

Institutional of Micro and Small Business Enterprise: Study in Micro and Small Enterprises in West Java - Indonesia

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Abstract: *Micro and small-scale enterprise (MSEs) plays an important role in economy of West Java. The role is in number of business units' contribution, GDP, and employment. However, the role has not been offset by strong institutional. This research was conducted with aim to describe the institutional of MSEs enterprise in West Java. This research was conducted by using descriptive-explorative with qualitative approach. The informants of this research were selected from MSEs management based on the significance of business entity role. The findings from this research shows that there are many MSEs in West Java experiencing institutional constraints. More than 54% of MSEs in West Java still have a weak institutional business. The weakness of this institutional is caused by MSEs has not followed the principle and fulfilled the institutional dimensions both in formal aspect, informal aspect, or enforcement. And the conclusion of this research is MSEs in West Java plays an important role in economy, however still having an institutional constraints.*

Keywords: *Institutional, Business, MSEs.*

I. Introduction

Micro and Small-scale Enterprises (MSEs) become an important subject in its relation to economy in Indonesia, including West Java. It is because MSE is a central pillar of West Java economy in driving force of economic growth and improvement. In 2012, the MSEs' contribution with total business unit reached 9.2 million units or approximately 99.9%. While employment reached 14.5 million people or about 83.3%.

However, the important role of MSEs to West Java economy is still showing many weakness because it is not offset with institutional aspects. Various weakness of MSEs can be seen: (a) The declining of business rate growth during the period of 2010 - 2012, from 8.3% in 2010, dropped to 7.9% in 2011, and 6.9% in 2012. (b) The high congestion of capital repayment in various donor agencies. Overall, with the various weakness which is experienced by MSEs in West Java, which experiencing institutional constraints reach >54%.

Tambunan and Hubeis state that the main problem of MSEs' weakness in Indonesia including West Java is because of capital limitation. However, the statement was indisputable. In 2010, there were approximately Rp80 trillion of government funds allocation for MSEs' empowerment which spread across 21 ministries, it cannot be fully absorbed. While financial credit which was provided to MSEs by national banks were absorbed averagely below 30%. The contradiction was also delivered by Primiana who states that the low realization of MSEs capital funds program absorption, it is mainly due to the inability of MSEs institutional to meet the requirements which was set by the donor agencies or in banking language known as "bankable".

This research is aimed to explore the MSEs institutional in West Java in order to find things which is related to the MSEs institutional organization both in formal aspects, informal, and enforcement of the rule in accordance with the principles and dimensions of business institutional.

II. Literature Review

2.1 Institutional Concepts

Many concepts of institution or institutional are proposed by experts. Those various concepts are caused by differences in point of view relates to the issue discussed. However, generally institution is set up to reduce risk and uncertainty which occurs in social life due to the limitation of human's ability. The definitions of institution, generally related to the rule of the game which made to give a clear signs of social interaction among people. Likewise with institutional which generally the institutional experts are argued that institutional is rule which made by human in society of life to provide the bind boundaries in social interaction which they do in community as a value to reach the goal that they want.

Schmid (2004) stated that "*Institutions are human relationships that structure opportunities via constraints and enablement. A constraint on one person is opportunity for another. Institutions enable individuals to do what they cannot do alone.*"

In this research institution and institutional terms are used interchangeably. Meanwhile definition references that used are institutional definition relating to reduce risk and uncertainty as well as the role of institutional as the interaction of social human rule in business activities.

North (1990) stated that institution is rule which existed in society or more formally is boundaries which are made by humans to interact among themselves in a community, both in terms of political, social, and economic. Institution reduces uncertainty by providing a structure for everyday life. This structured rules which guide the interaction among people, for example: greeting friends on street, driving car, buying something, borrowing money, establish a business, and in other aspects of life. By the structured rule, we can learn and implement it.

North (1990) further stated that institutional as formal and informal rule as well as its implementation characteristics. Institutional is in form of restrictions which designed or created by humans for their interaction. The program can be formal, such as rules or legality arranged by humans, as well as informal as conventions or codes of behavior or contain both of them.

Furthermore, North defines institutional as *"Limitation of man-made in the form of political structure, economic, and social, in the form of informal restrictions (sanctions, taboos, customs, traditions, behavior codes), and formal rules (constitutions, laws, property rights, and others). Throughout history, institution was designed by humans to create order and reduce uncertainty in exchange."* (North, 1991).

Institutional consists of written formal rules and codes of behavior that usually are not written which underlie and complete the formal rules. Both formal rules and codes of behavior are sometimes violated. Here the important role of institution's function is to ensure the violation form and the punishment, (North, 1990). This was confirmed by another expert, Ferriero and Serrano (2011) who stated that *"An institution can be defined as a set of formal and informal rules, including reviews their enforcement arrangements."*

Another opinion was expressed by Young (1999), who stated that *"In general, the institution is a constellation or cluster rules, decision making procedures, and programs which define social practices, giving a role to the participants in social practice, and regulating the interaction among stakeholders."* (Young 1999). Furthermore, Young gave an example of marriage as a social institution which regulates the relationships between family member units, market is the economic institution that deals with the interaction between buyers and sellers of goods and services; and the election system is a political institution that guides the interaction of voters and elected officials, (Young, 1999).

The relationships between formal and informal rules of game in institutional are interplay. In general, informal rules would affect the formal rules (Lekovic, 2011). Other experts were argued that the relationship between the formal and informal rules of game can be complementary and mutually replace, (Zenger, et.al., 2002).

In relations between institution and organization which described by North (1990:4) as follows: *"Like institutions, organization provides a structure to human interaction. Indeed when we examine the costs that arise as a consequence of the institutional framework we see they are a result not only consequence of that framework"*.

The clear differentiation between institution and organization was described further by North (1990) that the institution is the *"rules of the game"* or rules created by humans with the intention *"to define the way how the game is played"*. Meanwhile the organization is *"rules from the players"*, which regulate the action of people who gather and interact in a group which has same goal.

Furthermore, North also stated that the emphasis of the differences between institution and organization as follows: *"... the institutions that are the underlying rules of the game and the focus on organizations (and their entrepreneurs) is primarily on their role as agents of institutional change; therefore the emphasis is on the interaction between institutional and organizations."* (North, 1990).

2.2 Basic Principles and Objectives Institutional

As it has been described in previous section about the definition of institution that humans have limited ability (bounded capacity). Limited ability (bounded capacity) of humans are caused by two things: (1) Limitations of human thinking ability (bounded of rationality); (2) Limitations of humans ability to access information (bounded information).

Limitation in thinking ability (bounded of rationality) exposes humans to a different degree of "risk". Human limitation in ability to access information (bounded information) exposes humans to the complete uncertainty. As a result, humans often accept the risk that they do not want or cannot achieve what they wanted because of an error in decision making.

According to Ferriero and Serrao (2011), the definition of "risk" and "uncertainty" is different. "Risk" is a situation that can be anticipated by using the calculation of estimated probability based on frequency of past and human limitations in accessing information (bounded information) into a "constraint" in managing risks.

Meanwhile the "uncertainty" means that an event cannot be anticipated by the calculation of probability due to the natural evolution (non-ergoid) of the economic process, and the limitations of human rationality (bounded rationality) into a "constraint" in facing "uncertainty."

Based on perspectives above to reduce limitations of rationality (bounded rationality) and limited ability to access information (bounded information), humans need various information that can assist in improving the ability of a rationality and the ability of choosing and making decisions. The more relevant the information obtained, the easier and more precise an individual in the process of decision making. Institutional is a source of information for individuals and become an instrument that assists individuals in making decisions, (Ferreiro and Serrano, 2011). Opinions Ferreiro and Serano line with North's thinking, (1990) which states: *"The major rule of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction. But the stability of institutions in no way gainsays the fact that they are changing. From conventions, codes of conduct, and norms of behavior to statute law, and common law, and contracts between individuals, institutions are evolving and, therefore, are continually altering the choices available to us."*

Ollila (1990) look at the basic principles of institutional from the "rules" aspects in economic interactions (transactions), as her statement:

"Rules are means of economizing interaction (transactions). Rules help Predict others' behavior in different situations. If the set of rules one actor uses is very different from Reviews those of another, it may Prevent the entire interaction between the two actors from leading to a transaction. "Getting to know" a person means learning something about the rules a person uses in Certain situations. This knowledge about the expected behavior makes interaction Easier. In other words, it lowers uncertainty and thus transaction cost."

According to Ollila (2009), rules are the cumulative product of previous transactions, which form a hierarchical structure. Rules are evolving over time. At the top (of individual behavior), the rules evolve and change rapidly. But at the bottom (culture and tradition) develop more slowly.

Based on Ollila's opinion, the highest level is when institution still in practice-behavior. At this level institution changes quickly and easily. Otherwise to the lowest level will change slowly because it has turned into a culture. Therefore, if we want a strong institution, it must be done in a way to encourage institution which is behavior into cultural. In line with the opinion of North and Ollila, Ferreiro and Serrano (2011) stated that: *"Institutions are, therefore, a key instrument to solve, or to Epsilon, the information problems faced by the agent, both the problems related to the bounded rationality and the lack of information about the future and the problems of coordination with other agents. Consequently, institutions are a key determinant of the economic activity in market economies."* There are three important dimensions of institutions as proposed by North (1990), as follows:

- 1. Informal Constraints.** *They come from socially transmitted information and are part of culture. They are not mere extensions of formal rules and will not change Immediately in reaction to such rules.*
- 2. Formal Constraints.** *Formal rules may Increase the effectiveness of informal constraints, modify them, or supersede them. Given the initial bargaining strength of the parties, rule Facilitate exchange. The extent of diversity of interests will influence the rule's structure.*
- 3. Enforcement.** *There are costs associated with imperfect enforcement due to: (i) costs of measuring contract compliance, and (ii) enforcement agents having Reviews their own utility functions. The inability of societies to develop effective, low-cost enforcement of contracts is the source of economic stagnation. The complex contracting that would allow one to capture the gains from trade in a world of impersonal exchange must be accompanied by third-party enforcement.*

As it has been described before, the basic argument why an institution is established is caused by a constraint which faced by individual in achieving its objectives in form of limitations of humans' rationality and limitations in accessing information.

To resolve the constraints, it is required interaction with other individuals or groups. In the interaction process, there could be happened an individual did action that could harm other individuals or groups. In this condition, the institutional functioning to guide, direct, manage, and even determine individuals' behavior as they interact with each other. In this regard, North (1990, in Ferreiro and Serrano, 2011), stated that *"The general aim of institution is to provide individuals with a set of rules that guide or Determine Reviews their individual behavior. Thus, institutions help to reduce uncertainty."*

2.3 The Linkage of Institutional and Organization

There is a linkage between institution and organization. North differentiates the functions of institution and organization. Institution discussed *"rules of the game"*, which the essence is to make sure that the weight of the offense and sanctions, as his statement (North, 1990) that: *"... an essential part of the functioning of institutions is the costliness of ascertaining violations and the severity of punishment."*

Meanwhile organization discussed the "role players", which describes how an interaction of (game) is executed (played). Although institution and organization have different function, but both of them have the same goal (objective), to win the game according to the rules which are set by the institutional. More detailed, North (1990) explained the differences between institution and organization, as follows:

"A crucial distinction in this study is made between institutions and organization. Like institutions, organization provides a structure to human interaction. Indeed when we examine the costs that Arise as a consequence of the institutional framework we see they are a result not only of that framework, but Also of the organization that have developed in consequence of that framework."

"Organizations include political bodies (political parties, the senate, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, Cooperatives), social bodies (churches, clubs, athletic associations), and educational bodies (schools, universities, vocational trainings centers)."

In line with North's opinion on institutional definition as described above, there are two aspects of institutional and organization fundamental concept, namely the rules ("rules of the game") and the role of people who are in institutional ("role from the player") which called as organization.

2.4 Business Institutional

The emergence of new institutional theory as a result of the development of paradigm or human thinking based on the assumptions of the real world around him. Economic or business events will be better if analyzed from a wider point of view from social economic of human's life.

The new institutional economics trying to expand the analysis not only just limited to economic/business events, aspects, and rational calculation, but from wider point of view. In this case included non-economic aspects, social, legal/norms, rules, and social behavior underlying an economic activity.

A comprehensive definition of business institutional proposed by F. Fama and Michael C. Jensen, (1983) that called as "firms". Fama and Jensen explained that the firm: *"An organization is an interconnection contract, written or unwritten, between the owners of production factors and customers. Contract or the 'rule' is to determine the rights of each party in organization, the criteria evaluation for the parties' performance, and the rewards they have received."*

2.5 Micro and Small Business Enterprise (MSEs)

The criteria of MSEs in West Java by referring to Law No. 20 of 2008 which is also be a reference of criteria for MSEs nationally.

Micro business is a productive enterprises owned by individual or individual business entity with maximum net worth Rp50 million, excluding land and building or having the most annual sales Rp300 million.

Small Business is a productive enterprise that stand alone which performed by an individual or business entity that is not a subsidiary or branch of the owned company, controlled or be part of, either directly or indirectly from medium or large business. Who has a net worth more than Rp50 million, not including land and building, or having annual sales revenue > Rp300 million up to <Rp2.5 billion.

III. Research Method

The object of this research is the institutional MSEs in West Java. Informants of this research are leaders/owners of MSEs. The leaders are considered having capacity to provide information relates to the business that being their responsibilities. In detail, it can be seen in the following table:

Table 1 Informants Profile and Sample

NO	INFORMANTS	BUSINESS FIELDS	TURNOVER (MILLION RUPIAHS)/ MONTHS		VALUE OF ASSET (MILLION RUPIAHS)		AGE OF BUSINESS	EMPLOYEES QUANTITY (PERSON)		BUSINESS LICENSING		EXPLANATION
			EARLY	CURRENT	EARLY	CURRENT		EARLY	CURRENT	YES	NO	
A.	GARUT REGENCY:											
1.	Leader of "Batik Garutan"	Stamp and Written Batik Production	150	190	240	890	25 years	6	40	√		Business grows rapidly
2.	Leader/owner of "Big Dallas"	Leather Jacket Production	7	5	15	10	36 years	4	2		√	Business had success, but continued to decline since the owner/leader got sickness
3.	Leader/owner of "Adam Las"	Welding Service	2	30	15	120	8 years	2	8	-	-	Business licensing process grows rapidly
4.	Leader/owner of "Undang Delman"	Transportation Service	10	4	70	20	25 years	2	1		√	Business had success, but continued to decline since the

												owner/leader got sickness
5.	Leader/owner of "Mega Elektronok"	General Trading	70	150	60	530	13 years	2	8	√		Business grows rapidly
6.	Leader/owner of "Siva Ikillah"	General Trading	5	35	15	50	6 years	1	2		√	Business grows rapidly.
B. TASIKMALAYA REGENCY:												
1.	Leader/owner of "Al Keisyah" MSEs	Centra production of batik printing	25	150	60	864	10 years	4	10	√		
2.	Leader/owner of "Reti Kue"	Pastries Production	3	2	6	3	6 years	2	1		√	Business had success, but declined since the congestion of credit
3.	Leader/owner of "Aan Rohanah"	Salon and Bridal Service	33	100	57	600	10 years	2	8	-	-	Business licensing process grows rapidly
4.	Leader/owner of "Atang bengkel"	Welding Service	6	6	30	20	6 years	4	4		√	Business had success, but declined since the rising of raw material and competition
5.	Leader/owner of "Baso Gesa"	Meatball seller	75	110	400	825	6 years	2	9	√		Business grows rapidly
6.	Leader/owner of "Distribusi Snack"	General Trading	15	17	14	156	5 years	1	2		√	Business had success, but declined because of dishonest employee.
C. BANDUNG REGENCY												
1.	Leader/owner of "Qur'aini Nur"	Muslim clothing and accessories production	60	75	96	500	4 years	2	4	-	-	-Business licensing process - Business grows rapidly
2.	Leader/owner of "Teh putih"	White Tea Production	10	15	50	150	9 years	6	20	√		Business quite grows
3.	Leader/owner of "Rias Pengantin"	Bridal Service	60	200	80	350	14 years	4	12	√		Business grows very rapidly
4.	Leader/owner of "Ricky Wartel"	Internet Café	4	2	10	5	8 years	1	1		√	Business almost bankrupt because of technology development
5.	Leader/owner of "Mie"	Noodle Seller	70	350	50	200	6 years	4	20	√		Business grows rapidly
6.	Leader/owner of "Toko kelontong"	Snack Seller	6	2	50	30	10 years	3	2		√	Business declines because of management

In accordance with the purpose of this research to describe the institutional business of MSEs in West Java, so this research is conducted using descriptive-explorative. This method is expected to obtain an overview of MSEs institutional in West Java. The approach used is a qualitative approach.

IV. Finding and Discussion

Before describing the formal and informal institutional aspects of Micro and Small Enterprises in West Java, it will be presented the constraint which is faced. Generally, micro and small scale enterprises in West Java have different constraints which is faced at every business sector. Based on calculation, constraint on competition is the largest percentage reaches 29.57%, followed by capital 21.62%, and the lowest is in infrastructure constraint reaches 5.09% and 3.34% raw material difficulties.

4.1 Formal Institutional Aspects of Micro and Small Enterprises in West Java

The result generally shows that institutional of MSEs in West Java has a weakness in understanding of formal institutional aspects. The important formal aspects which is weak in institutional of MSEs as follows:

4.1.1 Regulation

The whole MSEs which is researched did not have any formal rules or regulations, in particular the written rules. The business activities are running on the basis of orders and leader's desires who also as business owner. Problems which occurred, resolved informally. This has led to the weakness of MSEs Institutional, in the absence of formal aspects, positioning of business management is not executed based on system or order, but on the basis of leaders's personal taste or business owner.

4.1.2 Transaction Costs

The finding shows that the owners of MSEs have very little understanding about transaction costs. The emergence of various transaction costs which occurred related to business activities, especially the cost of supervising and monitoring over the "violation" of workers or family members who become workers, many settled amicably and kinship. It is one of formal aspects weakness of MSEs institutional in West Java.

4.1.3 Organization

Another interesting finding of this research shows two things. First, business owners who are minimally with bachelor degree generally know and understand the organization of business, the dynamics and organizational changes which require adaptation in accordance to the development of organization's environment. This business owner's characteristics can organize and manage an organization clearly and rationally.

Secondly, business owners who educated under bachelor degree, run the organization either by instinct or good and bad feeling that they understand. This characteristic causes the condition and the main cause of the institutional business MSEs' weakness. Entrepreneurs are hard to compete with other businesses that have been well-organized and run by a system or structure built on the concepts of organization and rational.

4.2 Informal Institutional Aspects of MSEs in West Java: Character and Behavior of Business

The finding shows that not all MSEs has oriented on developing business running capacity. There are several MSEs with micro scale which more oriented to *"the important thing is business can run"*. In accordance with the criteria, institutional of MSEs is in enterprises category in which its business activities are in category of entrepreneurship. Based on research, the development of MSEs institutional capacity have not fully oriented to build and strengthen the MSEs institutional capabilities as a business entity.

Referring to the concept of Mc Clelland, which states that there is a behavior which is being the characteristic of entrepreneurship which called with entrepreneurial associated with research finding on MSEs' condition in West Java, described as follows:

4.2.1 Risk-taking

Referring to McClelland, risk taking action is very important in enterprises' activities. Based on the research result, MSEs' anticipation of risk is still low. For example, in increasing capital work which done by MSEs. When introducing the process of capital loan, MSEs make a business plan without a guarantee that the loan money which obtained will be realized in accordance to the proposal. In many cases, it turns out the funds received are used for other funding, especially for family's needs.

4.2.2 Creativity (Innovation)

The results of this research particularly shows that creativity and innovation in creating goods and services is still low. There are some MSEs which almost bankrupt because of losing in competition. Referring to, spirit of inventive and activity is the important things in achieving the success of business activities.

4.2.3 Personal responsibility.

The result shows that almost the entire leaders of MSEs' institutional is the owner who also the family head. This condition is quite difficult for MSEs institutional continuity, due to their position as a leader and owner, it is difficult to separate their responsibilities. It also causes company's finance control very weak. In some MSEs which almost went bankrupt, it was found that the decline of businesses generally occurs due to two things, those are business problematic because of losing competition and corporate finance problematic because it is not used for business activities.

4.2.4 Interests and preferences

Based on the research result it finds that the MSE which successful and growing rapidly, started with high interest, hobby, and preference with business activities. In the less successful MSE or nearly bankrupt, generally businesses started not with interest, but rather because there is no other options. Almost all business activities are executed and fully entrusted to employee. Bankruptcy generally occurs because of dishonest employees. The result of this research is accordance to Mc.Clelland's opinion that the strength of interest and preference are important things for the basis quality of business enterprise activities.

4.2.5 Knowledge of decision's results

The researcher's finding shows that there is a correlation between MSEs institutional and education level. Leader/owner of MSEs who become informants in this research, have various educational background, starting from graduate of Elementary School up to magister (master program). The result shows that the higher the education level, the more understood in term of the importance of decision making relates to the operation and business continuity. Other finding reinforces the statement above, the level of strong analytical skills found on informants who have minimum bachelor degree education. With their analysis capabilities they finally able to plan business development.

It is in line with the opinion of Mc.Clelland who stated that it is important for businesses to understand that business result is basically the result of decisions which taken at the time of doing business.

4.2.6 The size of the results of business

The result shows that awareness about the importance of transaction from the operation result for business continuity, has not fully understood yet by MSEs. The finding shows that it was often the transactions did not do directly and earn money as a result of their sales. The weakness of system or order is positioning MSE does not have the power to make money as an outcome measure. This finding is reinforced by informants' complaints which stated that the biggest challenge of their business actually there is no certainty that their business activities' result can be received in form of money. The backlog of credit is a general condition that occurs in MSEs. It ultimately lead MSEs face a significant decreasing of business or even toward bankruptcy, because the velocity of money is locked.

4.2.7 Personal Satisfaction

Mc.Clelland (1987) suggests that personal and family motivational satisfaction is the driving passion to achieve business success. The result shows personal satisfaction as one of business success' indicator, not found in all informants. All of succes informant who has come on the acquisition on gaining personal satisfaction are minimal with bachelor educational background.

Other finding shows that most of the informants who are still facing problems with business management related to patterns of organization and order of business which is not clear. Associated with personal satisfaction, it is found a relation between the motivation of personal satisfaction and families that encourages spirit of success, with building systems and arrangements since the beginning of rational and appropriate operational needs of the business.

4.3 Enforcement of Rules

North (1990) stated that the enforcement of rules are important aspect in institutional concept, which serves to ensure the continuity existence of an institutional. In general, enforcement is manifested in sanction form. The research result shows that in running business activities in the whole MSEs researched, the enforcement aspects applied informally and carried through a family approach. These conditions do not support the institutional development, in the absence of clear sanctions, does not eliminate the deterrent effect of a person who made a mistake. Some MSEs which researched is suffering setback business and even into bankruptcy due to the weakness of enforcement.

V. Conclusion

First, MSEs in West Java contributes significantly to MSEs with national level. Second, the institutional in management of MSEs in West Java is still weak. This is due to the management of MSEs which has not been based on the basic principles and institutional dimensions both formal and informal, and the enforcement of institutional rules.

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