

Business Management Model to Improve the Performance of Small and Medium Enterprises in West Java

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ABSTRACT

Several scholars have studied the Small and Medium Enterprise (SME) performance problems with dependent variables such as total employees, company turnover & age, education level, business experience, and gender. Therefore, this study aims to improve the SME performance while using governance guidelines and holistic marketing. The samples were the managers and SME entrepreneurs living in Bekasi, West Java, Indonesia and multi regression analysis was used for hypothesis testing. Therefore, it is expected to produce an effective and understandable business management for Small and Medium Enterprises (UKM). The results showed that SMEs performance was affected in Bekasi because the financial governance model positively and significantly affected the budget, while the holistic marketing positively and significantly affect the Integrated marketing program.

Keywords: SME performance, financial governance, holistic marketing governance

Introduction

The critical challenge facing the sub-districts with low potential LQ value for SMEs include Lack of Financial Management & Transparency, Human Resources Quality (HR), Weak Business Network and Market Penetration Capability, SME Entrepreneurs Mentality, Limited Market Access, and Regional Autonomy Implications. Also, Lack of Cooperation with Financial Institutions, Unconducive Business Climate, Limited Business Facilities &

Infrastructure, Illegal Fees, Free Trade Implications, Products Nature with Short Durability, and Limited Access to Information are part of these problems (Ministry of Cooperatives and SMEs RI, 2012). The sub-districts facing the above problems include South and North Bekasi, Jati Perfect, Medan Satria, Pondok Gede, and Pondok Melati. Furthermore, the SME has some limitations that include educational background without accounting knowledge, lack of discipline and obedience in the implementation of company's accounting records, and insufficient funds to hire accountants or buy accounting software. The marketing strategy is unsatisfactory due to high costs, lack of distribution access, and adequate marketing media that enable the products/services to be less attractive to consumers.

Therefore, it is necessary to develop a business management model for SMEs, especially in financial governance and holistic marketing. This is to understand the importance of preparing their financial statements and to compete in a competitive market.

Numerous studies have shown that the SME performance can be improved with human resources competencies and, some are even concerned about the management and organizational development model. Meanwhile, the challenge facing this study is the actual type of business management model capable of improving the SMEs performance in West Java.

Methodology

This study examined the effect of independent variables proxied by the financial governance models and holistic marketing programs on the SMEs performance.

A total of 700 people comprised of managers and SME entrepreneurs living in Bekasi Regency, West Java, Indonesia was selected as participants for this study using purposive sampling based on the established inclusion criteria. These participants' education levels are high school, undergraduate, postgraduate and they have at least 1 year of work experience, as well as a position in finance, or be an SME Marketing manager.

Data were collected using questionnaires that contain questions related to the financial governance model, holistic marketing program, and the SMEs' performance through outreach activities and training.

The first independent variable is the financial governance model consisting of content or materials, supervision, and training team for socialization that is measured by the SME entrepreneur perception using a Likert scale.

Also, the second independent variable is the holistic marketing model consisting of relationship, integrated, internal, and social responsibility programs measured by SME entrepreneur perception using a Likert scale.

Meanwhile, the dependent variable is the level of SMEs performance by determining the sales results, company income, target market, solvency ratios, profitability, and liquidity measured by SME entrepreneur perception using the Likert scale.

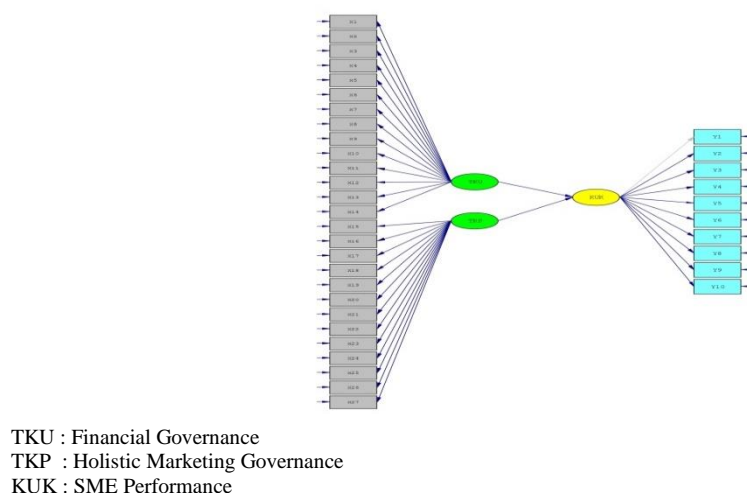
The study was conducted in the Bekasi district and the report on Financial Governance & Holistic Marketing of SME products was carried out in the Cooperative and the Regional Government Trade Office Hall, West Java, Indonesia.

Data analysis was carried out using the SEM (Ghozali, Imam, and Fuad, 2014) to measure the construct indirectly through indicators and latent variables.

Meanwhile, SEM was used to analyze the relationship between the indicator and its latent variable. This kind of relationship is known as the structural equation which involves measurement errors. In SEM, the dependent variable is called the endogenous while the independent variable is called the exogenous.

This study analysis provides a clear picture of several factors capable of improving the SMEs business performance and the method used is in line with the aims meant to be achieved.

Figure 1. Structural Model



Source: Output Lisrel 8.8 (2020)

Table 1. Summary of SEM. Calculation Results on Structural Model Equations

Measurement Equation		Path Coefficient (Standardized)	Standard Error (SE)	Value Calculate	Test results ($\alpha=0.05$)	R ²
Latent Variable	Latent Variable Exogenous					
SME Performance (η_1)	Financial Governance (ξ_1)	γ_1	ζ_1	γ_1/ζ_1	Significant/No	
	Holistic Marketing Governance (ξ_2)	γ_2	ζ_1	γ_2/ζ_1	Significant/No	

Source : Ghozali in Supranto, J&Nandan L

(2013:131), processed.

The hypothesis that is built is :

H₁: Financial Governance Model improve the SMEs' performance.

H₂: The Holistic Marketing Program improve the SMEs' performance.

H₃: Both the Financial Governance Model and the Holistic Marketing Program improve the SMEs performance.

Theoretical basis

Financial management using accounting does not only provide ongoing reports on financial activities, but also provide basic information in making strategic decisions regarding business development (Tambunan, Tulus T. H. 2012).

According to Kotler and Keller (2013), Holistic Marketing consists of four components that include relationship, integrated, internal, and social responsibility. In the study of Mulyadi, in Hanuma (2010), company performance is regarded as the result of continuous decisions made

by management. Also, Kotler and Keller (2013) suggest that the measurement of company performance is based on ROI and not on profit margins.

The study of Putri W, Anggraeni S, and Lindawati K (2014), brings about the application of the House Model which has both encouraging and inhibiting factors because the business vision was not only meant to seek personal gain but also provide jobs or empower the community to have a decent income. The SME performance improvement model have numerous encouraging factors including the availability of human resources quantity, product uniqueness, access and supporting infrastructure, capital assistance from various parties, specific product development, close kinship, and short managerial hierarchies. Meanwhile, the inhibiting factors include the low competence and motivation of human resources, lack of implementation standards supervision, the limited use of technology for marketing, the owner's low willingness to access capital information, job description not clearly spelled, less stringent sanctions, and the bureaucracy complexity.

However, the new business management model consists of holistic marketing and financial management subsystem to improve the SMEs performance in the product and service sector. The study of I.D.K.R. Ardiana, I.A. Brahmayanti, and Subaedi (2010) showed that knowledge, ability, and skills variables significantly affect SMEs' performance in Surabaya city. According to S. Ariawan *et al* (2017), the cost leadership which significantly affect the SMEs performance was used by Karawo the main commodity in development program.

The small and medium enterprises ensure sustainability to have high competitively, thereby overcoming business sluggishness. This study is expected to produce *effective and understandable business management to be used for SEM that has an unsatisfactory* human resource quality. However, the study conducted in 2006 showed that marketing strategies are capable of increasing sales while service quality increase satisfaction. Also, the study conducted in 2010 showed that advertising budgets have the capability to increase sales. In 2017, a Customer Equity management model was discovered and scholars participated in IFRS 9 Financial Instrument Implementation in 2018. Furthermore, in 2019, the journal Accounting Competency Test Model was written. The study conducted in 2020, focus more on a holistic financial and marketing management system as the most important instrument in improving and measuring SME business performance.

Meanwhile, the financial governance model includes procedures for preparing budget plans, financial reports, and managing sources of business funds. This model is applied by SME

entrepreneurs to analyze and make decisions in running and developing their business. Hence, when these financial governance procedures are used properly and consistently, the SME owners find it easy to understand whether the management performance is good or not. A holistic marketing program consist of four components that include relationship, integrated, internal, and social responsibility. This marketing program needs to be carried out simultaneously to maintain and increase SMEs market share. Also, it requires all organizational units to work together by using their resources to achieve success which probably improves SMEs' business performance.

Furthermore, SME entrepreneur or managers result in good business performance when a standardized financial governance model as well as a consistent and sustainable holistic marketing program were used. The SMEs' business performance becomes more when the financial governance and holistic marketing activities are better.

Numerous studies such as I.D.K.R. Ardiana, I.A. Brahmayanti, and Subaedi (2010) with HR Competence and Influence on the SMEs Performance in Surabaya, showed that the respondents were mostly SLA graduates with an average age of 25-40 years. Also, a total of 20 employees with working experience for 20 years and below were participants in this study. Meanwhile, they were taken from the small business cluster under the guidance of the Cooperatives Office. The results showed that the Human Resources competence is significantly related to SMEs performance. Knowledge variable does not affect the performance of Small and Medium Enterprises because the value is negative and very small but skills and abilities variables do. However, when further experiment was carried out, the three variables significantly affect the SMEs' performance in Surabaya city but the ability variable has the most dominant influence.

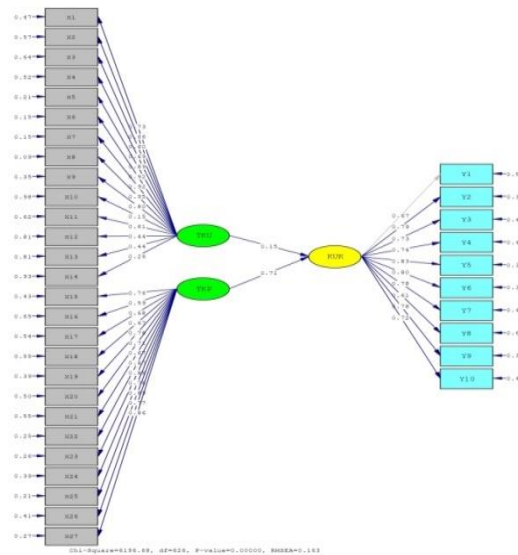
According to I.P.L.E Sudiarta *et al.* (2014), two factors including internal and external affect the MSMEs performance in Bangli Regency but the internal has the most dominant influence. The internal factors include marketing, access to capital, entrepreneurial skills, human resources, financial knowledge, and business plans.

Meanwhile, the study of Noor Azmi bin Hashim, Saqlain Raza, and Mohd Sobri Minai (2018) showed that better performance of small firms, entrepreneurial competence, and dynamic capabilities were the prospective solutions to this significant influence. In addition, economic fluctuations with volatile and unpredictable markets, as well as dynamic capabilities are the most important factors to affect the performance of small companies.

Results and Discussion

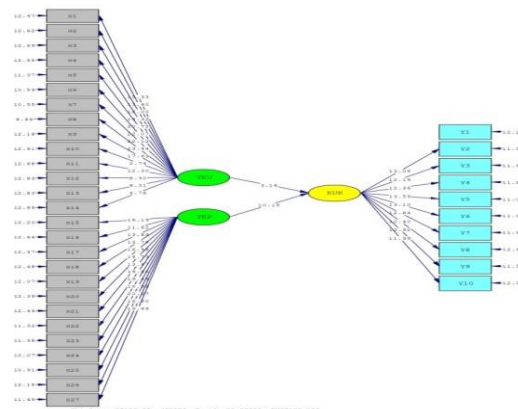
Based on the analysis results with Lisrel 8.80, the overall structural equation model is shown below in Figure 2 and 3:

Figure 2. Standardized Structural Model



Source: Processing Results with LISREL 8.80

Figure 3. Structural Model t-value



Source: Processing Results with LISREL 8.80

Figures 2 and 3 show the effect of independent variable on the dependent variable and the results are shown below in Table 2 which also shows the coefficient values along with the t-count. Meanwhile, when the structural path has a value of t-count 1.96, the coefficient of the

path is declared significant, but if t-count is < 1.96 , then the reverse is the case.

Table 2. Significance Between Variables

No	Structural Track	Path coefficient	<i>t-count</i>	<i>t-table</i>	Test results
1	Financial Governance--> SME Performance	0.15	2.57	1.96	Significant
2	Holistic Marketing Governance --> SME Performance	0.71	8.31	1.96	Significant

Source: Processing Results with LISREL 8.80

According to the hypotheses proposed above, the structural model (standardized and t-value) and structural equations are obtained using the Lisrel 8.80 program.

Structural Equations :

$$KUK = 0.15*TKU + 0.71*TKP, \text{ Errorvar.} = 0.33$$

$$R^2 = 0.67$$

$$(0.060) \quad (0.085) \quad (0.064)$$

$$2.57 \quad 8.31 \quad 5.20$$

The first hypothesis (H_1) states that financial governance affects the performance of SMEs. Hence, the above structural equation results show that the path coefficient is 0.15 with a t-count of $2.57 > 1.96$, thereby enable it to be significant. Meanwhile, the magnitude indicates that the direct influence of financial governance on SME performance is 0.15 or 15%. This, therefore, shows that the financial governance is not good, especially in the accounting dimension and managing business capital development. Also, it has a very little positive and significant effect on improving the performance of SMEs in Bekasi, West Java, Indonesia. The second hypothesis (H_2) states that Holistic marketing governance affect Small and Medium Enterprises performance. Therefore, the above structural equation results show that

the path coefficient is 0.71 with a t-count of $8.31 > 1.96$, thereby enable it to be positive and significant. Meanwhile, the magnitude indicates that the direct influence of Holistic marketing governance on SME performance is 0.71 or 71%. This, therefore, enable the model level to be high in improving the performance of Small and Medium Enterprises in Bekasi.

In addition, the third hypothesis (H_3) states that financial governance and holistic marketing governance simultaneously affect SMEs performance. Hence, the above structural equation results show that the R^2 of the variables of the two models is 0.67 with a t-count of $5.20 > 3.84$ thereby enable it to be significant. This indicates that the contribution of the two models on SME performance is 67%, while the remaining 33% is an influencing factor. The holistic marketing is the most dominant variable influencing the SMEs performance.

In financial governance, accounting is the most dominant dimensions that influence the performance of SMEs, while in the holistic marketing governance, the integrated is the main influencer.

Therefore, better communication with customers on the integrated dimension in building holistic marketing governance is capable of increasing sales thereby leading to the increase of SMEs performance in Bekasi, West Java, Indonesia.

Conclusions and suggestions

1. The first hypothesis states that financial governance affects SMEs performance. Therefore, the structural equation results show that the path coefficient is 0.15 with a t-count of $2.57 > 1.96$, thereby enable it to be significant. This, then, shows that the financial governance of SMEs is not good, especially in the accounting and managing business capital development. Furthermore, it has very little effect in improving SMEs' performance in Bekasi, West Java, Indonesia.
2. Also, the second hypothesis states that holistic marketing governance affects SMEs performance. The structural equation results show that the path coefficient is 0.71 with a t-count of $8.31 > 1.96$, thereby enable it to be positive and significant. Therefore, the influence of Holistic marketing governance is relatively high in improving SMEs' performance in Bekasi, West Java.
3. The third hypothesis states that both the financial governance and holistic marketing governance affects SMEs performance. Therefore, the structural equation results show that the R^2 of the variables of the two models is 0.67 with a t-count of $5.20 > 3.84$, thereby

enable it to be significant. This indicates that the contribution of financial governance and holistic marketing governance on SME performance is 67%, while the remaining 34% is an influencing factor. Holistic marketing is the most dominant variable affecting SMEs performance.

Based on the conclusions above, several constructive suggestions are provided for future SME business development as follows:

1. SME entrepreneurs need to pay attention to the implementation of business financial governance by using EMKM standard accounting that have been set by the government. However, the compilation of regular and systematic financial reports helps in convincing investors and institutions to provide business loans, thereby, improve SMEs performance.
2. Also, to increase SMEs' income, the quality of products or services that satisfy customers and make them loyal needs to be improved. Therefore, SMEs need to build customer loyalty through sustainable holistic marketing management to enable SMEs performance to continue rising in the future.
3. In addition, to improve the performance in a sustainable manner, SMEs need to always improve financial governance that is accountable and transparent. Also, SMEs need to implement consistent holistic marketing governance, especially in integrated programs to enable customers becomes more loyal.

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