the competitiveness of small and medium industries. This shows that the higher the social capital, the higher the competitiveness of small and medium industries. Furthermore, the path coefficient value of 0.415 indicates that the contribution of social capital to the competitiveness of small and medium industries is 41.5%.

Based on the total score of the research conducted, the questionnaire statement on the social capital variable "I set aside some of the profits for the surrounding community" is the statement with the lowest score. According to the results of interviews conducted by several business actors who have not set aside for the community, the profits obtained are used for operations such as paying employee salaries as well as for raw materials, and profits are also used for living expenses. Business actors also think that sometimes business actors participate in making contributions when a community asks for donations such as donations for natural disasters. Business actors should give more roles to the community in the environment where their business is located because by giving more roles, the business they are running will be smoother and more successful.

The statement "I can take a friendly, warm and personal approach with various parties to build trust" is the statement with the highest score. This shows that business actors who have friendly service to various parties are the biggest contribution to business success. In line with the results of interviews, business actors stated that friendly service made the business run smoothly. Business actors think that the customer is king, whatever the customer asks, they always try to serve optimally, from the start of manufacture, the manufacturing process, until the goods arrive at the customer.

The results of this study are in line with the results of research conducted by [13] with the title of research on the influence of social capital, human capital, and entrepreneurial competence on entrepreneurial success (a study of small and medium business entrepreneurs. [14] state that business actors who have high social capital will provide an effective boost in business development. In contrast, when a business actor has low

social capital, it will hamper the development of the business he has already undertaken.

In line with [15] opinion, what is done in entrepreneurship and business will develop rapidly if it can use social capital in entrepreneurship. Social capital is everything that involves communication, networking, and cooperation in society to achieve a better quality of life, with certain elements. The results of this study are also by the theory put forward by [16], in the core theory of success it is stated that when a collaborative relationship will increase high morale, mutual respect, and trust. [17] social capital can take advantage of potential opportunities to encourage innovation. Furthermore, this innovation will then lead to business success. The results of [18] research also show that social capital has a significant effect on the success of micro, small, and medium enterprises in the Banjarsari sub-district. The development of MSMEs is correlated with the ability to innovate and does not have to put aside existing social capital elements to ensure its sustainability. Social capital can be said to be a resource that is inherent in social relationships and can be explored and used for several specific purposes, but social capital is intangible. Social capital is a conceptual means of understanding the theoretical orientation of social action by linking components from a sociological and economic perspective (Syahra, 2003). Social capital has been used to explain a variety of topics, such as economic growth, school performance, company dissolution, organizational profit, entrepreneurial success, country-level innovation, supplier performance, and innovation performance [19][20].

Reference [21] states that if the business gets the trust of stakeholders, then the business will get unlimited opportunities to grow and develop and achieve success. The results of the analysis in this study show that the picture of the social capital of the painting industry in Buleleng Regency is good, this is especially in terms of taking a friendly, warm, and personal approach with various parties to build trust.

#### ***4.2. The Effect of Social Capital on the Competitiveness of Small and Medium Industries***

The results of the analysis in this study indicate that human capital has a positive and significant effect on the competitiveness of small and medium industries. This shows that the higher the human capital, the higher the competitiveness of small and medium industries. Furthermore, the path coefficient value is 0.356, indicating that the contribution of human capital to the success of MSMEs is 35.6%.

Based on the total score of the research conducted, the questionnaire statement on the human capital variable "I like to apply the ideas I get from experience"

becomes the statement with the lowest score. The results of the interview show that business actors in the process of conducting business are still adjusted to customer requests, not based on ideas obtained from past experiences. However, there are business actors who also apply ideas obtained from the past. Business actors should continue to apply ideas from past experiences to increase creativity in thinking and processing.

The statement "I generally have education by my field of work" is the statement with the highest score. Looking at the descriptive results of education, in general, it is classified as high and capable of the work carried out by business actors. This was confirmed in interviews with several business actors who were art graduates. This indicates that the education of business actors is by their work, namely the painting industry business. Education greatly affects the way a person thinks about running a business.

Apart from social capital, human capital is also a factor that influences business success. According to [22], human resources are part of an important factor to consider the success of a business. Human capital is a dimension of intellectual capital based on human knowledge and experience, and it will affect the value of the MSME industry by influencing other elements. A business actor who has experience in industrial management, the higher the level of knowledge he has. This is what makes the added value of an SME industry increase. Also, knowledge can be continuously improved by following special training to improve competence. The higher a person's competency level, the more likely they are to improve their ability to manage the SME industry, to increase competitiveness.

#### ***4.3. The Effect of Digital Technology on the Competitiveness of Small and Medium Industries***

The results of the analysis in this study indicate that transaction costs have a positive and significant effect on the competitiveness of small and medium industries. This shows that the higher the application of digital technology by small and medium industry players, the higher the competitiveness of the small and medium industries. Furthermore, the path coefficient value of 0.271 indicates that the contribution of transaction costs to the success of MSMEs is 27.1%.

Based on the total score of the research conducted, the questionnaire statement regarding the variable application of digital technology "the technology I use during the marketing process and designing products is classified as high" is the statement with the highest score. Business actors argue in interviews that the marketing process and product design are not always low and there are times when the process is high in implementation. It is best if business actors can apply

technology in the marketing process and product design because it will affect business success.

Based on the results of the descriptive analysis in this study, the results of the analysis show that the average score of respondents' answers regarding the total costs required for the process of disbursing information, negotiations, and final agreements tends to be high, this shows that most of the business actors in this study have a high digital technology implementation. The factors that affect the high implementation are as follows: the high application of information technology is due to the ability of creative industry players to take advantage of advances in information technology by browsing the internet related to their various production needs. Also, the high cost of communication is due to the use of cheap telephone package content provided by telecommunications providers. Low costs in the bargaining process are caused by more negotiation activities carried out via chat on social media applications, communicating using cheap telephone packages.

## 5. CONCLUSION

Woodcrafts industries is one of the export commodities in Bali. Therefore, its competitiveness has to be improved significantly. Throughout this research, we found that small and medium woodcraft industries were affected by social capital, human capital, and digital technology; thus, those three factors has to be the main focus for the development of the industries.

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