

Improving SMEs Performance Based on Strategy Management

Lucky Hikmat Maulana

Ibn Khaldun University, Bogor Indonesia

luckyhikmat@uika-bogor.ac.id

Abstract. The existence of Micro, Small, and Medium Enterprises (SMEs) in economic growth, employment, and national income is the main reason for making it a priority for government and community attention. The research is oriented to determine and analyze the improvement in MSME performance through strategic management approaches, government policies, and the involvement of stakeholders. The research used quantitative methods, regression coefficient analysis, correlation, and determination. The research results show that there is government involvement as a regulator in guiding SMEs, through Law No. 20 of 2008 and other regulations. Stakeholder involvement in the form of coaching, training, mentoring, funding, and partnerships plays an important role in improving the performance of SMEs. SMEs feel that there is a revision of regulations regarding SMEs. These regulations are oriented towards supporting MSME activities to create a conducive SME business atmosphere. Efforts to empower MSMEs by stakeholders should be comprehensive, coordinated, and sustainable.

Keywords. strategic management, contribution, empowerment, performance

Introduction

To develop micro, small, and medium enterprises (SMEs), the government and the parliament have made Law No. 20 Year 2008 on SMEs. In Article 3, it is mentioned that the objective of SMESs is to make their business grow and expand to develop the national economy based on equitable economic democracy. This is in line with the content of Article 33 of the 1945 Constitution especially Paragraph 1 stating that the economy shall be organized as a common endeavor based upon the principle of the family system. This means that the economy is from us, for us, and by us. Therefore, to develop the national economy, all business units, large and small, have to actively participate. To manifest the real participation of SMEs, the empowerment and development of SMESs are required.

According to Article 5 Law No. 20 of the Year 2008, the empowerment of SMEs is aimed at 1). Creating a balanced, developed, and equitable national economic structure; 2). Growing and developing SMES capability to make them as strong and independent enterprises; 3). Improving the role of SMEs in regional development, employment creation, income distribution, economic growth, and poverty eradication. Therefore, it can be said that SMES has a very big role, especially in reducing poverty. As it is already known the poverty level in Indonesia is still high and it needs to be controlled so that it does not get worse.

To make SMEs strong and independent enterprises, the government is developing a conducive business climate. Accordingly, the government has stipulated regulations and policies covering various aspects including 1) funding, 2) facility and infrastructure, 3) business information, 4) partnership, 5) business permit, 6) business opportunity, 7) trade promotion, and 8) institutional support. However, growing this conducive business climate is the responsibility of not only the government but also the business community and the public.

SMEs play an important role in the economic development of Indonesia through employment creation and public prosperity improvement. This role of SMEs can be seen from their position as 1) the main actor in economic activities in various sectors, 2) the biggest employment provider, 3) the important actor in the development of local economic activities and public empowerment, 4) new market creator and source of innovation, and 5) the maintainer of balanced payment through export activities. The role of SMEs in the national economy is so strategic that they have to be the focus of the national economic development in the future.

On the other side, although there is an increasing trend in the number of SMEs, it is relatively very small and the number of SMEs has fluctuated over years. This is suspected to be caused by the fact that the government policy and the contribution of stakeholders in SMEs development are not yet optimal. Therefore, this study was done to assess the development and empowerment of SMEs, identify the policies (central and local government), and the contribution of other stakeholders, namely educational institutions, NGOs, banks, cooperatives, and business associations (figure 1). It was also done to determine supporting and constraining factors in the empowerment of SMEs and to assess the impact of the government's role and the contribution of stakeholders on SMEs' performance.



Figure 1. of Government and Stakeholders Contribution in Empowering SMEs

Review of Literature

Considering the strategic role of SMES, it is important to empower SMESs so that they can grow and develop into strong and independent enterprises. In Law No. 20/208 on SMES, empowerment is defined as efforts done by the central government, local government, business community, and public synergistically in the form of conducive business climate creation and business development to make SMESs strong and independent enterprises.

Chin & Lim (2018); Ibrahim & Mustapha (2019) and Cicea et al. (2019), proposed several aspects that should be given attention in SMEs empowerment including (a) policy about

healthy competition by reducing market distortion, (b) economic policy giving opportunity to SMEs to reduce any cost not related to the production process, and (c) policy about the enhancement of partnership based on common principles of interdependence, strengthening, and profiting one to another. In addition, support is to be given to the improvement of human resources of cooperatives and SMEs, improvement of technology mastery, improvement of information mastery, improvement of capital control, optimization of organization and management, business site reserve, and business line reserve.

Local government can empower SMEs by making appropriate regulations. Empowerment is done to make SMEs strong and independent enterprises in the national economy (Hakimah et al., 2019; Zulu-Chisanga et al., 2021). This empowerment process involves the government, business community, and public. In this respect, the government should create a conducive business climate and do development by providing coaching and other assistance. A non-conducive business environment is found as one of the main problems many SMEs are facing. For example, many kinds of permits are not easy to get, and illegal fees which are burdensome for many SMEs. If the government could overcome these problems, it would be very helpful for SMEs to get rid of these internal and external constraints (Bellucci et al., 2019; Bouwman et al., 2019).

Nthenge & Ringera (2017); Afrifa & Tingbani (2018) and Rita & Huruta (2020) conducted a study on the effect of the implementation of policy about people business credit and SMEs development on productivity and business management. The methodology used in his study was a qualitative approach based on causal-effectual model analysis. The results showed that the implementation of policy about people business credit and SMEs development significantly had a positive effect on productivity and business management. Lamptey et al. (2017); Nwosu & Orji (2017) and Sensini & Vazquez (2021) stated that internal and external factors, skill of businessmen, strategy, and ethos had significant effects on competitive advantages and SMEs performance.

Factors affecting the performance of SMEs included entrepreneurship mentality, marketing management capability, entrepreneurship attitudes, human resources management capability, and operational management capability, respectively (Ribau et al., 2017); Alvarez-Torres et al., 2019) and Asemokha et al., 2019). It was also found that support from various parties was needed to improve the performance of SMEs in several countries. Hamzani & Achmad (2017); Lekmat & Intaragasam (2019) and Kurdve et al. (2020) stated these supports could come from academicians through coaching, training and mentoring, financial institutions with their soft financial support schemes, institutions or companies with their CSR schemes in the forms of partnership, coaching, and development, and the government through policies which were conducive for and favorable to SMEs.

Methods

The objects of this study were SMEs in the Greater Bogor Area Indonesia. A descriptive qualitative approach was used in this study. This method was used to reach the objective of this first-year study, namely to identify the government's strategic management and the stakeholder contribution to the empowerment of SMEs and to analyze supporting and constraining factors in the empowerment of SMEs. A descriptive correlation analysis was used to assess the effects of government strategic management and the contribution of stakeholders on the empowerment of SMES and to design a model of SMES empowerment based on people's economy and export orientation. A stratified random sampling technique was used to ensure that the selected targets were proportionally distributed in the field.

Primary data were collected through observation, interview, and questionnaire that has been tested for validity and reliability. Data were subjected to both qualitative and quantitative analysis. Qualitative analysis was done to assess the government's strategic management and the stakeholder contribution to SMEs empowerment. Quantitative analysis was done to assess the effects of the government's strategic management and the stakeholder contribution on SMEs empowerment by using a series of statistical tests including regression, correlation, determination, and significance tests. The variables used in this study are depicted in Figure 2.

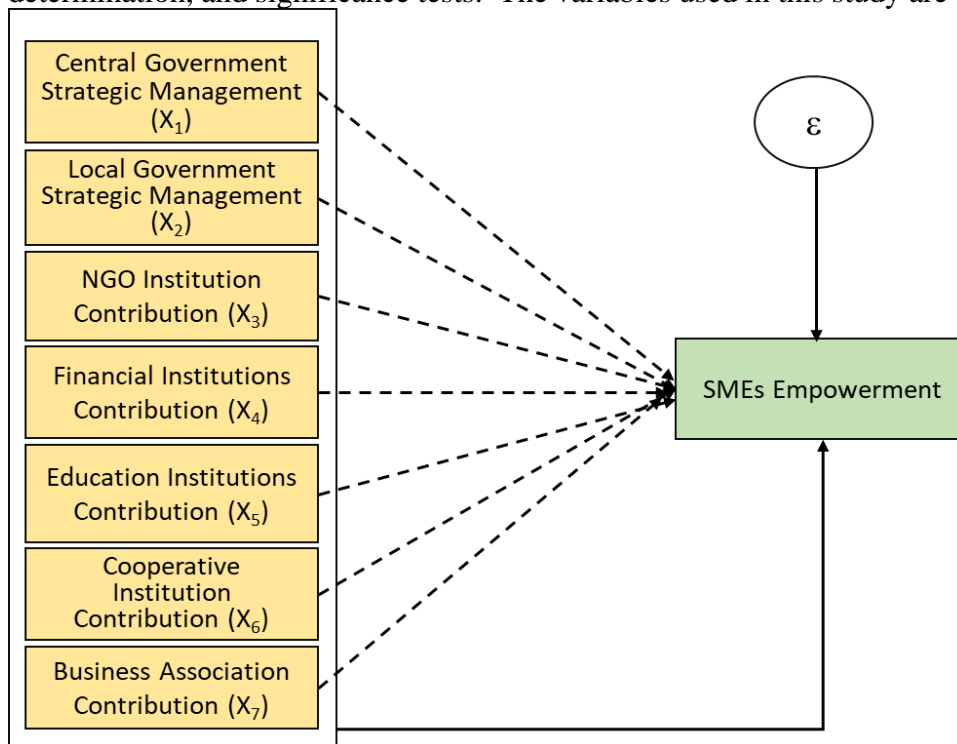


Figure 2. The Study Variables

Results and Discussion

MSME Empowerment Management Strategy

In the context of fostering and developing SMEs, there are several national regulations, namely, Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises. Apart from that, there are also local regulations that are by the characteristics and potential of SMEs in the region. SMEs' business management strategies have been determined in Article 3 of Law No. 20/2008, that the business aims to grow and develop the national economy based on just economic democracy. In this context, the economy originates from the community, for the community, and by the community. Thus, to build and develop the national economy, all business entities must contribute actively. The management strategy developed by the government and stakeholders in a concrete form requires empowerment and capacity-building development of SMEs, one of which is through the SMEs going global and going digital programs.

The management strategy for empowering SMEs is also synchronized with the direction of national development, especially in efforts to eradicate poverty. Therefore, it can be assessed that SMEs have a large and strategic role, especially in reducing poverty rates.

Article 5 Law no. 20 of 2008 regulates that the SME empowerment management strategy is aimed at 1) Realizing a balanced, advanced, and just national economic structure; 2) Growing and developing the capabilities of SMEs to become strong and independent businesses; and 3) Increasing the role of SMEs in regional development, job creation, income distribution, economic growth, and poverty alleviation.

At a practical level, efforts to empower and develop SMEs are often hampered by several components, namely market aspects, financial management, and capital. To overcome all these obstacles, a government touch is needed in facilitating the marketing and promotion of MSME products, through relationships with entrepreneurs, business coaching, capital assistance, brand/product patents, and SMEs training (Alam & Dunan, 2019; Maulana & Gemina, 2019 and Sahela et al., 2021). Thus, to make SMEs strong and independent business entities, the government's strategic role in developing a conducive business climate is very necessary. As a strategic step, the government can have a positive impact in the form of establishing regulations and policies that cover various aspects, including 1) funding, 2) facilities and infrastructure, 3) business information, 4) partnerships, 5) business permits, 6) business opportunities, 7) trade promotion, and 8) institutional support. Efforts to foster a conducive business climate are not only the responsibility of the government but also the responsibility of the business world, society, and other stakeholders.

In the form of implementation of Law Number 20 of 2008, the government has issued Government Regulation of the Republic of Indonesia Number 17 of 2013 concerning Micro, Small, and Medium Enterprises, which states that there are regulations for the development and empowerment of SMEs by the central and regional governments by their authority. Priorities for developing SMEs as regulated in government regulations include a) providing opportunities to participate in the procurement of goods and services at the central and regional governments; b) reserving business for SMEs through restrictions on large businesses; c) simplifying licensing; d) facilitate financing by applicable regulations; or e) facilitating technology and information.

The types of activities that can be carried out include business development, partnerships, licensing, coordination, and control activities. In the business development component, facilitation can be carried out in various fields, namely production and processing, marketing and human resources, as well as design and technology. The pattern of developing SMEs' business capacity can also be carried out through various activities using cooperative, central, cluster, and group approaches, including through programs a) inventory and identification of potential and problems found; b) coaching and development based on potential and problems discovered; c) coaching and development; and d) monitoring and evaluation.

Contribution of Stakeholder

Efforts to empower SMEs are not only the responsibility of the government but are also the responsibility of other relevant stakeholders, including educational institutions through community service activities, financial institutions with credit and financing schemes, cooperatives with SME business programs, non-governmental organizations that monitor and evaluate government policies, as well as business world associations through Corporate Social Responsibility (CSR) programs. The following presents the forms of contribution and activities of the government and stakeholders in efforts to empower SMEs, as listed in Table 3.

Table 3. Stakeholder Contributions and Activities in Empowering SMEs

No	Institutions	Contribution	Activity
1	Central Government	National-level coaching and training program	<ul style="list-style-type: none"> - Implementing favorable tax policies - Streamlining regulatory processes - Access to financing and funding opportunities - Coaching and training on technology - Expo and gallery - Partnership relationships with entrepreneurs through CSR
2	Local Government	Local-level coaching and training program	<ul style="list-style-type: none"> - Implementing local favorable tax policies - Streamlining regulatory processes - Access to financing and funding opportunities - Coaching and training on technology - Expo and gallery - Partnership relationships with entrepreneurs through CSR
3	NGO	Facilitate collaboration with the government and aid-providing institutions	<ul style="list-style-type: none"> - Legalization into cooperative - Technical building in production, management, marketing techniques, and digitized technology - SMEs develop institutional capacity-building
4	Financial Institution	Leasing, credit, funding	Credit limit with quick process
5	Educational Institution	Community service	Coaching and training according to competence mentoring free supervision and consultancy
		Special SMEs coaching	Coaching and training
		SMES coaching is done partially/only by certain faculty/individual	Training and coaching on product diversification, training on financial report-making
6	Cooperative	Coaching and training Capital consultancy	Training, consultancy, fund
7	Business Association	Facilitation	Coaching and training in access to digital technology, human resources, management, production and marketing

One thing that needs to be considered to empower SMEs is the characteristics of the region because it has its strengths and weaknesses. SMEs in developed countries will of course be very different from those in developing countries. There are real differences between large business entities and SMEs. If compared with large companies, information will be obtained that SMEs have main characteristics and advantages, including (1) they are much more numerous than large businesses so economic progress, especially in rural areas, is greatly influenced by the progress of SME development, (2) SMEs have an impact which is very large, labor intensive and has a high potential for opening employment opportunities so that the growth of SMEs can be included as an important element in national policy to increase employment opportunities and create income, especially for the poor, and (3) SMEs can be the starting point for mobilizing savings/investment in rural areas and at the same time these business groups can function as a forum for studying and improving the business capabilities of rural communities (Sağ et al., 2016); Chege & Wang, 2020 and Musabayana & Mutambara, 2022)

Supporting and Constraining Factors of SMEs Empowerment

Moeuf et al. (2018) stated that the characteristics of MSMEs in many developing countries are that they are constrained in terms of capital, labor, marketing, business management, and mentality, but the existence and role of MSMEs must take into account their business potential and contribution to the country's economy. This is in line with the spirit of a people's economy whose supporting factors include 1) employment reactions that help overcome unemployment; b) increasing income for MSME owners and their employees; and c) increasing community welfare and reducing poverty levels.

At the empirical level, some elements hinder efforts to empower SMEs and can be grouped into internal factors and external factors. Included in the group of internal factors include (1) limited capital which is the main obstacle in business development for SMEs, and the tendency for businesses to mostly use their capital; (2) limited human resources in formal education, knowledge and skills which have a significant impact on business management and make it difficult for businesses to develop optimally; and (3) limited business networks and market penetration capabilities because they are generally family business entities with less competitive product quality (Rauch et al., (2019).

Rauch et al. (2019) added that external inhibiting factors for empowering SMEs include 1) limited business facilities and infrastructure, limited information related to the development of science and technology; 2) the business climate is not yet fully conducive due to the limited government policies implemented to develop SMEs; 3) the consequences of the existence of trade agreements and free trade areas so that SMEs must compete in free trade; 4) most SMEs products have short life cycles; 5) the implications of issues of production efficiency, quality standards, production safety, globalization, the environment, human rights, and employment, so that it is necessary to prepare ourselves to face competition with comparative and competitive advantages, and (6) limited market access means the products they make are unable to compete in national and international markets..

Stakeholder Contribution

The following explains the contribution of stakeholders in improving the performance of MSMEs. The results of data processing and analysis found that the continuance of central and regional government management strategies, as well as stakeholders, plays a role in SMEs performance, as evidenced by the table Analysis of Correlation Coefficient follows.

Table 2. Analysis of the Correlation Coefficient Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.782 ^a	.611	.612	3.532

a. Predictors: (Constant), X1, X2, X3, X4, X5, X6, X7

Conclusions and Recommendation

The strategic management of empowering SME performance carried out by the government has had a positive impact on increasing the quality and quantity of SMEs. Stakeholders consisting of educational institutions, NGOs, banks and financial institutions, cooperatives, and business world associations have been proven to contribute with different levels of contribution. In this way, the role and contribution of the government and stakeholders can improve the performance of SMEs. It is recommended that empowerment of SMEs must continue to be carried out comprehensively, because it has positive implications for employment, reducing unemployment and poverty rates, as well as economic growth. Stakeholder contributions should be carried out in a coordinated and sustainable manner through institutional programs, training, mentoring, financing, and partnerships

References

- Afrifa, G. A., & Tingbani, I. (2018). Working capital management, cash flow, and SMEs' performance. *International Journal of Banking, Accounting and Finance*, 9(1), 19-43.
- Alam, I. A., & Dunan, H. (2019). MSMEs empowerment and development strategy model. *Review of Integrative Business and Economics Research*, 8, 324.
- Alvarez-Torres, F. J., Lopez-Torres, G. C., & Schiuma, G. (2019). Linking entrepreneurial orientation to SMEs' performance: Implications for entrepreneurship universities. *Management Decision*, 57(12), 3364-3386.
- Asemokha, A., Musona, J., Torkkeli, L., & Saarenketo, S. (2019). Business model innovation and entrepreneurial orientation relationships in SMEs: Implications for international performance. *Journal of International Entrepreneurship*, 17, 425-453.
- Bellucci, A., Pennacchio, L., & Zazzaro, A. (2019). Public R&D subsidies: collaborative versus individual place-based programs for SMEs. *Small Business Economics*, 52, 213-240.
- Bouwman, H., Nikou, S., & de Reuver, M. (2019). Digitalization, business models, and SMEs: How do business model innovation practices improve the performance of digitalizing SMEs? *Telecommunications Policy*, 43(9), 101828.
- Chege, S. M., & Wang, D. (2020). Information technology innovation and its impact on job creation by SMEs in developing countries: an analysis of the literature review. *Technology Analysis & Strategic Management*, 32(3), 256-271.
- Chin, Y. W., & Lim, E. S. (2018). Policies and performance of SMEs in Malaysia. *Journal of Southeast Asian Economies*, 35(3), 470-487.
- Cicea, C., Popa, I., Marinescu, C., & Cătălina Ștefan, S. (2019). Determinants of SMEs' performance: evidence from European countries. *Economic research-Ekonomska istraživanja*, 32(1), 1602-1620.

- Hakimah, Y., Pratama, I., Fitri, H., Ganatri, M., & Sulbahrie, R. A. (2019). Impact of Intrinsic Corporate Governance on Financial Performance of Indonesian SMEs. *International Journal of Innovation, Creativity and Change* Vol, 7(1), 32-51.
- Hamzani, U., & Achmad, D. (2017). Micro, small and medium enterprises (MSMEs) coaching program. *Journal of Business and Economics Review (JBER)* Vol, 2(3).
- Ibrahim, M. I., & Mustapha, B. (2019). Determinants of small and medium enterprises performance in Nigeria: The role of Government support policy. *International Journal of Business and Economics Research*, 8(2), 41-49.
- Kurdve, M., Bird, A., & Laage-Hellman, J. (2020). Establishing SME-university collaboration through innovation support programs. *Journal of Manufacturing Technology Management*, 31(8), 1583-1604.
- Lamprey, L., Frimpong, K., & Morrison, A. (2017). Empirical study on the influence of working capital management on performance of SMEs in a developing economy. *British Journal of Economics, Management & Trade*, 17(4), 1-10.
- Laws of the Republic Indonesia. Number 20 of 2008. (2018). about. Micro Small and Medium Enterprises.
- Lekmat, L., & Intaragasam, P. (2019). Potential Development Guidelines of SMEs. *University of the Thai Chamber of Commerce Journal Humanities and Social Sciences*, 39(2), 104-122.
- Maulana, L. H. & D. Gemina (2019). Cultural tourism marketing for SMEs empowerment. *International Journal of Scientific & Technology Research*, 8(12), 3503-3508.
- Moeuf, A., Pellerin, R., Lamouri, S., Tamayo-Giraldo, S., & Barbaray, R. (2018). The industrial management of SMEs in the era of Industry 4.0. *International journal of production research*, 56(3), 1118-1136.
- Musabayana, G. T., & Mutambara, E. (2022). The Implementation of the Broad-Based Black Economic Empowerment (B-BBEE) Policy in South Africa: a Myth or a Reality in SMEs? *Australasian Accounting, Business and Finance Journal*, 16(1), 73-84.
- Nthenge, D., & Ringera, J. (2017). Effect of Financial Management Practices on Financial Performance of Small and Medium Enterprises in Kiambu Town, Kenya. *American based research journal*, 6.
- Nwosu, E. O., & Orji, A. (2017). Addressing poverty and gender inequality through access to formal credit and enhanced enterprise performance in Nigeria: An empirical investigation. *African Development Review*, 29(S1), 56-72.
- Rauch, E., Dallasega, P., & Unterhofer, M. (2019). Requirements and barriers for introducing smart manufacturing in small and medium-sized enterprises. *IEEE Engineering Management Review*, 47(3), 87-94.
- Ribau, C. P., Moreira, A. C., & Raposo, M. (2017). SMEs innovation capabilities and export performance: an entrepreneurial orientation view. *Journal of Business Economics and Management*, 18(5), 920-934.
- Rita, M. R., & Huruta, A. D. (2020). Financing access and SME performance: A case study from batik SME in Indonesia. *International Journal of Innovation, Creativity and Change*, 12(12), 203-224.
- Sağ, S., Sezen, B., & Güzel, M. (2016). Factors that motivate or prevent adoption of open innovation by SMEs in developing countries and policy suggestions. *Procedia-Social and Behavioral Sciences*, 235, 756-763.

- Sahela, K. Z., Susanti, R., & Adjie, A. R. (2021). The influence of government dimension on financial education and empowerment of micro-, small-and medium-sized enterprises in Indonesia. *The Journal of Asian Finance, Economics and Business*, 8(3), 637-643.
- Sensini, L., & Vazquez, M. (2021). Effects of Working Capital Management on SME Profitability: Evidence from an emergent economy. *International Journal of Business and Management*, 16(4), 85-95.
- Zulu-Chisanga, S., Chabala, M., & Mandawa-Bray, B. (2021). The differential effects of government support, inter-firm collaboration and firm resources on SME performance in a developing economy. *Journal of Entrepreneurship in Emerging Economies*, 13(2), 175-195.