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# Analysis of Determining Factors in Increasing Performance of MSME Businesses in Indonesia

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----------**ABSTRACT:**----------
*There are many determining factors for improving business performance including market leadership orientation, investment level, and innovation strategy. Therefore, research is needed on the determining factors of improving the performance of small and medium micro enterprises (MSMEs). The population in this study is MSME of marine fish processing home industry in Bangkalan Regency, Madura, Indonesia. Data collection is through surveys with respondents selected purposively as many as 162 of these MSME entrepreneurs. The research measuring instrument used was a questionnaire with a 1-5 Likert scale. Data from the respondents were then analyzed in SEM, the Lisrel program. The results of the study are as follows: market leadership orientation has no effect but the level of investment influences the innovation strategy; market leadership orientation, investment level, and innovation strategy partially influence business performance. There are 2 paths, namely the path of market leadership orientation - innovation strategy-business performance, and the path of investment level - innovation strategy - business performance. The dominant path is the path of investment level- innovation strategy-business performance.*

***Keywords:*** *Market Leadership Orientation, Investment Level, Innovation Strategy, and Business Performance.*

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## I. BACKGROUND

At present, every business is required to redesign and modify its competitive strategy. Considering products that are better quality, low-cost, and more responsive to highly fast changes are more attractive to consumers. In addition, these new competitors will be more efficient and more productive because many new business people are well educated, have technical expertise, are able to use technology and obtain information to make them quickly access the latest methods and equipment. Likewise, with micro and small enterprises (MSMEs). Experience in developed countries shows that MSMEs are the source of production and technology innovations, the growth of creative, and innovative entrepreneurs, the creation of skilled labor and the flexibility of the production process to deal with the market demand change that is increasingly diverse and more specific. The selection and determination of new strategies is needed for a business to become more competitive. The implementation of innovation strategies can encourage the achievement of business performance (Weerawardena et al, 2006; Zainul Muchlas, 2015). Meanwhile, business performance in general is a measure of the success and development of small enterprises. According to Leitner and Gueldenberg (2006), Oke et al (2007), Murat and Baki (2011), Nikoomaram and Ma'atoofi (2011), that measurement of performance in small enterprises is reflected in the growth of sales, labor, and income.

Particularly in Indonesia, MSMEs face several problems in conducting a competitive strategy with other entrepreneurs. The company's strategy in dealing with markets requires innovation activities (Ciptono, 2006; Ellitan, 2006; Gunday et al, 2008). Factors of competitive advantage that must be owned by every company to be able to compete in the world market, especially among others: mastery of technology, human resources (workers, managers) with quality and work ethic, creativity and high motivation; high level of efficiency and productivity in the production process; good quality of goods produced, management system and good organizational structure; high level of entrepreneurship, namely an entrepreneur who is very innovative, creative and has a broad vision of the product and the environment around his business (economic, social, political, etc.) and how the right method (effective and efficient) in facing tight competition in the global market so that it can achieve optimum business performance. According to Abdul Haris P (2015), market leadership orientation can drive business performance.

Another problem for MSMEs is the difficulty of increasing business capital due to the low access of MSMEs to sources of business capital. Business capital is an investment both short and long term. The strength of business capital will support the achievement of optimal business performance (Djamila Abbas, 2018).

Investment in an innovation business requires technical resources and managerial capabilities from time to time in an integrated manner. Investment is an obligation to provide aid funds to increase business in the future (Sofia, 2015). According to Ciptono (2006), the investment dimension in innovation can be in the form of finance, technology, and investment in human resources related to innovation activities in production.

Based on the description stated above in order for MSMEs to be able to face competition in the global market, a study with the theme of analyzing determining factors of increasing business performance is needed for MSMEs (MSME case studies of marine fish processing in Bangkalan, Madura, Indonesia) with the aim of knowing the influence market leadership orientation and investment level partially influence the innovation strategy and business performance, and the influence of innovation strategies on business performance.

From the discussion above, a research model is built that connects the independent variables which consist of market leadership orientation and investment level, while the intermediary variable is an innovation strategy which continues to assess its impact on the performance of MSMEs. The hypothesis built based on the research model described above is as follows:

H1 : There is an influence of market leadership orientation on innovation strategies
H2 : There is an influence of investment level on innovation strategies
H3 : There is an influence of market leadership orientation on business performance
H4 : There is an influence of investment level on business performance
H5 : There is an influence of innovation strategies on business performance

## II. RESEARCH METHODS

This study uses a quantitative approach. Meanwhile, the data used are primary data and secondary data. The research variables consist of market leadership orientation, investment level, innovation strategy, and business performance. The study population is the MSMEs of marine fish processing in Bangkalan, Madura, Indonesia. Respondents are owners or coordinators or senior employees, because the success of a company is strongly influenced by the participation of the owners / coordinators / senior employees themselves. This study uses a survey method, using a Likert scale 1-5 questionnaire. The data collection technique is purposive sampling.

According to Ghozali (2016), the validity test is used to show a question on a questionnaire capable of expressing what will be measured by the questionnaire. This validity test ensures that each question will be classified into predetermined variables (construct validity). If a question is able to express what will be measured by the questionnaire, then the data is called valid. Valid measurements are r count > r table. Meanwhile, reliability testing is used to measure whether a respondent's answer is consistent or stable over time. If the respondent is consistent in answering questions in the questionnaire, then the data is reliable. A construct or variable is said to be reliable, if Cronbach's Alpha (α) of the variable gives a value > 0.60.

The research measuring instrument is a questionnaire consisting of statements with alternative answers according to the 1- 5 Likert scale. Value 5 = Strongly Agree (SA), 4 = Agree (A), 3 = Neutral/Doubtful, 2 = Disagree (D), and 1 = Strongly Disagree (SD). The level of respondents' assessment of the variables used the formula scale range (SR) = (highest value - lowest value) / number of values, so that SR = (5-1) / 5 = 0.80. The respondents' rating categories are as follows: very low = 1.00 - 1.80, low = 1.81 - 2.60, medium = 2.61 - 3.40, high = 3.41 - 4.20, very high = 4.21 - 5.00.

Data analysis is SEM with the Lisrel program. According to Ghozali (2015), SEM through the Lisrel program can produce validity, reliability, model formation, model feasibility test (good of fit), and hypothesis testing through t test with t count > 1.96 then the alternative hypothesis will be accepted. In this study, it is also measured the magnitude of direct, indirect, and total influence.

## III. ANALYSIS AND DISCUSSION

Most respondents in this study were women, low educated, owners of marine fish processing home industries, and individual business status. Meanwhile, this research variable is the market leadership orientation variable (MARKET ORIENTATION) which is reflected in 5 indicators, investment level variable (INVESTMENT) which is reflected in 6 indicators, innovation strategy variable (INNOVATION) reflected in 9 indicators, and business performance variable (PERFORMANCE) which is reflected in 3 indicators. All research indicators are valid, because those indicators have Corrected Item-Total Correlation > r table (0.5). Meanwhile, all variables are reliable because those variables have Cronbach's Alpha > 0.6.

The respondents' assessment level of the implementation of market leadership orientation activities, the investment level, and the innovation strategy is high because the mean of variables is 3.41-4.20. Meanwhile, the achievement level of business performance is moderate, because the mean of variables is 2.61-3.40. The market leadership orientation variable is reflected in 1 main indicator namely the company always strives to outperform other similar companies in terms of new product introduction. The investment level variable is reflected in the 2 main indicators, namely investment in employee health and safety, as well as providing good incentives for

employees. The innovation strategy variable is reflected in 1 main indicator which is providing a good service system for customers. Meanwhile, the business performance variable is reflected in 1 main indicator, namely a 5-10% increase in revenue this year compared to last year.

The relationship model between the variables formed is stated in Figure 1. The model is expressed by 2 equations which state the relationship between the variables of this study. From equation 1 it can be said that the market leadership orientation and investment level variables are able to explain the innovation strategy variable by 30%. The rest, 70% can be explained by other variables not discussed in this study. From equation 2 it can be said that the variables of market leadership orientation, level of investment, and innovation strategy are able to explain the variable of business performance by 72%. The rest, 38% is able to be explained by other variables not explained in this study. See Table 1.

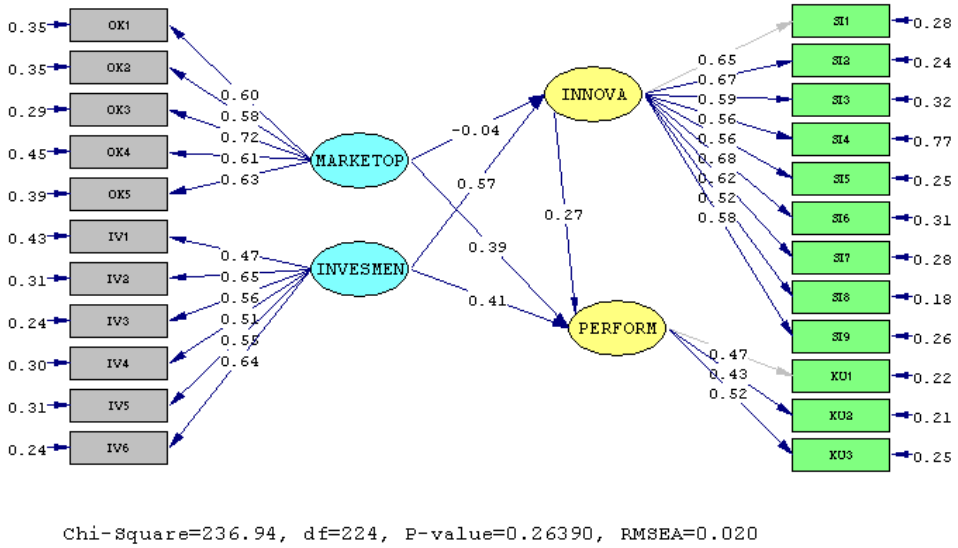


**Figure 1.** Relationship Model Research Variable

**Table** 1. Structural Equations.

| No. | Equation | $R^2$ |
|---|---|---|
| 1. | INNOVATION = - 0.04*MARKETOP + 0.57*INVESTMENT | 0.30 |
| 2. | PERFORMANCE = 0.27*INNOVATION + 0.39*MARKETOP + 0.41*INVESTMENT | 0.72 |

Based on the good of fit (GOF) test, good conditions are obtained for the following values FO = 0.093, RMSEA = 0.020, ECVI = 2.45, AIC = 340.94, CAIC = 545.91, NFI = 0.95, PNFI = 0.84, , RFI = 0.94, RMR = 0.036 , AGFI = 0.84, PGFI = 0.71. This indicates a model match. See Table 2.

**Table 2**. Goodness of Fit Statistics (GoF)

| No. | Goodness of Fit Statistics | Standard | Description |
|---|---|---|---|
| 1. | Minimum Fit Function Chi-Square = 240.68 (P = 0.21) | 236.94 (P = 0.26) | Marginal |
| 2. | Estimated Non-centrality Parameter (NCP) = 12.94 | (0.0 ; 53.96) | Marginal |
| 3. | Population Discrepancy Function Value (F0) = 0.093 | 1.73 | Good |
| 4. | Root Mean Square Error of Approximation (RMSEA) = 0.020 | 0.99 | Good |
| 5. | Expected Cross-Validation Index (ECVI) = 2.45 | Saturated Model = 3.97 Independence Model = 32.96 | Good |
| 6. | Model AIC = 340.94 | Independence AIC = 4580.80 Saturated AIC = 552.00 | Good |
| 7. | Model CAIC = 545.91 | Independence CAIC = 4671.46 Saturated CAIC = 1639.89 | Good |
| 8. | Normed Fit Index (NFI) = 0.95 | Non-Normed Fit Index (NNFI) = 1.00 | Good |

| | | | |
|---|---|---|---|
| 9. | Parsimony Normed Fit Index (PNFI) = 0.84 | Non-Normed Fit Index (NNFI) = 1.00 | Good |
| 10. | Comparative Fit Index (CFI) = 1.00 | Non-Normed Fit Index (NNFI) = 1.00 | Marginal |
| 11. | Incremental Fit Index (IFI) = 1.00 | Non-Normed Fit Index (NNFI) = 1.00 | Marginal |
| 12. | Relative Fit Index (RFI) = 0.94 | Non-Normed Fit Index (NNFI) = 1.00 | Good |
| 13. | Root Mean Square Residual (RMR) = 0.036 | 0,051 | Good |
| 14. | Adjusted Goodness of Fit Index (AGFI) = 0.84 | Goodness of Fit Index (GFI) = 0.87 | Good |
| 15. | Parsimony Goodness of Fit Index (PGFI) = 0.71 | Goodness of Fit Index (GFI) = 0.87 | Good |

Based on the T test outlined in Figure 2, information can be obtained that H1 is rejected because the t count from the hypothesis is ≤ 1,976. This shows that market leadership orientation does not affect the innovation strategy. Whereas H2, H3, H4, and H5 are accepted because t count is from these hypotheses ≥ 1,976. This shows that the investment level variable influences the innovation strategy. The leadership orientation, investment level, and innovation strategy variables have a partial effect on business performance. This does not comply with Abdul's (2015) research results that market leadership orientation does not affect business performance. But this fact complies with the results of research by Murat Atalay et al (2013) and Abdul (2015) that innovation strategy affects business performance.

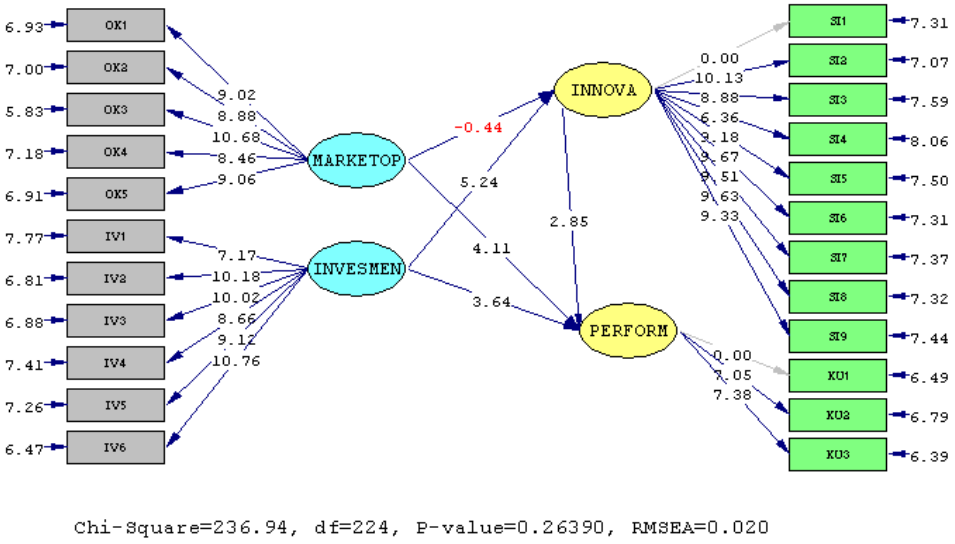


**Figure 2**. T Test

From Figure 1 it can also be seen the direct, indirect, and total effects. There are 2 paths that this research produces, namely the path of market leadership orientation-innovation strategy-business performance and the path of investment technique-innovation strategy-business performance. The dominant path is the investment technique-innovation strategy-business performance. See Table 3.

**Table 3.** Direct and Indirect Influences, Total

| No. | Direct Path | Variable between | Influence | | |
|---|---|---|---|---|---|
| | | | Direct | Indirect | Total |
| 1. | MarkOr → Performance | Innovation | 0.39 | - | 0.39 |
| 2. | Investment → Performance | Innovation | 0.41 | 0.154 (0.57*0.27) | 0.56 |

The implication of this research is that the business performance of marine fish processing MSMEs needs to be improved. Increased business performance is reflected in a 5-10% increase in revenue this year

compared to last year. Priorities for improving business performance can be made by prioritizing an increase in investment activities in the form of investments in employee health and safety, as well as providing good incentives for employees. These activities can trigger innovation activities reflected in the existence of a good service system for customers.

## IV. CONCLUSION AND SUGGESTIONS

The business performance achievement level of marine fish processing MSMEs in Bangkalan Regency, Madura, Indonesia still needs to be improved. The determining factors include the level of investment and innovation strategies. This is because there is no influence of market leadership orientation on innovation strategies. But there is an influence of the investment level on innovation strategies. Meanwhile, there is an influence of market leadership orientation, investment level, and innovation strategies partially on business performance.

Other determinant variables are needed so that the observed variables are better able to explain innovation strategy variables and even business performance variables. In addition, guidance for MSME entrepreneurs is needed to innovate through insight activities through training, comparative studies, business meetings, and increased motivation to progress through the current MSME activities.

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