The Increasing Local Government Public Value Through Social Capital, Local Government Entrepreneurial Activities, and Local Government Innovation in Situbondo District

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ABSTRACT

This study aims to examine the relationship between social capital and local government entrepreneurial activities on local government public value with local government innovation as an intervening variable. This study used a quantitative method with a questionnaire as a data collection tool. Data analysis technique using path analysis. The results of the direct influence analysis show that there is a positive and significant influence of social capital on local government innovation, there is a positive and significant influence of social capital on the public value of local government, there is a positive but not significant effect of local government entrepreneurial activities on local government innovation there is a positive and significant influence of local government entrepreneurial activities on local government public value and there is an influence of local government innovation on local government public value. The indirect effect analysis shows social capital's positive and significant influence on local government public value through local government innovation. There is a positive but not significant effect shown by local government entrepreneurial activities on local government public value through local government innovation.

INTRODUCTION

The rapid advancement of information technology, particularly computational and internet technologies, has significantly impacted government administration through e-government. E-government involves using information technology by the government to establish relationships with citizens, businesses, and other organizations within the government(Putri & Mutiarin, 2018). E-government aims to enhance governmental performance, transparency, financial information accountability, and good governance.

Over the past two decades, social enterprise has been growing in various regions of the world, both in developed and developing countries (Alter 2006, 2007; Antonella 2009; Kerlin 2009, 2017). There are different definitions of social enterprise across countries because the meanings of 'social' and 'enterprise' are often interpreted differently depending on the historical background, ideological orientation, and socioeconomic context of the countries where social enterprise is located (Alter 2007; Defourny and Nyssens 2007, 2010, 2017; Kerlin 2009, 2017). However, it is generally considered that two components—market orientation and creating social values—are the essence of social enterprise (Alter 2007). Indeed, social enterprise can be defined as the organizational pursuit of blending social mission and market-oriented revenue generation.

Social enterprises are distinct from non-profit and for-profit firms in that they are market-oriented (i.e., generate revenue) while pursuing social goals rather than profits alone. Social enterprise attempts to achieve an equilibrium between social sustainability and economic growth (Alter 2007; Borzaga and Tortia 2010; Liao 2018; Pearce and Kay 2003; Salamon and Sokolowski 2016). Social enterprise lies at the crossroads of government, market, and civil society (Nyssens 2007), it engenders dynamic interactions with all three. In particular, the government is important in the social enterprise ecosystem because it is through pro-social enterprise policies that social enterprises have emerged and flourished (Agapitova, Sanchez, and Tinsley 2017).

This is because social enterprise not only supplements or complements government activities by providing public goods and services through its business activities in the market but also creates social values through its organizational activities based on its social mission (OECD/EU 2017). However, we still need to know more about what motivates local governments to promote social enterprises. As social enterprises tend to fulfill the unsatisfied demands of rural or heterogeneous areas and reinvigorate local communities (Cooney and Williams Shanks 2010; Dayson 2013; Munoz, Steiner, and Farmer 2014; Steinerowski and Steinerowska-Streb 2012; Teasdale 2010), we need to know more about the relationship between social enterprise and local government.

To fill the gap, this study aims to uncover the factors that motivate local governments to support social enterprise and the effectiveness of their policy tools. From the perspective of resource dependence theory (Pfeffer and Salancik 1978, 2003) this study hypothesizes that the fiscal constraints on local governments are the driving force behind local governments encouraging local social enterprises. As social enterprise can mobilize untapped resources from multiple sectors, it can address public challenges unmet by local governments, particularly those that lack fiscal resources. In addition, social enterprise can be a more efficient and effective policy tool for local governments in finding and satisfying heterogeneous needs because most social enterprises are small-scale and deeply rooted in their community and thus are more knowledgeable about what their community wants.

Furthermore, like non-profit organizations (Young 2000), social enterprises are less likely than private companies to adopt opportunistic behavior when they partner with local governments because they seek social missions without profit maximizing. This lowers transaction costs when local governments negotiate, monitor, and enforce contracts with their social enterprise partners. In this vein, it is both interesting and meaningful not only to examine the impact of fiscal constraints on the efforts of local government to support social enterprises but also to investigate whether the local government's social enterprise policy is effective in promoting social enterprises. This study contributes to a better understanding of the relationship between social enterprise and local government. It uncovers the extent to which a local government's fiscal constraints are associated with its efforts to promote social enterprises. In addition, it helps policymakers —particularly those working for local governments—better understand the relationship between social enterprise policy and social enterprise development.

To investigate the role of government in supporting social enterprises, more specifically, Defourny and Nyssens (2016) have attempted to unpack three critical principles of interest that play an important role in shaping a social enterprise's orientation. These are

the general interest related to the state's pursuit of public benefits; the mutual interest of the members joined in cooperatives or voluntary organizations; and the capital interest, mainly sought by private corporations. Kerlin (2009, 2017) has specified the role of government in promoting social enterprise by conducting a comparative analysis. Her Macro-Institutional Social Enterprise (MISE) framework uncovers how the social enterprise model is shaped by the type of government, culture, stage of economic development, model of civil society, and international development assistance.

The MISE framework examines how this model is influenced by the type of government, categorized by two criteria: 1) whether the government is democratic or authoritarian and 2) whether the government is supportive or unsupportive (Kerlin 2009, 2017). Incorporating macro-, meso-, and micro-level elements, the MISE framework unpacks the dynamic interactions between national, regional, and local governments in shaping the model of social enterprise. The Indonesian government has issued national policies and strategies for developing e-government through Presidential Instruction No. 3 of 2003. Since then, various public agencies have been striving to develop innovations in public services, such as establishing government agency websites (Sururi, 2019). E-government effectively creates public value for citizens (Kurniawan,2017), individuals, communities, organizations, and the state (Hadi et al., 2023).

In the state and societal relationships context, innovation becomes a strategic key when public policies can no longer meet society's demands and dynamics. Public policy innovation aims to provide novelty and benefits to society (Muflihah & Susanto, 2017). Innovation in the use of information technology has been widely implemented by local governments, including Rembang, to revitalize the tourism sector amid the COVID-19 pandemic (Septiningrum, 2022).

The organization generally focuses solely on the upkeep of financial capital assets, also known as physical assets. However, as the knowledge revolution began to talk about the ability to make capital measurable, grow, and disappear when employees left the organization in which they worked, the knowledge revolution began to talk about the ability to make capital measurable, grow, and disappear when employees also left the organization in which They worked. Employees might then be considered assets for organizations with intangible asset categories. Innovation has long been recognized in the foundational texts of social sciences as a primary source of social development (Prihantoro et al., 2021). On the other hand, innovation in the public sector can influence productivity growth (Muharam, 2019). The development of innovation by local governments is one of the governance policies at the local level. The development of regional innovations has clear legal foundations and serves as a benchmark for local governments in implementing innovation.

Human capital's ability to apply science and expertise to their work gives a company a competitive advantage. On the other hand, human capital does not age after it has been used to make a commodity. The nature of these innovations is simple and does not require significant budgets or extensive time. Human capital is understood in a variety of ways. To attain goals, human capital is a combination of knowledge, core competencies, and learning of human resources (Sinambela, 2021). People capital refers to an organization's human resources' overall experience, expertise, skill, enthusiasm, innovation, and quality. Employees' knowledge, skills, and competencies are human capital (Syahsudarmi, 2019). Human capital can be defined as an integration of information, learning, experience, core competencies, skills, capabilities, and abilities that must be owned by every employee. This study utilizes the empowerment of social capital as a research variable, defined as the perspective, design concept, operational implementation, monitoring, and evaluation of social activities involving community members.

The significance of social capital application in community life is closely related to local government management. The crucial role of social capital in regional development allows regions to optimize their potential (Vårheim, 2014). This study applies resource dependence theory to analyze how local governments promote social enterprise within their district. The

central government typically has more access to the resources that are the basis of power (Pfeffer and Salancik 2003) than local governments.

In some countries, the latter rely on the central government for most of their financial resources—which are critical for their public service provisions. However, the grants transferred to local governments by the central government, such as categorical grants, tend to come with accountability requirements, thereby diminishing the level of discretion of local governments. This dependence on the central government increases the uncertainty of local governments in providing relevant public services and goods to citizens and hinders them from exercising autonomy to create, allocate, and distribute values in the community. Moreover, as governments fail, local governments experience difficulties in meeting residents' heterogeneous or small-scaled demands for public goods and services; urban areas tend to reveal heterogeneous demands while rural areas are likely to show small-scaled demands (Douglas 1987; Le Grand 1991; Paarlberg and Zuhlke 2019; Steinberg 2003; Wallis and Dollery 2001; Weisbrod 1975). This failure requires local governments to be more creative in overcoming both supply and demand obstacles, particularly by promoting collaborative governance (AbouAssi et al. 2019). As fiscal constraints continue to challenge local governments, they have not only increased collaborative governance through contracting with each other (Carr, LeRoux, and Shrestha 2009; Marvel and Marvel 2008) but also come to regard nonprofit organizations as well as private companies as alternative public service delivery partners (Abels 2012; Chasey, Maddex, and Bansal 2012; Van Slyke 2003).

To meet the public challenges associated with limited resources, public managers are employing various strategies, including a mix of public, private, and non-profit partners, as well as intergovernmental collaboration with different levels of government another important component involved as a research variable is entrepreneurial activities, built as the implementation of an entrepreneurial spirit by the Situbondo city government through policy implementation to advance regional potential with anti-mainstream marketing strategies. This study aims to test the model and analyze the influence of social capital and entrepreneurial activities through regional innovation to achieve the governance of public value. This research is expected to provide a deeper understanding of the relationship between social capital, local government entrepreneurial activities, regional government innovation, and local government public value. The findings of this study are expected to contribute insights for developing more innovative and responsive public policies at the local government level and enhance the overall quality of public services.

METHODS

Research Design

This study was designed using a quantitative descriptive research approach, a type of explanatory research that tests the truth of hypotheses and examines one variable in association with other variables. (Sugiyono 2017:8). The type of research that will be used in this study is explanatory research, namely causal and collecting data directly with a questionnaire to the respondents to obtain the required data.

The research population is all employees who are in the regional work unit (SKPD) environment in Situbondo Regency. The sampling technique is cluster sampling. This is because the number of regional employees is spread across 36 SKPDs. Each SKPD selected 10 employees to represent the SKPD cluster. The total sample is 360 respondents. The total number of respondents who answered the questionnaire completely was 135 people. The research time is 1 month, namely April 2021. Sugiyono (2008), explains that the cluster sampling technique is used to determine the sample if the object to be studied is very large. Azwar (2010), also states that sampling by cluster method is randomizing groups, not individual subjects.

Variable Operation Definitions

The variables used in this study are explained in the form of operational definition tables and variable indicators in Tabel 1.

Data Analysis Techniques

Research data analysis technique with path analysis Structural Equation Modeling (SEM) as an analysis tool that identifies the concept's dimensions as a combination of factor analysis and multiple regression. This study uses the Warp PLS software consisting of model measurement, structure, and hypothesis testing. Model measurement determines the specification of the relationship between latent constructs, namely the relationship of variables X, variable Z, and variable Y with a reflective approach, and the structure of the model determines the relationship between latent constructs and their indicators with a formative approach.

Table 1. Variable Operational Definitions and Variable Indicators

Variable type	Variable name	Variable Operational Definitions	Indicator
Independent variable	*social capital*(X1)	*social capital* is the actual or potential embodiment of the concept of ownership of a network or interrelationships between institutions (Meier, 2002).	Identity values, Conflict Potential, togetherness and cooperation values, Services, and Networks (Grootaert et al., 2002).
	entrepreneur-government interactions(X2)	*Entrepreneur-government interactions* are a form of involvement and an active role to implement government bureaucratic policies with an entrepreneurial spirit and spirit (Klein et al., 2010).	Innovative, Decentralized, Competition, and Creativity, competence. (Osborne, et, al, 2005)
Dependent variable	*public value governance*(Y)	*Government public value* is a form of synergy between organizational leaders to create public value to achieve strategic dynamics of public service components (Arsid et al., 2019).	The value created by the government through the provision of services based on applicable laws and regulations. Public values can help an effective and efficient democratic government system by involving community participation. (Mardiasmo, 2002).
Moderating variable	regional innovation development (Z)	Regional innovation is a system that connects institutions to contribute jointly to the development of technology, concepts, and ideas for regional innovation policies (Homburg & Fürst, 2005).	Robbins & Mary Coulter (2010), namely organizational structure, culture, and management of human resources.

RESULT AND DISCUSSIONS

Validity Test

The validity test of the research instrument shows that all questions representing variable indicators are valid with a value of more than 0.5 (Ghozali, 2014) which is shown in the table 2.

<p align="center">Table 2. Validity Test</p>

Variable	Indicator	*Normalized structure loading*	Standard	Information
social capital(X1)	X11	0.642	0.500	Valid
	X12	0.679	0.500	Valid
	X13	0.727	0.500	Valid
	X14	0.667	0.500	Valid
Entrepreneurial activity(X2)	X21	0.714	0.500	Valid
	X22	0.604	0.500	Valid
	X23	0.808	0.500	Valid
regional innovation development (Z)	Z1	0.904	0.500	Valid
	Z2	0.661	0.500	Valid
	Z3	0.913	0.500	Valid
	Z4	0.517	0.500	Valid
public value governance(Y)	Y1	0.626	0.500	Valid
	Y2	0.718	0.500	Valid
	Y3	0.628	0.500	Valid
	Y4	0.658	0.500	Valid
	Y5	0.601	0.500	Valid

Source: Data Processed by Warp PLS 5.0

Reliability Test

The reliability test is used for measuring the constancy of the research instrument with the provision of a reliability value above 0.600 as a reference in the reliability test (Ghozali, 2014) which is shown in the following table 3.

Pat Analysis Test

The intended path analysis test test the magnitude of the direct influence of the indirect influence of the research model. The following is an explanation of the path analysis test in figure 1.

<p align="center">Table 3. Reliability Test</p>

Testing	Variable	Test results	Standard	Information
Composite reliability coefficients	*social capital*(X1)	0.904	0.600	Reliable
	Entrepreneurial activity (X2)	0.809	0.600	Reliable
	regional innovation development (Z)	0.830	0.600	Reliable
	public value governance(Y)	0.921	0.600	Reliable
Cronbach's alpha coefficients	*social capital*(X1)	0.856	0.600	Reliable
	entrepreneur-government interactions(X2)	0.642	0.600	Reliable
	regional innovation development (Z)	0.724	0.600	Reliable
	public value governance(Y)	0.892	0.600	Reliable

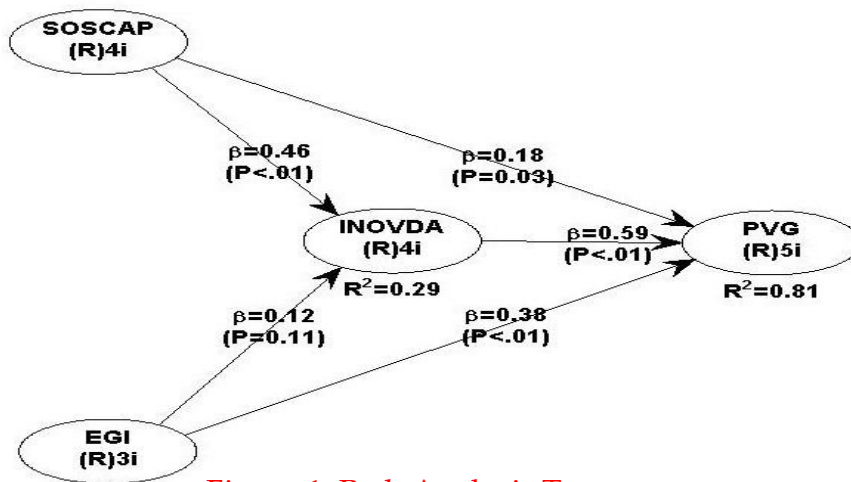Source: Data Processed by Warp PLS 5.0

Figure 1. Path Analysis Test

The results of the path analysis testing model, show that the coefficient of variance for regional innovation R2 is 0.29, which is influenced by social capital and entrepreneurial activity. The value of the coefficient of variance for public value government R2 is 0.81 which is influenced by the linkages between social capital, entrepreneurial activity, and regional innovation development.

Table 4. Analysis of Direct Influencer

Information	Variable	SosCap	KegWira	Inovda	PublicVal
Path coefficients	SosCap				
	Entrgov				
	Inovda	0.461	0.120		
	PublicVal	0.180	0.380	0.590	
P Value	SosCap				
	EntrGov				
	Inovda	<0.001	0.11		
	PublicVal	0.03	<0.001	<0.001	

Source: Data processed by PLS

Table 5. Analysis of Indirect Effects

Variable	Indirect influence	SosCap	KegWira
EfkOrg	Path Coefficient	0.270	0.069
	P-value	<0.001	0.162

Source: Data processed by PLS

Table 6 Total Effect Calculation

Variable	Total Impact	SosCap	KegWira
EfkOrg	Path Coefficient	0.461	0.117
	P-value	<0.001	0.114

Based on the results of these calculations, it can be analyzed as follows: the coefficient of influence of the social capital variable on regional innovation development is 0.461, and a p-value <0.001. The influence of social capital shows a positive and significant coefficient because the p-value is less than 0.05. This shows that the implementation of social capital that is well implemented will increase the development of regional innovation. These results support the research of (Weerts & Sandmann (2010); Fleming et al. (2007) stated that social capital will increase innovation productivity. The influence of entrepreneurial activities on the development of regional innovation is 0.120 with a p value of 0.11. The effect of

entrepreneurial activity shows a positive but significant coefficient because the p-value is less than 0.05. This shows that the role of entrepreneurial activities has not been able to optimize regional innovation development. This result is in line with the results of Fleming et al. (2007) test which states that the involvement of small groups cannot increase the development of innovation.

The coefficient of influence of social capital on public value is 0.180 with a p-value of 0.03. The influence of social capital shows a positive and significant coefficient because the p-value is less than 0.05. This shows that the implementation of social capital that is implemented properly will increase the public value of government. The influence of entrepreneurial activities on public value government is 0.380 with a p-value <0.001. This shows that the greater the active role of government officials with an entrepreneurial spirit in carrying out their work, the more public value interaction will increase. The influence of regional innovation development on public value government shows a coefficient value of 0.590 with a p-value <0.001. The influence of regional innovation development shows a positive and significant coefficient because the p-value is less than 0.05. This shows that the innovations carried out by the local government will increase the government's public value in the eyes of stakeholders and also the community. The results of this study do not support the research of Andersson & Karlsson (2004); McCann & Ortega-Argilés (2013) which state that regional innovation is less diversified in regional development.

The coefficient value of the indirect effect of social capital on public value government through the development of regional innovation is 0.270 with a p-value of 0.001, the indirect effect of social capital on public value government through the development of regional innovation is significant because the p-value is less than 0.05. This shows that the optimal implementation of social capital will increase the development of regional innovation toward achieving a public value government. The coefficient value of the indirect effect of entrepreneurial activity on public value through regional innovation development shows a coefficient value of 0.069 with a p-value of 0.162. The indirect effect of entrepreneurial activities on public value government through the development of regional innovation is not significant because the p-value is greater than 0.05. This shows that the influence of the role of the government apparatus with the soul and spirit of entrepreneurship cannot be carried out optimally so that it is less able to increase the development of regional innovation and cannot contribute to increasing entrepreneurial activity. As for the calculation of the total effect, it is known that the total effect of social capital variables on public value government through the development of regional innovation is 0.461 with a p-value <0.001, while the total effect of the influence of entrepreneurial activities on public value government through the development of regional innovation is 0.117 with a p-value of 0.114.

CONCLUSION

Research conducted in the local government of Situbondo Regency examines the influence of social capital, entrepreneurial activities, and regional innovation directly and indirectly on government public values. The results showed that for the analysis of direct influence, namely, there was a positive and significant influence of social capital on regional innovation, there was a positive and significant influence of social capital on public value government, there was a positive but not significant influence of entrepreneurial activity on regional innovation, there was a positive and significant influence of entrepreneurial activity on public value, and there is the influence of regional innovation on public value government. The indirect effect analysis shows social capital's positive and significant influence on government public values through the development of regional innovations. Meanwhile, entrepreneurial activities show a positive but insignificant influence on public value government through regional innovation. The limitations of this research are the data collection method, which only uses questionnaires in the form of closed questions and the relatively short research time so that it does not dig up various information related to the research theme.

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