

# The Role of Empowerment in Improving the Performance of Food-Based Informal Industries in Bandung Regency, West Java, Indonesia

Anne Charina<sup>1</sup>, Rani Andriani Budi Kusumo<sup>2</sup>, Hepi Hapsari<sup>3</sup>

## Abstract

*Informal industries are prevalent in developing countries such as Indonesia. However, due to their unofficial nature, these industries face numerous challenges, including limited access to capital, low-skilled human resources, and insufficient technology and market information necessary for business growth. This research focuses on Ciparay, Ibum, and Majalaya—three sub-districts with the highest concentration of informal industries in Bandung Regency, West Java Province, Indonesia. The study aims to analyze empowerment's role in enhancing informal industries' performance in Bandung Regency. A random survey was conducted with 115 food-based informal industry entrepreneurs, and data were analyzed using the PLS-SEM. Findings indicate that empowerment indirectly influences business performance through entrepreneurs' characteristics, managerial skills, and business knowledge ( $b=0.445$ ). Entrepreneurial competence among informal entrepreneurs improves with empowerment programs, leading to enhanced industry performance. Based on these results, several policy recommendations are proposed: (1) strengthening entrepreneurial attitudes through training and mentoring, (2) enhancing managerial skills through practical support, (3) expanding business knowledge through digital literacy, and (4) creating an integrated empowerment ecosystem involving government, financial institutions, and private sector. Implementing this policy is expected to support the growth of the informal industry sector, and increase the contribution of the local economy in Bandung Regency.*

**Keywords:** *Empowerment, Informal Industry, Entrepreneurial Competence, Business Performance.*

## Introduction

The informal sector plays a vital role in the national economy, particularly in developing countries like Indonesia. Although often perceived as less structured and organized, the informal sector significantly impacts economic sustainability and community welfare (Chen, 2006). Manning and Tadjudin (1996) noted the longstanding development of this sector in Indonesia, driven by factors such as market demand, unemployment, and urbanization. In many countries, the informal sector encompasses diverse activities, including street vendors, home industries, and various micro and small industries (Chen, 2006).

Over 50 percent of Indonesia's population has worked in the informal sector over the past five years (BPS, 2023b). This sector contributes to job creation and economic equity (Ayanda, 2011; Sutanto & Sudantoko, 2012). While its GDP contribution is smaller than that of large enterprises, the informal sector provides more than 60 percent of employment opportunities (BPS, 2023a), serving as a primary employment source for individuals with limited access to formal jobs (Chen, 2006; Portes et al., 1989; Riwayati & Manuel, 2022; T. Tambunan, 2019). Examples from developed countries, such as Taiwan and Japan, also highlight the importance of the informal sector, where economic development is supported by micro-scale businesses (Sutanto & Sudantoko, 2012).

West Java Province ranks third in Indonesia for the number of micro-industries (BPS, 2023c), with food-based processing being the most common type, representing 241,730 business units, or 38.62% of micro industries in the province (BPS, 2023a). At a macro level, food processing involves numerous workers, particularly in raw material supply chains with farmers, breeders, fishermen, and rural communities,

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<sup>1</sup> Department of Socio-Economics of Agriculture, Faculty of Agriculture, Universitas Padjadjaran, Indonesia. Jl. Ir. Soekarno Km 21 Jatinangor, Sumedang 45363 West Java, Indonesia, Email: [anne.charina@unpad.ac.id](mailto:anne.charina@unpad.ac.id), (Corresponding Author)

<sup>2</sup> Department of Socio-Economics of Agriculture, Faculty of Agriculture, Universitas Padjadjaran, Indonesia. Jl. Ir. Soekarno Km 21 Jatinangor, Sumedang 45363 West Java, Indonesia, Email: [rani.andriani@unpad.ac.id](mailto:rani.andriani@unpad.ac.id)

<sup>3</sup> Department of Socio-Economics of Agriculture, Faculty of Agriculture, Universitas Padjadjaran, Indonesia. Jl. Ir. Soekarno Km 21 Jatinangor, Sumedang 45363 West Java, Indonesia, Email: [hepi.hapsari@unpad.ac.id](mailto:hepi.hapsari@unpad.ac.id)

contributing to employment, value addition, income generation, and local economic growth. However, food-based micro-industries face challenges impacting their sustainability.

Common challenges for processed food micro-industries in Bandung Regency include low productivity and limited business growth. Studies highlight similar barriers, such as restricted market information access, limited business networking, and market reach (Sutanto & Sudantoko, 2012; T. T. H. Tambunan, 2011), alongside limited access to and skills for modern technology (Rizos et al., 2016; Santoso et al., 2021; Supriatna et al., 2023). Prior research shows that low entrepreneurial competence is a key factor in microenterprise failure (Dwumah et al., 2024; Kithae et al., 2013; Pulka et al., 2021; Putra & Holisoh, 2023), underscoring the importance of entrepreneurial competencies for improved microenterprise performance, including profitability, growth, and sustainability. Entrepreneurial competence includes managerial, innovation, and financial skills, as well as market understanding and resource management (Pulka et al., 2021; Putra & Holisoh, 2023).

Given the significance of entrepreneurial competencies in enhancing microenterprise performance, this study examined factors supporting the development of these competencies among microentrepreneurs. Empowerment activities, such as training, mentoring, skill upgrades, and networking opportunities, are key strategies for enhancing microentrepreneurs' competencies. Government, private sector, universities, and non-governmental empowerment programs aim to build the capacity necessary for microentrepreneurs to operate effectively (Chian et al., 2022; Elshaer et al., 2021; Guntur et al., 2022; Kithae et al., 2013; Santos et al., 2019). However, an analysis is required to evaluate the real impact of empowerment activities on the entrepreneurial competencies of micro-entrepreneurs and their subsequent business performance. While previous research highlighted empowerment's potential to improve microentrepreneurs' capacities, results varied by context and program. Therefore, research is needed to identify the elements of empowerment activities that most effectively enhance entrepreneurial competencies and microenterprise performance in Bandung Regency.

The study findings are expected to contribute to the entrepreneurship literature, particularly regarding micro-enterprises. Additionally, these insights can inform policymakers in designing programs and policies that enhance entrepreneurial competencies and business performance, thereby supporting sustainable economic growth.

## Literature Review

### *Entrepreneurial Competence and Informal Business Performance*

Research on business performance, particularly in household-scale, micro, or informal businesses, has become increasingly prominent. The presence of these businesses has been of major attention, especially in developing countries, due to their prevalence. Respatya (2001) argued that organizations producing goods or services, including those on a micro-business scale, must consider competitive advantage to ensure survival and achieve strong performance. For micro or informal industries, business performance can be measured through profits, sales, and customer base growth.

Achieving strong business performance in small industries requires consideration of several key factors. The literature identifies internal and external factors that influence informal business performance, with a particular emphasis on the role of the internal environment. One of the main internal factors influencing performance is entrepreneurial competence. Research and practice surrounding entrepreneurial competencies have gained momentum due to their reported link to business performance and growth. Studies show that entrepreneurial competencies contribute significantly to business performance and growth (Lerner & Almor, 2002; Bird, 1995; Cooper dkk., 1994). Evidence also suggests that entrepreneurial competencies, which foster essential skills in entrepreneurs, enhance profitability and growth (Chandler & Jansen, 1992).

Entrepreneurial competence is a multi-faceted concept with varied applications. Models of entrepreneurial competence derive from multiple approaches to the concept. Research in this area is often driven by the

aspiration to achieve superior performance and economic success (Spencer & Spencer, 1993). In a study by Bartlett and Ghoshal (1997), entrepreneurial competencies were categorized into three groups: attitudes/traits, knowledge/experience, and skills/abilities. Stuart and Lindsay (1997) defined competencies as a combination of an individual's skills, knowledge, and personal characteristics. Entrepreneurial competencies are also understood as traits, skills, and knowledge (Lau et al., 1999), with growing interest in how these competencies are applied across different contexts (Hunger & Wheelen, 1996).

A notable perspective is presented by McClelland (1987), who identified key entrepreneurial attitudes and characteristics, such as locus of control, risk-taking, need for independence, and achievement orientation. These traits are considered intangible assets significantly influencing small business development (Meutia, 2012). Research by Man et al. (2005) further emphasized that the business owner or entrepreneur is a critical determinant of business performance. In addition to entrepreneurial traits, managerial skills play a pivotal role in performance. Research by Learner (2002) highlighted that an entrepreneur's skills contribute to performance, including informal business performance, and that effective management skills directly support profitability and business sustainability. Moreover, business knowledge is essential for every entrepreneur aiming to improve performance (Chandler et al., 1992).

#### *The Role of Empowerment in Enhancing Entrepreneurial Competence*

This study adopted the Resource Dependency Theory as the most suitable theoretical framework. Pfeffer & Salancik (1978) argued that Resource Dependency Theory examines how an organization's resources influence its behavior. External resource acquisition is a crucial element in the strategic and tactical management of any business, including informal industries. This theory posits that organizations tend to mitigate the uncertainty of external influences by securing resources vital for their survival and growth. It further suggests that a business's strength depends on the information it possesses. Resource Dependency Theory is particularly relevant in this context, as entrepreneurs and industry players require access to information, training, education, empowerment, and various skills to stay competitive and add value to their businesses. This can only be achieved through information gathered from external sources.

In Indonesia, empowerment programs involving various entrepreneurial training activities are being implemented to enhance entrepreneurial competencies and foster growth in the small business and informal sectors. Empowerment and training are recognized as essential tools for cultivating entrepreneurial attitudes and technical skills (Wilkinson, 1998). Numerous studies underscore the importance of empowerment content, the selection of facilitators, participants, and appropriate training facilities and methodologies (Kithae, 2013). Generally, these initiatives are conducted by academics, training institutions, non-governmental organizations, and private consultants, and they can be financial or non-financial. This research offers a novel contribution by examining how empowerment programs can indirectly enhance informal business performance by strengthening entrepreneurial competencies, particularly in developing countries such as Indonesia.

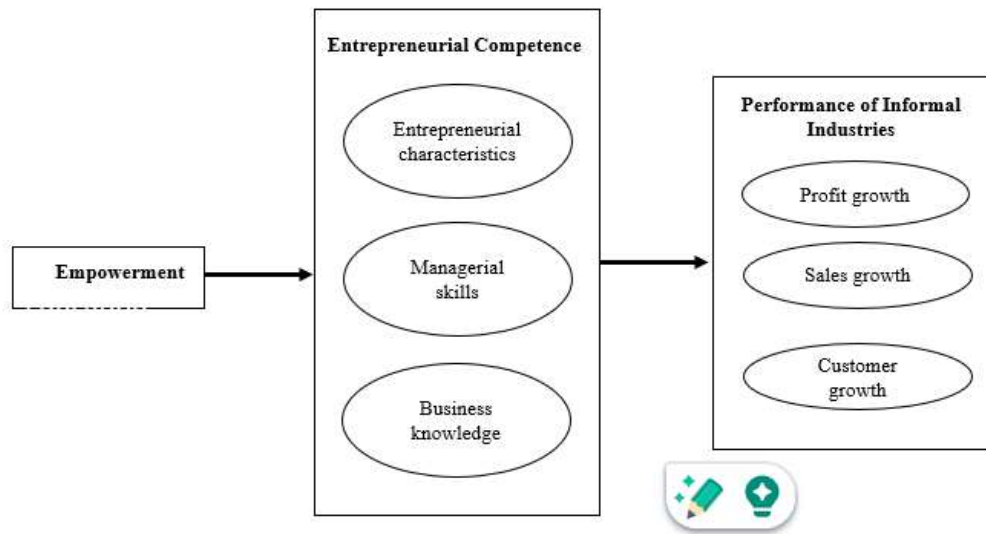


Figure 1. Research Model

## Research Method

Following the ILO (1972), this study defines informal industries as businesses operating outside government regulation, managed by individuals or families with fewer than 10 employees. The research was conducted from June to August 2024 in Bandung Regency, specifically in Majalaya, Ibun, and Ciparay sub-districts, where food-based informal industries are most concentrated. These three areas host 7,826 food-based informal businesses (Industries service annual book, 2022). Using the Lemeshow formula (Lemeshow & Sturdivant, 2013), with a 95% confidence level, a sample size of 115 food-based informal industry participants were selected randomly.

The endogenous variables in this study were informal business performance and entrepreneurial competence. Informal business performance was assessed by profit, sales, and customer growth (Eluyela et al., 2018a; Eluyela et al., 2018b). Entrepreneurial competence was measured through entrepreneurial characteristics, managerial skills, and business knowledge. The exogenous variable was the empowerment program, measured by the frequency of participation in technical training, managerial training, mentoring activities, and direct interactions with business practitioners.

The following research hypotheses were developed:

H1: The empowerment program positively and significantly affects entrepreneurial characteristics.

H2: The empowerment program positively and significantly affects managerial skills.

H3: The empowerment program positively and significantly affects business knowledge.

H4: Entrepreneurial characteristics have a positive and significant effect on business performance.

H5: Managerial skills positively and significantly affect informal business performance.

H6: Business knowledge positively and significantly affects informal business performance.

H7: The empowerment program positively and significantly affects business performance through entrepreneurial characteristics.

H8: The empowerment program positively and significantly affects business performance through managerial skills.

H9: The empowerment program positively and significantly affects business performance through business knowledge.

Data was collected using a survey method, primarily gathered through interviews (Suhartanto, 2014). A questionnaire with a Likert scale (1–5) was employed, and Cronbach's alpha and composite reliability testing were used to assess the reliability of the instruments.

Data were analyzed using the Partial Least Squares - Structural Equation Modeling (PLS-SEM) approach. This model is widely used for testing theoretical relationships and describing models with latent variables, which are not directly measurable but are inferred from indicators. Evaluation of the measurement model involved assessing individual item reliability, internal consistency (composite reliability), average variance extracted, and discriminant validity.

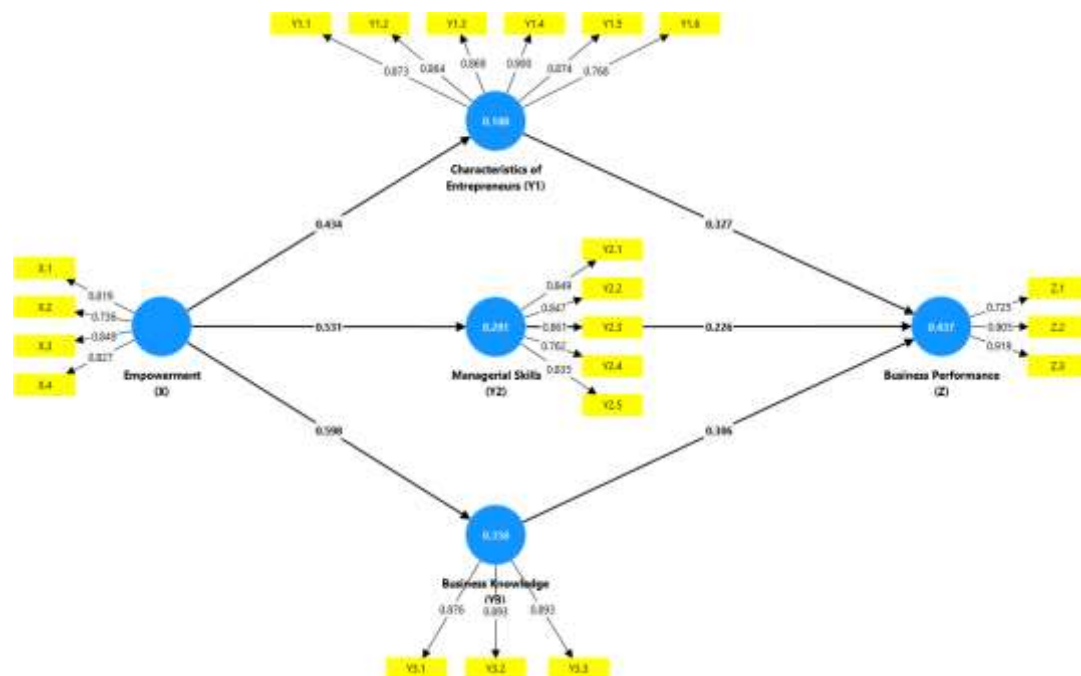


Figure 1. Standardized Factor Loading of the Inner and Outer Model

Figure 2 shows that the standardized factor loading for all indicators exceeds 0.7, indicating that none need to be excluded. Each indicator is, therefore, valid in explaining its respective latent variable: empowerment (X), entrepreneurial characteristics (Y1), managerial skills (Y2), business knowledge (Y3), and business performance (Z).

The Composite Reliability values for all latent variables are above 0.7, demonstrating that each factor is a reliable measurement tool.

**Table 1. Composite Reliability Results**

Code	Latent Variable	Composite Reliability
X	Empowerment	0.883
Y1	Characteristics of entrepreneurs	0.944
Y2	Managerial skills	0.918
Y3	Business Knowledge	0.917
Z	Business performance	0.889

The Average Variance Extracted (AVE) values were also above 0.5, as shown in Table 2, indicating the good convergent validity of the constructs. On average, each latent variable explained more than half of the variance in its indicators.

**Table 2. Average Variance Extracted (AVE) Results**

Kode	Latent Variable	Average Variance Extracted (AVE)
X	Empowerment	0.654
Y1	Characteristics of entrepreneurs	0.738
Y2	Managerial skills	0.692
Y3	Business Knowledge	0.787
Z	Business performance	0.729

The discriminant validity of the reflective measurement model was assessed based on cross-loading, and by comparing AVE values with the squared correlations between constructs, each indicator showed a higher correlation with its latent variable than with other variables. Similarly, the indicators for each variable display appropriate alignment with their respective constructs. This confirms the accurate placement of indicators within each variable.

## Result

### *Evaluation of Structural Model*

#### *Goodness of Fit*

The Goodness of Fit (GoF) index serves as a single measure to validate the combined performance of the measurement and structural models. The GoF value is derived by multiplying the average communalities index by the model's  $R^2$  value. Table 3 presents the results of the goodness of fit model calculation.

**Table 3. Goodness Of Fit (Gof) Results**

Code	$R^2$	AVE
X	-	0.654
Y1	0.188	0.738
Y2	0.281	0.692
Y3	0.358	0.787
Z	0.437	0.729
Rata-rata	0.361	0.720
<b>GoF</b>	<b>0.518</b>	



Table 3 shows that the average communalities value is 0.518. This value is then multiplied by R<sup>2</sup> and then square-rooted. Chin (1988) established criteria for R<sup>2</sup> values, categorizing 0.67, 0.33, and 0.19 as strong, moderate, and weak, respectively (Chin, 1998 in Ghozali and Latan, 2015). The calculation yields a GoF value of 0.518, categorizing it as moderate. This result indicates that the hypothesized model aligns well with empirical data.

*Path Coefficient*

The path coefficient is examined to analyze the significance of the relationships between constructs. The sign of the path coefficient must be consistent with the hypothesized theory, and its significance was assessed using the t-test (critical ratio) through the bootstrapping process (resampling method). The t-test results for the inner and outer models are shown in Figure 3.

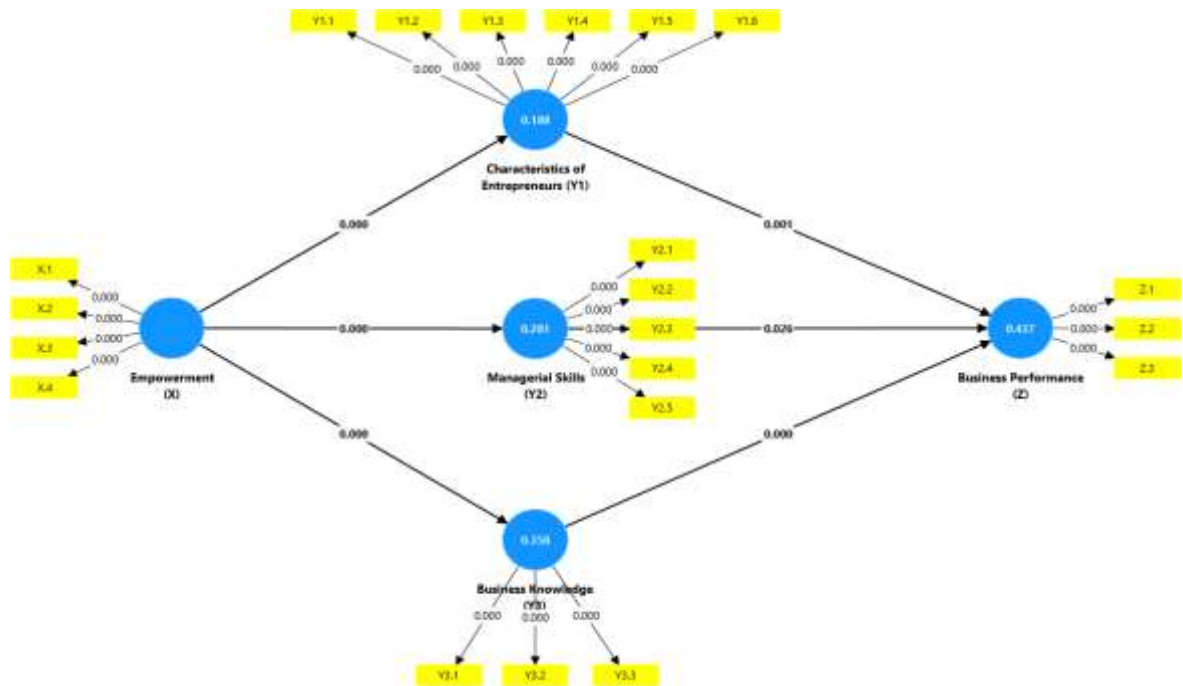


Figure 2. T-Value of the Inner and Outer Model

The t-test was derived from the bootstrap calculation, with the p-value results shown in Figure 3. These results were then compared to the significance level. The criterion for this test was to reject Ho if the p-value is less than the 5% of significance level (p<0.05). Conversely, if the p-value is greater than 0.05, Ho is accepted. Table 4 presents the t-test results.

Table 4. T-Test Results of Direct Effect Between Variables

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
X → Y1	0.434	0.444	0.091	4.770	0.000
X → Y2	0.531	0.540	0.066	8.012	0.000
X → Y3	0.598	0.600	0.064	9.384	0.000
Y1 → Z	0.327	0.338	0.097	3.352	0.001
Y2 → Z	0.226	0.227	0.101	2.225	0.026
Y2 → Z	0.306	0.465	0.07	3.257	0.001

Table 4 indicates that empowerment significantly affected entrepreneurial characteristics, managerial skills, and business knowledge ( $p < 0.05$ ). Empowerment positively influenced these dimensions, meaning that increased participation in empowerment activities leads to greater entrepreneurial competence, as reflected by these three dimensions. Additionally, entrepreneurial characteristics, managerial skills, and knowledge significantly impacted business performance. This result indicates that the stronger these qualities in business actors, the more successful their businesses are.

**Table 5. Indirect Effect Between Variables**

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( $ O/STDEV $ )	P values
$X \rightarrow Y1 \rightarrow Z$	0.242	0.151	0.056	2.514	0.012
$X \rightarrow Y2 \rightarrow Z$	0.220	0.125	0.061	1.962	0.050
$X \rightarrow Y3 \rightarrow Z$	0.383	0.180	0.062	2.966	0.003

Table 5 indicates that empowerment activities indirectly impacted business performance through entrepreneurial characteristics ( $p = 0.012$ ;  $b = 0.242$ ). Empowerment activities also indirectly affect business performance through managerial skills ( $p = 0.05$ ;  $b = 0.22$ ). Finally, empowerment activities indirectly influence business performance through business knowledge ( $p = 0.05$ ;  $b = 0.383$ ).

**Table 6. Total Influence between Variables**

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( $ O/STDEV $ )	P values
$X \rightarrow Z$	0.445	0.456	0.061	7.275	0.000

Table 6 shows that at a significance level  $< 0.05$ , empowerment (x) has an indirect effect on business performance (Z) through characteristics of entrepreneurs (Y1), managerial skills (Y2), and business knowledge (Y3) ( $p = 0.000$ ;  $b = 0.445$ ).

## Discussion

In Bandung Regency, informal businesses are strengthened through empowerment activities designed to build independence and competitiveness, enabling them to develop and contribute positively to the local economy. These empowerment activities include technical training for production and product quality improvement, business management training, partnership and network development, and marketing expansion. The government, as policymakers, drives these initiatives and involves universities and the private sector.

The analysis results reveal that empowerment activities significantly impact entrepreneurial competence. Increased participation in these activities leads to improved entrepreneurial qualities, managerial skills, and business knowledge among informal industry players. Training and mentoring help these players develop an entrepreneurial mindset, encouraging them to think more innovatively, manage risks, and make decisions that support long-term business sustainability. Schmidt & Heidenreich (2019) argued that empowerment activities can enhance psychological empowerment, fostering innovative and proactive behavior among entrepreneurs and strengthening their entrepreneurial skills.

Based on respondent narratives, even those rarely participate in training activities report gaining substantial new knowledge in business management, particularly in financial and marketing skills. They recognize the importance of these skills for business efficiency and long-term growth. Supporting this finding, some previous studies also highlight that well-structured empowerment programs for small businesses can significantly improve performance and entrepreneurial competence, often through training in entrepreneurial skills, technical knowledge, and marketing techniques critical for growth and sustainability (Paramanandam & Packirisamy, 2015; Jacob & Munuswamy, 2022); and Wakarmamu, 2017)



This study indicates that entrepreneurial competencies, including entrepreneurial characteristics, managerial skills, and knowledge, affect informal industry business performance. The entrepreneurial traits observed in this study, such as locus of control, risk-taking, need for independence and achievement, and innovation and creativity, positively influence company performance, aligning with findings from previous research (Ewijk & Al-Aomar, 2016). The entrepreneurs' characteristics strongly influence informal business performance, with risk-taking and locus of control as vital motivators for business development. McClelland's theory of entrepreneurial characteristics supports this view, suggesting that small business success relies heavily on the entrepreneur's traits (Handler, 1994).

This study also demonstrates that managerial skills positively impact informal business performance. The informal industry in the research area primarily comprises agricultural product-based processing businesses that produce local specialties such as *berondong* (made from sticky rice and palm sugar), *rengginang* (a savory sticky rice snack), *pepes ikan* (steamed fish in banana leaves), and *najit* (a treat made from sticky rice, coconut, and palm sugar). Although these businesses operate on a home-industry scale, the informal business owners exhibit essential managerial skills, including business management, employee supervision, consumer and supplier relations, production capabilities, and access to information and technology, all of which enhance business performance. Maintaining good relationships with consumers, suppliers, and employees ensures smooth business operations with minimal disruptions, positively contributing to profitability (Papadopoulos et al., 2020).

Business knowledge also has a positive and significant effect on informal industry performance. This finding indicates that as informal business owners acquire a deeper understanding of the business they manage, the performance of these informal industries improves. Many entrepreneurs in this sector have completed formal education up to the senior high school level, and their businesses are often family enterprises passed down through generations. This generational experience has instilled business knowledge in these managers early on. Additionally, the easy access to business information through social media further enhances their knowledge. These findings align with previous studies showing that human resource competencies, such as business knowledge, positively influence business performance (Aladejebi, 2020). Furthermore, the results support Human Resource Management theory, suggesting that individuals with higher education and business knowledge are better equipped to solve company problems and identify business opportunities (Dwumah et al., 2024).

The analysis also reveals that empowerment activities enhance entrepreneurial characteristics, managerial skills, and business knowledge, mediating improved business performance. These findings highlight the importance of empowerment initiatives in fostering the business performance of food-based informal industries. By developing these competencies, informal business owners are expected to make more strategic business decisions, manage operations more effectively, and adapt to market dynamics, ultimately contributing to enhanced business outcomes. This research is consistent with the research findings by Purnama (2014), who found the significance of empowerment for small businesses.

Empowerment initiatives to enhance entrepreneurial characteristics help businesses foster a more proactive, innovative, and risk-taking mindset. Informal business owners are encouraged to pursue growth and adapt to emerging challenges through training, networking, and mentoring. These traits and attitudes support better decision-making and strengthen commitment to business development, indirectly contributing to improved business performance.

Empowerment activities that deliver managerial skills, such as financial, resource, and operational management, equip entrepreneurs to manage their businesses more effectively. Strong managerial skills improve operational efficiency. For instance, effective cash and inventory management can help businesses reduce costs and increase profit margins. Thus, managerial skills acquired through empowerment indirectly enhance business performance by promoting operational efficiency.

Empowerment efforts that focus on expanding business knowledge, such as market analysis, marketing strategies, and digital technology insights, provide essential tools for understanding the market and consumer needs. These findings align with prior research (Akram et al., 2019), emphasizing the importance

of business knowledge for entrepreneurs gained through formal education and training. Enhanced business knowledge empowers entrepreneurs to develop strategies in pricing, market segmentation, and product innovation, which in turn contribute to better business performance.

## Conclusion

This study reveals that empowerment positively and significantly affects entrepreneurial characteristics, managerial skills, and business knowledge. As business actors increasingly participate in empowerment activities, their entrepreneurial competencies, as reflected in these three dimensions, improve. Furthermore, entrepreneurial characteristics, managerial skills, and business knowledge significantly and positively impact business performance, indicating that stronger competencies contribute to better business outcomes. Empowerment also indirectly affects business performance through entrepreneurial characteristics, managerial skills, and business knowledge ( $b=0.445$ ).

Based on the findings, this study suggests that empowerment activities should be designed to emphasize the strengthening of entrepreneurial attitudes, the development of managerial skills, and the expansion of business insights. Such focus will help business actors build the capacity to manage their operations more effectively, increase competitiveness, and better respond to market needs. In other words, investing in comprehensive empowerment programs can sustainably impact the business performance of informal industry participants. Informal industry actors are encouraged to engage actively in empowerment activities to continuously enhance their business management skills.

Nevertheless, this study has some limitations, particularly concerning potential sampling bias, measurement error, and limitations in generalizability. These limitations may affect the interpretation of the findings, and thus, further exploratory research could enrich and validate the results.

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