

Key Factors Contributing The Success of Informal Sector Business Owners in Makassar

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Abstract: The purposes of this research are to investigate the key factors contributed to the informal sector businesses success, how the key factors formed, and how unique the key factors contributed to daily profit. The research was undertaken in Makassar City, South Sulawesi, Indonesia by asking 450 respondents using listed indicators mentioned in questionnaires, observing the informal sector businesses in several streets in Makassar and asking the participants to list the important indicators which are believed to be important in making informal sector business success. The collected data were analyzed using multidimensional scaling analysis to classify the class of indicators. The research concluded that there were several aspects contributed to the success of informal sector businesses. Firstly, the use of equity is the most important indicator in financial aspect, the owners tended to refuse the use of debt. Secondly, in environment aspect, the owners identified that choosing good place, approval place by the government, neighbor skills watching, be aware of removal by the taskforce, training and technical support and keeping in touch with current technology were very important. Thirdly, the marketing aspect, the respondents emphasized in service quality, the quality of the product or services and performed the special treatment to customers in order to achieve the success. However the informal sector did not over service guarantee and did not believe that selling other owners' product could contribute to success of the business.

Keywords: informal sector, entrepreneurial, environment, multidimensional, financial

Big economic crisis hit Indonesia in 1997, caused lot of economic problems and many people became unemployed. The unemployment rate reached 10% of the total of Indonesian population, which more than 10 million people are jobless.

Some of the Indonesian workers tried to become self employed even though they tried to survive by setting the temporary productive activities in informal sector, the workers did not satisfy with the work that they involved.

More people tried to work in informal sector in keeping themselves to survive in recession. The informal sector is one solution in supporting family life while hunting opportunities to work in formal sector.

The purposes of the article are to investigate the performance of informal sector affected by the implementation of management function in financial aspect, marketing aspect, human resources management, environmental aspect and entrepreneurship skills.

Literature Review

Many study has been undertaken to investigate the success of informal sector business which contributes to national economy (Tambunan, 2000) as the small business is the part of business which able to survive during economy crisis in Indonesia. The informal sector contributed significantly in creating job opportunity, and maintaining economic activities going well during the crisis. More people are relying in informal sector to support family life as consequence of lacking access to get more funds from banks or other financial institutions.

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Informal sector is a marginal business because of lacking in facilities, unorganized place of businesses, targeted by government official task force to be removed, especially the traders who occupied public space and side of the highway or main road. This place tended to be seen as illegally for traders. In contrast, the informal sector has been charged for local government fee and any other duties which are setup by local government rules. The government faced dilemma in handling the informal sector, in one hand, informal sector has been blamed as unorganized sector which is causing traffic jams (Arief, 1996), because they used the sides of road to operate the businesses which is space suppose to be used by pedestrian and on the other hand the government required them to pay retribution cost to increase local government revenue as the consequence of using government facilities.

Even though the local government used local government officers as task force to prevent more people entering business in informal sector, every year the number of new informal sector workers has increased rapidly in Makassar. In 2000, the number of workers in informal sector approximately 57 000 units of businesses, and 2007, the number increased to 100 000 (South Sulawesi Statistics Bureau, 2007).

Cost of setting up small business operating as informal sector is less than cost of setting the small firm or even micro firm. To start small business for noodle with movable only need 5 million rupiah (Kompas, January 2008), which is quite affordable to almost everybody who used to work in other business and thinking to become self employed. Low funds needed to set new business up making less financial barriers to enter the informal sector business. The previous survey shown that most businesses in informal sector, were set up because of self interest, less barriers to entry and some of them established the same business with their parents (Syamsu Alam, 2005). This makes the sector more attractive as stepping stone to move to well established businesses when funds available.

The spirit of entrepreneurship for tribes Buginese and Macassar has been there for the ages, which make these tribes gained strong motivation in doing business well and value the job or professions as very

important status in the society. The value of local people toward job is very important, push the unemployed have to find job even in informal sector.

Family care to relatives which is common in South Sulawesi's culture, seems to give positive chance to access funds for the initial investment in informal sector. In south Sulawesi tribes, especially the Buginese, entrepreneurship is very popular to be directed to young generation as part of parent dignity if the parents have success son (JBIC, 2007), even the owner of informal sector need to have local value such as *sugi* (full of idea), *kanawa-nawa* (have vision), *warani* (risk seeker), and *malempu* (honest) in order to achieve sustainable businesses' performance (Sulaiman, 2006).

The condition in Makassar City with 1.4 million population, (local Statistics Bureau, 2005) making informal sector would face the crowded places to sell the product. Busy people would visit the informal sector to have lunch and dinner with reasonable price would make the traders could wait at the place to service the customers.

Although the city is quite crowded, the traders need to work hard to maintain the good contact with the customers because many traders offer similar products and services with the same price. Informal sector facing high competition and threat from the local taskforce disciplined (Satpol PP) for place utilities reason as the consequence of using public space to sell product and deliver the services which have to be used for pedestrians. According to Alam (2005), the informal sector businesses agree to pay retribution, any illegal payment and ready to be removed by the authority as the consequence of the traders occupied the illegal and strategic public space in the side of the road in the main city of Makassar.

Business environment in Makassar is quite prospect, because every product could be sold quickly as more potential customers would pass the business centre area. The majority of informal sector provides product for basic need of the society and achievable price (Arief, 1996) would give chances to the new traders to choose the type of product should be sold. Therefore the new traders would have chance to learn and identify the prospect businesses before they starting doing the businesses. Although informal sector is easy to follow but barrier to entry is still exists.

Informal sector tended to be blamed as source of waste, which made the city become dirty and crowded, as mentioned in (Arief, 1996) that the informal sector produce waste in a very big volume which contribute to chaos in waste management that destroy environment balances. It is important to refer the characteristics of entrepreneur mentioned by scholars that entrepreneurs, driven by an intense commitment and determined perseverance, work very hard. They are optimists who see the cup as half full rather than half empty. They strive for integrity. They burn with the competitive desire to excel. (Kuratko and Hodgetts, 2001). The mainstream of spirit of Macassar and Buginese value that the entrepreneurs seek for challenging tasks to support the need of the family, made these tribes tended to try any types of businesses which suitable their skills, (Ohe and Rakhman, 2007). The issue of job and social status it is quite essential to ensure that the young generation must have job and making money as the symbol of success. Working hard and spend wisely are very essential to get success in business for Buginese (Fajar 7 February 2008). The complicated aspect of informal sector ensures the researcher to investigate the crucial aspects needed to be considered in achieving appropriate profit. Although the indicators employed in informal sectors research very depending on the condition of the businesses environment (Coopers & Schindlers 2001), it is wise to believe that in South Sulawesi case, trust is one very important aspect need to be considered to build marketing relationship. As (Ulaga and Eggert, 2006) mentioned in their research that in the relationship marketing, the supplier concerns on value, satisfaction, trust, commitment, expansion, leaving. They found that relationship value is positively correlated with relationship quality and the standardized path coefficient of 0.57, relationship value has the strongest impact on satisfaction (Ulaga and Eggert, 2006:319).

METHODS

Several steps were taken in developing this survey instrument. In a first step, depth-interviews were conducted with forty five owners in informal sector businesses in ten various products and services who operating in location of Makassar Mall, Pettarani street, Alauddin Street, Cenderawasih Street in

Makassar. The interview explored several aspects considered by the owner in operating their businesses which contributed to keeping the businesses going on in high competitive environment. The aspects were believed to be very important aspect to deal the businesses well were asked to respondents in order to confirm the construct. Majority of respondents in this stage pointed out the several aspects mentioned in the literature review are believed to be important for them in keeping the business success even the business could sustain.

In the second step, construct definitions and a list of items tapping each construct's underlying dimensions were developed based on the analysis of previous interviews and a review of existing literature. Both definition and items were then asked to the owner to gather the responses how important the aspects are with the employ of Likert scale 1 to 5. The questionnaires tests were undertaken to 45 informal business owners. The gathered data were analyzed for factor analyses to confirm whether or not the construct could be applied to the whole samples.

In a third step, a questionnaire prototype was developed. The survey instrument was composed of two parts. The first part the respondents were asked to describe their business profile where the respondent were asked to give their profile including name, product, age, education background, address, district of origin, members of the family, married status, motivation in doing business, place status, side job, number of workers, the number of original capital, existing assets, daily volume of sales, daily profit, the use of debt, source of capital. In the second parts, the respondents were asked to give the score how important the listed aspects need to be included in the success of their businesses. These aspects are financial aspect, environment aspects, marketing aspect.

The research was undertaken in Makassar City, South Sulawesi, Indonesia to 450 informal business people in fifteen types of businesses. The samples were selected by purposively due to easy to access, convenience place to visit and easy to communicate with the owner. The collected data were analyzed in factor analysis in selecting the relevant items and the multidimensional scaling analysis. The multidimensional

scaling would investigate the differences in responses toward indicators asked and how the indicators formed the class based on their level of dimension index.

RESULTS

Based on the research method, identified variables and indicators selected by the respondents shown in the results in detail in the sequence tables, indicated the variation of responses. The respondent's responses indicated in mean and the standard deviation, whereas anti image correlation is used to ensure that mentioned indicators are statistically sound to be included in the further analyses.

The following tables shown the respondents' responses to listed of indicators and the iteration history and three dimensional results for the use of multidimensional scaling analyses.

Financial Aspect

Fifteen items were included in the analysis, in table 1 shows the result of multidimensional scaling of financial aspect. The stress measure indicates the proportion of variance of the disparities not accounted for by the multidimensional scaling model. Kruskal's stress is most commonly used to measure for determining a model's goodness of fit (Hair et.al. 1998). Table 2 indicated that only 4.41% of the proportion of variance of the scaled data (disparities) in the partition is accounted for by their corresponding distances.

Table 1 shown that the highest score given is 6.86 (*I would rather use equity than seeking debt*) F3 which indicated that the entrepreneurs believed that using equity is the most important aspect. This statement is consist of the fact that using debt is less important (2.78) F2 as shown in the lowest score given by the entrepreneurs. The other fourteen indicators were seen to be in very high score, which indicated that the indicators were scored important by the respondents. The table also outlined six items have standard deviation are greater than 1 and all of the fifteen items have anti image correlation are higher than 0.50 in which all item included for multidimensional scaling analysis.

For multidimensional scaling analyses, it is found that three items (F2), (F3), and (F6), are situated in very strong in dimension 1. Three items (F4), (F5), and (F7), are very strong in dimension 2. Two items (F8), and (F12), are very strong in dimension 3.

The figure shown that among fifteen indicators were asked to informal sectors to evaluate how important the financial aspects need to be included in the thoughts, there were three main groups were formed. F1, f2, f3, f4, f6 f10 were located in the same dimension. While f8, f9, f12, f13, f14 and f15 were close to each other in dimension 3 and F5, f7, f11 were situated in the same dimensions.

Environment Aspect

Derived Stimulus Configuration

Euclidean distance model

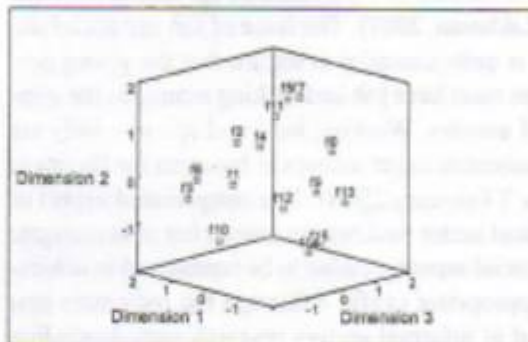


Figure 1 The Multidimensional scaling for financial aspect rating by informal sector businesses

(Source: Developed for this research)

Eighteen items were included in the analysis, the multidimensional scaling iteration history indicated that three iteration were performed to calculate the stress of 43.95% with the improvement results of 0.00042. Table 4 shows twenty five matrices were formed to achieve the average stress of 0.30200 and only 8.77% of the proportion of variance of the scaled data (disparities) in the partition is accounted for by their corresponding distances.

Table 2 indicated that the entrepreneurs believed that a good place is very important aspect (6.90) to be considered whereas the respondents did not agree (2.26) to pay illegal payment for security reasons. The variations of responses were quite high to four items. The highest score (SD 2.699) for state-

Table 1 Entrepreneurs' Responses to Financial Aspect and Stimulus Coordinate

Indicators (Stimulus Name)	Mean	SD	A Image	Dimension		
				1	2	3
F1 Capital is very essential in my business	6.79	0.984	0.566	-.5891	.2901	-1.7688
F2 I would rather use debt than equity	2.78	2.308	0.555	1.2145	.4818	.1367
F3 I would rather use equity than seeking debt	6.86	0.693	0.851	1.1497	-.4187	-1.3541
F4 The role of funds is very important in sustainability	6.78	0.925	0.910	-.8302	1.0307	-1.2299
F5 The growth of sales would increase profit and my capital	6.85	0.691	0.868	-.3805	1.7348	.0188
F6 It is very important to use funds differently for personal or family expenses and business expenses	6.80	0.764	0.913	1.6377	-.2499	-.6169
F7 The business supporting my family life	6.76	0.895	0.866	.1982	1.4614	.9597
F8 I received mentoring from debt provider or expert	5.61	2.139	0.797	-.0032	.2193	1.7128
F9 Whenever I achieve the substantial profit I would like to increase my assets	6.36	1.130	0.907	-1.7310	.0967	-.4813
F10 It is very difficult to seek fund at bank	6.07	1.539	0.667	.7134	-1.3137	-.8826
F11 I emphasizes my budget for working capital or tool expenses	6.76	0.892	0.876	.9405	.9342	.9856
F12 I use personal expenses very tight	6.77	0.900	0.880	.8145	-1.0203	1.1046
F13 I prefer to spend money to sustain my business	6.64	0.802	0.823	-1.6063	-.3173	.5220
F14 If I have substantial profit from this business I would like to seek other type of business	6.55	1.031	0.881	-.7579	-1.5043	.2978
F15 The use of other people funds will make financial problem	6.35	1.530	0.921	-.7704	-1.4248	.5957
Stress and Square Correlation	0.04416					

(Source: Developed for this research)

ment "training skills would help me to develop my businesses, followed by the statement "I received advice from relevant department to sustain my businesses (SD 2.628). The item of E 17(SD 2.357) and E16 (SD 2.243) indicated the contrast responses because some respondents rated a little high making SD of two item were high.

In multidimensional scaling analysis, in dimension 1 there were six item (E4, E10, E12, E13, E14 and E15) very strong, and for dimension 2 only three items (E12, E17, E18) were very strong. Three items (E9, E11 and E15) very strong in dimension 3. Whereas as shown in figure 2 the Euclidean distance model indicated there were six classes were formed

Table 2. Entrepreneurs' Responses to Environment Indicators and Stimulus Coordinate

Indicators (Stimulus Name)	Mean	SD	A Image	Dimension		
				1	2	3
E1 Members of family support my business	6.14	1.484	0.824	-.6828	.4593	-1.5700
E2 It is necessary to have well place to sell the product	6.90	0.400	0.854	.4575	-.0606	-1.7727
E3 I would rather to sell product at crowded place	6.81	0.795	0.830	-.8117	-.4075	-1.5249
E4 My business partner are honest	6.43	1.125	0.842	1.3545	-.6421	-1.0131
E5 It is easy to find the products which I would sell around the place	6.36	1.380	0.840	-1.5159	-.9347	.3167
E6 It is very important to observe the neighbors skill to serve customer	6.89	0.563	0.833	-1.0028	.6956	-1.3861
E7 The weather affect volume of sales	6.56	1.385	0.706	-.2144	-1.7334	.0433
E8 I always seek the place which is being approved by the government	6.80	0.869	0.758	-.4298	-1.5929	.6735
E9 I always pay daily charge for the place	6.53	1.318	0.814	-.0587	-1.4070	1.0709
E10 Removal business place by the taskforce would make business loss	6.66	1.262	0.699	1.0903	-1.3647	-.0182
E11 I received advise from relevant department to sustain my business	4.96	2.628	0.636	-.1761	.6247	1.5022
E12 Training skill would help me to develop my businesses	4.71	2.699	0.663	1.1126	1.1787	.0815
E13 Security system is necessary to support the business	5.76	1.801	0.695	1.4808	.6818	.2247
E14 Paying safety cost is necessary	6.14	1.723	0.786	1.4417	.7677	.3017
E15 Technical assistance is needed to develop the business	6.31	1.530	0.710	1.1306	.5446	1.0876
E16 The relevant department is important to help my business	5.05	2.243	0.817	-1.4040	.7210	.6331
E17 I agree to pay illegal payment for security reasons	2.26	2.357	0.680	-.9525	1.2577	.5767
E18 I have to keep in touch with current technology	6.53	1.327	0.664	-.8191	1.2117	.7731
Stress and Square Correlation	0.0877					

(Source: Developed for this research)

in three dimension model which represented the response of sample toward the listed items. First class consist of e1,e6 and e15, followed by second class e2 and e4. The third class were formed by e3 and e10 and the fourth class were formed by e5,e7, e8 and e9. While the fifth class were consist of e12,e13 and e14 and the final class were formed by e11, e16,e17 and e18.

Table 3 shown the multidimensional scaling iteration history indicated that four iterations were performed to calculate the stress of 0.00725 with the improvement results of 0.00086. The table also shows the average matrices of 0.003673 and 99.79% the proportion of variance of the scaled data (disparities) in the partition is accounted for by their corresponding distances.

Table 3 presents the sample responses to marketing aspect, standard deviation, anti image correlation and multidimensional scaling results. The table

Derived Stimulus Configuration

Euclidean distance model

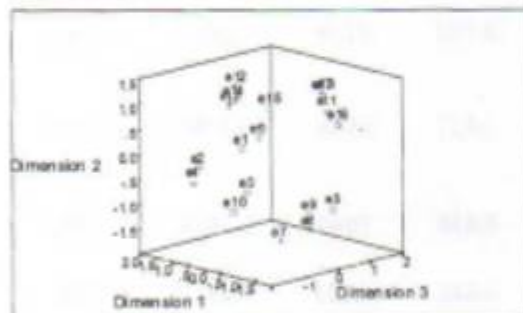


Figure 2

(Source: Developed for this research Marketing Aspect)

indicated that the highest score given to three items (*M9*, *M10* and *M11*); and the lowest score given to *M15*, while the respondents gave the moderate score to *M6*.

Multidimensional scaling result shows that three items (*M9*, *M10* and *M11*) are little strong in dimension 1, whereas in dimension 2, only *M6* is very strong. The item *M7* is the only item with quite strong position in dimension 3.

Figure 3 described derived stimulus configuration Euclidean distance of marketing aspect which indicated that only two main classes were formed by marketing aspect. The first class consists of *M1*,

M2,*M3*, *M4*, *M5*,*M8*,*M9*, *M10*,*M11*,*M13*,*M14* and *M16*, which indicated that the respondents believed these items are similarly important. The second class consists of *M7* and *M12* which were seen that entrepreneurs need to concern on promotion and inventory. *M15* and *M6* are stand alone indicators which are classified as unique indicators.

CONCLUSION AND IMPLICATION

Majority of informal sector owner believed that the use of equity is most important in supporting business success and they tended refuse the use of debt. The owners also thought that fund discipline, family support, financial mentoring, and the use of fund wisely are also very important. Therefore some of the indicators could also be applied in formal sector or entity business which is appropriate to any type of businesses.

Derived Stimulus Configuration

Individual differences (weighted) Euclidean distance r

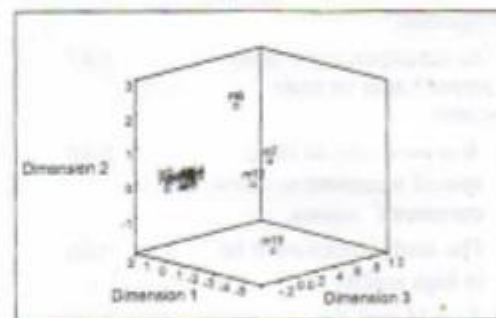


Figure 3

(Source: Developed for this research)

Indicators in environment aspects that contributed the success of informal sector owners are choosing good place, approval place by the go-vernment, neighbor skills watching, be aware of removal by the taskforce, training and technical support and keeping in touch with current technology. The informal sector businesses success depends on ability to adjust well with business environment.

The role of government protection to keep informal sector operate in good location would hel the owner to sustain their businesses.

The owner of informal sector believed that maintaining attention to marketing aspect in terms of

Table 3. Entrepreneurs' Responses to Marketing Indicators and Stimulus Coordinate

Indicators (Stimulus Name)	Mean	SD	A Image	Dimension		
				1	2	3
M1 Market is very competitive	6.76	0.911	0.882	.6328	-.0639	-.0982
M2 It is not easy to sell the ready stock	6.63	1.064	0.788	.5908	.1278	.3026
M3 The supplier ready to deliver the product when asked	6.64	1.014	0.882	.5789	.0189	-.0669
M4 The price is important to ensure the product sold out	6.76	0.851	0.899	.6246	-.0793	.0252
M5 The price is determined based on acquired price	6.58	1.181	0.881	.4916	-.0584	-.3019
M6 Most of inventory are belonged to other business owners	4.61	2.628	0.783	-2.3448	2.5281	-.0356
M7 It is necessary to introduce the product to potential customers	6.45	1.448	0.831	.3777	.0305	.8100
M8 I concern about customers' complain and suggestion	6.79	0.858	0.858	.6385	-.0915	-.0524
M9 The customers need to be served based on their wishes	6.87	0.521	0.792	.7154	-.2017	-.0640
M10 It is necessary to have special treatment to know customers' wishes.	6.86	0.636	0.827	.6966	-.1782	.0155
M11 The ready stocks must be in high quality	6.86	0.559	0.850	.7040	-.1914	-.0690
M12 I could seek the inventory anytime	6.32	1.336	0.846	.1221	-.4545	.5788
M13 Those customers who bought more could have a discount	6.54	1.086	0.777	.3020	-.0634	-.1877
M14 I have advertised my product to potential customers	6.66	1.131	0.827	.5821	.0288	.0037
M15 I offer service guarantee to sold product	2.62	2.449	0.533	-5.3265	-1.2293	-.1542
M16 I always look opportunity to seek a new market	6.71	1.038	0.877	.6143	-.1225	-.1008
Stress and Square Correlation	0.9979					

(Source: Developed for this research)

inventory arrangement and keeping customer for good relationship would help them to gain more profit.

The owner of informal sector rated very high in service quality, the quality of product and services and performed the special treatment to customer in order to achieve the success. However the informal sector did not over service guarantee and did not believe that selling other owner's product could contribute to success of the business.

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