

LINKAGE OF INFLUENCING VARIABLE PERFORMANCE IN SMALL MEDIUM ENTERPRISES (SMES): STUDY CASE AT CV. HANIMUN

Prof. Dermawan Wibisono^a, Marthin Lukas S. Pakpahan^b,
Shinta Asih M. Hutasoit^c and YudithPradipta^d
^{abcd}MBA ITB, Bandung, Indonesia

Corresponding email: dwibisono@sbm-itb.ac.id

Abstract

Small medium enterprises (SMEs) has contributed a significant contribution toward the growth of annual Indonesian' economic. As sample, we use Bandung as one of the premier tourist destination in Indonesia which its economy highly influenced by the SMEs in culinary and fashion. This paper aims to attest previous research (Anggadwita & Mustafid, 2013) on SMEs in Bandung, regarding of identification of influencing factors toward the performance of SMEs. The method that we used is collecting data from CV. Hanimun as a case study will then apply the tools of IPMS and regression analysis to the attained data. The result of this research is linkage of influencing variable performance in SME object. It shows that competence of human resource is highly influencing sustainability (0.987) and innovativeness (0.793). It is expected that this research could contribute as literature material while also help the SMEs owner to increase its performance in competitive environment.

Keywords: Integrated Performance Management System (IPMS), Regression Analysis, Small Medium Enterprises (SMEs)

1. Introduction

Research Background

Based on Central Agency Statistic data in 2012, Indonesia has a number of SMEs 56,534,592 units, 2.41 % growth in the number of SMEs, SME employment number 107 657 509 people, the growth of total employment SMEs 5.83%, the contribution of SMEs in GDP (constant prices) Rp.1504928.20 billion, growth of the GDP contribution of SMEs 9.90%, the value of exports of SMEs Rp.208 067 billion, and the growth of SMEs export value of 11%.

Bandung is one of the premier tourist destinations in Indonesia. The foundation of the region's economy is strongly influenced by the income from the tourism sector, especially the culinary and fashion. As for the culinary industry in Indonesia, it is dominated by SMEs rather than big chain corporation. This data can be seen at Central Agency Statistic website, from data in 2014, culinary industry at micro enterprise has 1125425 units, small enterprise has 73066 units, also medium and large enterprise has 5793 units.

According to Armstrong (1994), individual performance is based on understanding of knowledge, skills, and behavioral skills necessary to do a good job. SME survey conducted by Baldwin, Dimunation and Alexander(1995) portrayed that labor skill is an important key variable for the company growth. Based on Anggadwita (2013) in her research of identification of variables which influencing the performance of SME concluded that entrepreneurial aspect influenced SMEs performance higher than competence of human resource. Meanwhile, innovativeness and sustainability does not affect the performance of SMEs.

This paper is the development of research on the variables that influencing the performance of SMEs through the calculation of a survey conducted by Anggadwita and Mustafid (2013).

The differences between previews research and this actual research is the method. The previews research use Statistical Product and Service Solutions (SPSS) method and this paper will use Integrated Performance Management System (IPMS) method to analyze company performance.

Company Profile

CV. Hanimun is a family business that was established in 2007 by Mr. DuddieSupriadi, Mrs. Herlina, AnggaJanuarKusumahdinata and SatriaMaulanaKusumahdinata. This business began from a small scale, on the 2008 this business tried a new method by using food truck as a marketing process, on 2009 make a partnership with KedaiMandiri and Carrefour on 2014. CV. Hanimun has 20 employees, 9 employees do the production process and the rest are spread to other outlet like Sarasa and Carrefour.

2. Literature Review

Small Medium Enterprises (SMEs)

SMEs have historically been a major player in the Indonesian economy, especially as the largest provider of employment and primary or secondary source of income for many Household (Tambunan, 2006). SME sector includes a variety of fields, including agriculture, trade, mining, processing, service and others.

Various definitions of small and medium enterprises in Indonesia include the Ministry of Cooperatives and Small and Medium Enterprises (Menengkop and SMEs), the Central Agency Statistic and UU No.20 years 2008. According to Ministry of Cooperatives and Small and Medium Enterprises that is a Small Business, including Micro Enterprises is a business entity that has a net worth of more than 200 million, excluding land and business building and has annual sales of 1 billion. Meanwhile, Medium Enterprises is a business entity that has a net worth greater than 200 million – 10 billion excluding land and building.

Performance Management

Performance management is essential to show performance against targets and to enable opportunities for improvements to be recognized. Performance Managements is intricately linked to accounting, its origins dating back to the inception of the double-entry accounting system in the middle age (Kennerly& Neely, 2003).

Integrated Performance Management Systems (IPMS)

Integrated Performance Management Systems are thought to be an important driver of organizational performance. According to Malmiand Brown (2008)there has been very little to no research addressing their design or implementation. Integrated is used to qualify a performance Management system or management control system.

IPMS is defined as a closed-loop system of interdependent strategies, tools and tactics design to measure, monitor, align and improve performance across the three levels of organization: strategic, operational and individual. The core purpose of an IPMS is to facilitate organizational alignment. While the need for organizational alignment is intuitively self-evident, “practice shows that communication and integration between the three levels of organizational performance is limited” (Brudan, 2010).

A number of performance management frameworks have been developed over the past 20 years. Ferreira and Otley offer one of the most comprehensive elaborations on the compositions of IPMSs, identifying 10 distinct components (Ferreira &Otley, 2009: vision and mission, key success variables, organization structure, strategies and plans, key

performance measure, target setting, performance evaluation, reward systems, information flows, systems and networks and performance management system use.

Variables for Measuring Performance

1. Entrepreneurial Aspect

Entrepreneurial aspect is important because one of the critical success variables in the performance of a business organization is human behavior that will run a variety of other management aspects in that business. The research results Anggadwita and Mustafid(2013), Entrepreneurial aspect influenced SMEs performance higher than competence of human resource.

2. Competence of Human Resource

Competence is closely related to performance, both individual performance and the performance of organizations. Competence of human resources is needed to face new challenges in the face of increasingly fierce market competition. Competence is defined as the ability to perform tasks that include workplace skills that supported by knowledge and skills in accordance with conditions imposed.

3. Innovativeness

Aspects of the product indicate that SMEs only covers two aspects: product creativity and technology used. Technology used to assist the company in obtaining distinctive competencies that allows companies to produce better products than competitors. According to Anggadwitaand Mustafid (2013), innovativeness does not affect the performance of SMEs because the respondents do not need design of their product.

4. Sustainability

Sustainability is very important variable in measuring the performance of an SME, as it demonstrates the viability of SMEs in maintaining and developing their business. Profitability represents the ultimate goal for any organization and is the capacity to make profit (Rolstadas, 1998). The research results of AnggadwitaandMustafid (2013) show that the intention to develop the business is low.

3. Methodology

This research is a development of previous research by AnggadwitaandMustafid(2013), using data from CV. Hanimun as a study case, we want to attest the result of prior research by SPSS method. The result stated that competence of human resource and entrepreneurial aspect are the most influential factor for SMEs. The result also stated that innovativeness and sustainability were not the influential factor for SMEs. We used the perspective of IPMS to categorize the performance variable data of CV.Hanimun into three perspectives. They are: resource capability (entrepreneurial aspect and competence of human resource), internal process (innovativeness and sustainability) and organizational result (profit).

We collected the data by interviewing the owner of CV. Hanimun itself. The historical data (January 2013 - June 2015) consist of capital addition, number of employee, number of business partner, number of products, and profit. We classified data above into IPMS variable that we have previously determined. Number of employees and capital addition are classified into entrepreneurial aspect and competence of human resource. Number of products and number of business partner are classified into innovativeness and sustainability. Profit is classified into profit (organizational result). Then, we use the classified data to determine linkage between the performance variables in Small Medium Enterprises (SMEs) using IPMS tools with regression analysis.

Integrated Performance Management System (IPMS) is one method performance Management that aims to describe the performance Management system within the meaning of appropriate, in the form of integration, as effectively and efficiently as possible. Integrated

methods Performance Management Systems developed by the Centre of Strategic manufacturing University of Strathclyde, Glasgow.

The method that we used in this researched is to find a linkage between variables that are under the frameworks of the IPMS that we have determined before with the help of regression method that can be performed in Microsoft Excel. Steps taken to obtain the linkage results are as follows:

- a. Determining variable of IPMS perspective consisting of resource competence, internal processes, and organizational result.
- b. Collect the data needed to fulfill a table variable, in this study we used data of 30 months from the CV. Hanimun since January 2012 until June 2015.
- c. If the necessary data is complete, then the search can be done in Microsoft Excel regression. Comparison of x and y for this regression is variable framework IPMS right side act as x and variable framework IPMS left side act as y.
- d. To make the linkage scheme of the regression results is to look at the results of the regression adjustment. If the result is more than 0.6, the relationship between the variables of the IPMS strong framework, whereas if the result is less than 0.6, the relationship between the variables IPMS framework is weak.

In closing the research, made a conclusion on all steps and results of research followed by giving some good recommendation for further research, as well as to the object of research.

4. Result and Discussion

Here are the regression results from performance variable data of CV. Hanimun using IPMS tools.

For table 1, the X ordinate is the Innovativeness and the Y ordinate is Entrepreneurial Aspect. The result shows 0.000589592, it means there is low relationship between Entrepreneurial Aspect and Innovativeness.

Table 1. Regression Result between Entrepreneurial Aspect and Innovativeness

<i>Regression Statistics</i>	
Multiple R	0.187221845
R Square	0.035052019
Adjusted R Square	0.000589592
Standard Error	0.698725789

For table 2, the X ordinate is Sustainability and the Y ordinate is Entrepreneurial Aspect. The result shows 0.002002499, it means there is low relationship between Entrepreneurial Aspect and Sustainability.

Table 2. Regression Result between Entrepreneurial Aspect and Sustainability

<i>Regression Statistics</i>	
Multiple R	0.190830307
R Square	0.036416206
Adjusted R Square	0.002002499
Standard Error	0.849435531
Observations	30

For table 3, the X ordinate is Innovativeness and the Y ordinate is Competence of Human Resource. The result shows 0.793202114, it means there is high relationship between Competence of Human Resource and Innovativeness.

Table 3. Regression Result between Competence of Human Resource and Innovativeness

<i>Regression Statistics</i>	
Multiple R	0.894613367
R Square	0.800333076
Adjusted R Square	0.793202114
Standard Error	0.317839513
Observations	30

For table 4, the X ordinate is Sustainability and the Y ordinate is Competence of Human Resource. The result shows 0.987637979, it means there is high relationship between Competence of Human Resource and Sustainability.

Table 4. Regression Result between Competence of Human Resource and Sustainability

<i>Regression Statistics</i>	
Multiple R	0.994014213
R Square	0.988064255
Adjusted R Square	0.987637979
Standard Error	0.094538877
Observations	30

For table 5, the X ordinate is the Profit and the Y ordinate is Innovativeness. The result shows -0.029018901, it means there is no relationship between Innovativeness and Profit.

Table 5. Regression Result between Innovativeness and Profit

<i>Regression Statistics</i>	
Multiple R	0.080402175
R Square	0.00646451
Adjusted R Square	-0.029018901
Standard Error	34027781.53
Observations	30

For table 6, the X ordinate is the Profit and the Y ordinate is Sustainability. The result shows -0.035664525, which means there is no relationship between Sustainability and Profit.

Table 6. Regression Result between Sustainability and Profit

<i>Regression Statistics</i>	
Multiple R	0.006931409
R Square	4.80444E-05
Adjusted R Square	-0.035664525
Standard Error	34137484.05
Observations	30

As the result of regression, the next step is making a linkage between each variable. The linkage based on the result number that shown from the table. As shown on Figure 1, competence of human resource highly influencing sustainability (0.987) and innovativeness (0.793). In contrary, entrepreneurial aspect has low influence toward innovativeness (0.000589) and sustainability (0.002002), because the regression result are below 0.6.

Meanwhile, since the regression result of innovativeness and sustainability toward profit are negative, so there are no influences between that variables.

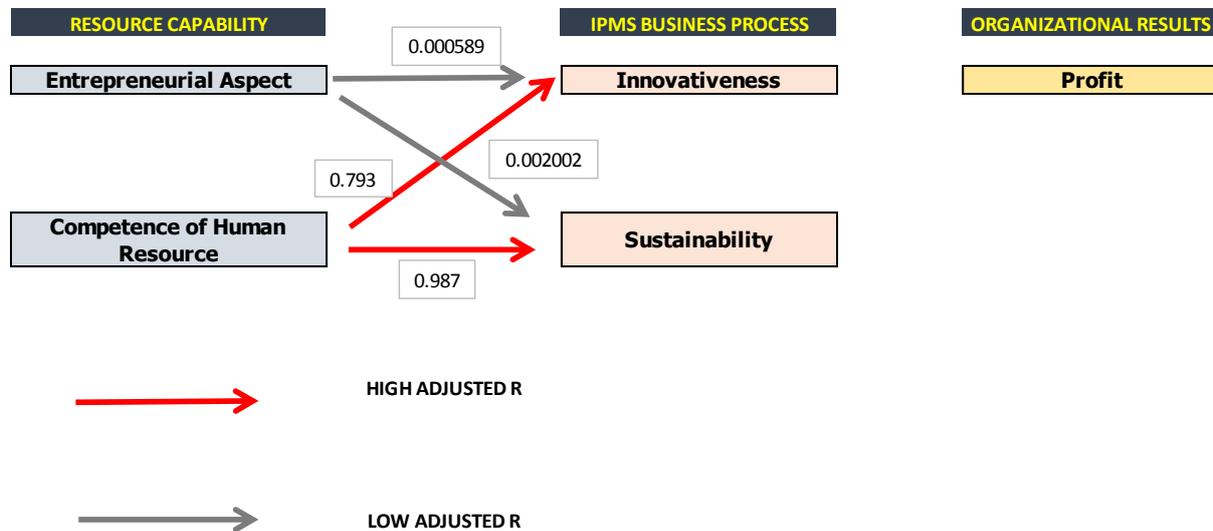


Figure 1. Linkage Table

Conclusion and Implication

After using IPMS tools with historical data from CV. Hanimun, we can conclude that competence of human resource has higher influence toward sustainability and innovativeness of SMEs than entrepreneurial aspect. This result is contradictive with Anggadwita and Mustafid (2013) statement that entrepreneurial aspect has a higher influence than competence of human resource. Meanwhile, sustainability and innovativeness has no influence toward profit (organizational result). This result approves that Anggadwita and Mustafid (2013) statement about innovativeness and sustainability do not affect the performance of SMEs.

This research was limited only using the IPMS tools with regression analysis. For further research, can use different tools or method such as Balance Scorecards (BSC) tools and Analytical Hierarchy Process (AHP) to find Key Performance Indicators (KPI) of SMEs.

References

- i. Anggadwita, G.&Mustafid, Q.Y., 2013. Identification of Factors Influencing the Performance of Small Medium Enterprises (SMEs). *Procedia – Social and Behavioral Sciences*, 115(5), pp. 415 – 423.
- ii. Armstrong, M., 2000. *Performance Management: Key Strategies and Practical Guidelines*, 2nd edn, London:Kogan Page Limited.
- iii. Baldwin, K. S., Dimunation, N. & Alexander, J., 2011. Health Care Leadership and the Dyad Model. *Physician Executive*, 37(4), pp. 66-70.
- iv. Brudan, A., 2010. Rediscovering Performance Management: Systems, Learning and Integration. *Measuring Business Excellence*, 14(1), p. 15. doi:10.1108/13683041011027490
- v. Ferreira, A. &Otley, D., 2009. The Design and Use of Performance Management Systems: An Extended Framework for Analysis. *Management Accounting Research*, 20, p. 20. doi:10.1016/j.mar.2009.07.003
- vi. Kennerley, M. & Neely, A., 2003. Measuring Performance in a Changing Business Environment. *International Journal of Operations & Production Management*, 23(2), pp. 213-229. doi:10.1108/01443570310458465
- vii. Malmi, T. & Brown, D.A., 2008. Management Control Systems as a Package – Opportunities, Challenges and Research Direction. *Management Accounting Research*, 19(4), pp. 287-300. doi:10.1016/j.mar.2008.09.003
- viii. Tambunan, T.T.H., 2006. *Development of SMEs in Indonesia from the Asia-Pacific Perspective*. Jakarta: LPFE-University of Trisakti.