



Conceptual Framework of Risk Control as Moderator on the Relationship between Determinant Factors Selection and Performance of SMEs in Indonesia: A Pilot Study

Dede Ansyari Guci¹, Puspa Liza Ghazali², Nik Hazimi Mohamad Foziah³ and Zainuddin Awang⁴

^{1,2,3,4} Faculty of Business and Management, Universiti Sultan Zainal Abidin, 21300 Kuala Nerus, Terengganu, Malaysia

¹ Faculty of Economy, Universitas Prima Indonesia, Medan, Indonesia

¹dedeansyariguci@unprimdn.ac.id; ²puspaliza@unisza.edu.my; ³nikhazimi@unisza.edu.my; ⁴zainudinawang@unisza.edu.my

¹Corresponding email: dedeansyariguci@unprimdn.ac.id

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ABSTRACT

Only SMEs are successful: Indicates a gap in some effective ways to increase the size of faction while the achieving extraordinary performance and sustainable growth.

Purpose – This paper aimed to help fill the gap by identifying factors related to SMEs performances and develop the conceptual framework to explain the relationships. This paper aimed to help fill the gap by identifying factors related to SMEs performances and develop the conceptual framework to explain the relationships. Some literatures showed a positive relationships among the variables; but the relationship is not yet decisive. The field observation and literary assessments suggest a secondary configuration that play a complete role among government supports, training, digital marketing, financial capital and small business performances, and also the risk control. Although the relationships among the six structures of the whole literatures were examined in detail, this article is one of several efforts in the study of six constructs in a comprehensive framework for further research. With empirical support, the proposed framework can provide effective alternatives to help entrepreneurs and small business players to develop their businesses effectively. **Methodology/approach** – The data was collected by using questionnaires and analyzed the KMO and Barlett's Test by using SPSS 21 from about 100 respondents as entrepreneurs in small businesses in Medan, Indonesia. **Findings** – The result showed that all measured variables were >0.50, means that the strong relationships among items need to be investigated.

Novelty/value – As SMEs have the important role in economics for developing country like Indonesia, it is vital to understand how to increase the performance of SMEs. Keywords Performance of SMEs, Digital Marketing, Risk Control, Financial Capital, Government Support.

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INTRODUCTION

SMEs have the important role in economics for developing and advanced countries. Some corporations account are nearly 90% of all groups and taken into consideration a way of presenting greater employment possibilities and assuaging difficulties. The competition in today's commercial enterprise international is turning into an increasing number of fierce. It has been skilled now and has no been more effective with the aid of using massive corporations; additionally with the aid of using small and medium-sized corporations. SMEs are taken into consideration in using the pressure of advanced and growing nations around the sector; since they play an essential function in monetary boom and sustainable development (Ariyo, 2005). Moreover, SMEs are the maximum dynamic and inclined withinside the international economy.

The aims of this paper are (1) to influence the development of SMEs and (2) to determine some SMEs performance in purchasing to investigate the relationship among these precursors. This paper developed a conceptual frame to explain the role of moderated constructs between entrepreneurs and SMEs performance. It will also contribute for the constructs into a conceptual framework to gain a better understanding of "what's" and "how's" of the efforts in SMEs growth and development. Some literatures discussed about 5 constructs among selected factors and SMEs performance as follow: (1) government support, (2) training, (3) digital marketing, (4) financial capital, and (5) performance of SMEs. Therefore, this paper is organized on rules. First, take a brief look at the conceptual framework. Second, the brief review will be presented and followed by relevant hypotheses. The last, start in analyzing the pilot study. Totally there are 8 hypotheses about the relationships among these components, then the conclusion will be explained in this paper.

THE PROPOSED CONCEPTUAL FRAMEWORK

The conceptual framework in this paper is developed according to some literatures to analyze the constructs that significant with SMEs performance. There are some studies that have been discussed intensively about SMEs in another extant literatures; then in this case, the proposed conceptual framework may become one of some efforts to constructs a single framework.

The review to identify the risk control that may moderate the relationship among selected determinant factors: (1) government support, (2) training, (3), digital marketing, (4) financial capital and (5) performance of SMEs. In this study, there are exogenous and endogenous variables. The exogenous variables include the government supports, some trainings, a digital marketing, and financial capital; while the endogenous variable is SMEs performance.

LITERATURE REVIEW

Performance of SMEs

Practically, SMEs have a restrained range of monetary performance as their indicators since they lack of human resources to set up perfect way and to get purposes (Heilbrunn, Rozenes, and Vitner, 2011). SMEs are also have a tendency to apply the subjective measures rather than goal measured (Dess and Robinson, 1984). SMEs are regularly measure the increase with the aid by using turnover and employee increase (e.g., Leitner and Gudenberg, 2010).

Machirori (2012) stated that business performance is the achievement estimation of SMEs. He also described some variables to measure up SMES performance among other variables: (1) growth of SMEs, (2) growth of profitability, (3) growth of employee and (4) growth of customer satisfaction. SMEs performance is typically measured in terms of financial and non-financial indicators. Some treasury performances include the financial efficiency indicators (return on investment capital and equity) as well as profit indicators (return on sales and profit) as stated by Li, Huang, Tsai (2010) and Iskanto et al., (2021).

There are some non-financial indicators include customer satisfaction, revenue growth, employee growth and market share. There are also the performance indicators include market share and market share growth; while the other can serve as the key indicator in earnings finance performance. The following figure is the proposed conceptual framework for this study.

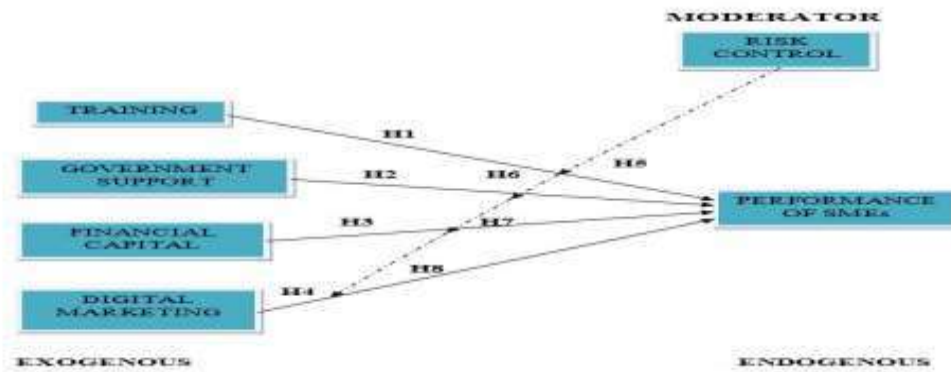


Figure 1. The framework: risk control as moderator on the relationship between determinant factors selection and performance of SMEs

Government Support

The support from government is very important factor for fostering SMEs in Indonesia. Based on previous master research studies (Guci, DA & Ghazali, PL, 2017) conducted in Batam Island, the results showed that SMEs on Batam Island are still unsatisfied with government support. In this study, the researchers had divided government support into two parts; infrastructures and corporate regulations.

Sumengkar (2014) stated that in the development of SMEs, the government needs to focus on four things: (1) SMEs' assets, (2) business services, (3) business acceleration and (4) motivation. Ummu Hani (2012) stated that SMEs development in Indonesia do not performed well due to some inappropriate implementations of government policies that frequently changes. Some poor policies have been implemented in corporate governances and unethical practices.

Mostly businesses that have control and management supported by structures and facilities from government are also aggravate the situation. Some of SMEs have emphasized the importance to have the stable government policies to support SMEs, apply the regulation to help the performance and improve them in building bussiness more efficient (Harvie and Lee, 2005).

Training

Wisnuhardana (2016) stated the initiation of entrepreneur activity for their successful involves some educations that had determined by the existential characteristics of successful corporate actors. The training is the result of disproportionate gains and losses in doing business. As a result, they will know what they should and should not do to run their business successfully.

The relationships of training programs toward SMEs performance have been emphasized by several studies (Aragon, et al. 2003; Garcia, 2005). The human capital theory stressed on the implementation of training programs that will improve the employee's skill and competency; while for increasing some SMEs' productivity, it shows a strong relationship between training and SMEs performance (Snell & Dean, 1992; Lepak & Snell, 2002).

Beaver and Hutchings (2005) also discovered the implementation of some training will improve the skills and competences of employees; therefore it is also believed that the program will lead to better SMEs performance.

Digital Marketing

Brush et al (2009) discovered that digital marketing system is another issue to be solved. There are some variables in this issue, include the communicating product features, the marketing effort, the implementing sales to win and retain customers, the pricing products and services in an attractive

ways, the establishing effective distribution channel and the undertaking constant product development.

The digital marketing in enterprise is presently displaying a nice fashion and maintains to boom significantly. Some digital advertising and marketing efforts are desired by way of means of enterprise participant in place of traditional advertising and marketing. The digital advertising and marketing device are greater capable of attain customers in applicable and well-timed way without delay to people who want the products. Syafitri (2017) stated that current technological traits as the result in the virtual global have made the virtual advertising and marketing enterprise an increasing number of well-known and started out to have their personal market place share.

Financial Capital

The financial is an essential element in development and SMEs performance (Cook and Nixon, 2000). Abor and Quartey (2010) also claimed the major challenges for SMEs is the access to capital; since SMEs development has limited financial resources to meet operations and investments needs. In some developing countries, SMEs are also difficult to access the formal bank loans (Nichter and Goldmark, 2009; World Bank, 2009) due to the extremely high risk, incapability to provide some required physical collaterals and low profitability (Harvie, 2005).

Pretorius and Shaw (2004) had studied that Position tests could be internal or external. Mostly SMEs depend on internal funding but it is not sufficient to grow and grow. Carpenter and Petersen (2002) also found that growth of SMEs was limited by depending on internal funding. Wilder's competitive globalization trends, fast technology development, shorter product cycles, and innovation requirements have set up a pressure to increase development investment and accelerate. However, it is difficult to stabilize the cost within restriction of self-funding; can be understood that SMEs need external funding.

METHOD

Guci, D.,A., et.al, (2017) conducted a study toward the relationship among the government supports, some trainings, the digital marketing, the financial capital and SMEs performance in Indonesia. The pilot tests were done by giving 100 questionnaires for selected respondents as SMEs players in Medan, Indonesia. They have six components; four of them are two exogenous variables, one endogenous and one moderator; they were done by using the Likert Scale for each question. Meanwhile the analyze toward the test was done by using Statistical Packages for Social Science (SPSS) of version 21, and got the results by using KMO and Barlett's Test.

RESULT AND DISCUSSION

KMO and Barlett's Test

The value of KMO and Bartlett's Tests for correlations among variables should be as > 0.5 . The following table is the result of KMO and Barlett's tests to determinant factors selected.

Table 1: KMO and Bartlett's Test

Construct	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	Bartlett's Test of Approx. Chi-Square Sphericity.	df.	Sig.
Performance of SME	.796	905.324	10	.000
Government Support	.757	274.365	10	.000



Training	.721	224.257	15	.000
Digital Marketing	.862	612.491	15	.000
Financial Capital	.865	539.413	6	.000
Risk Control	.640	624.317	15	.000

The KMO value in Table 1 is >0.5 means a strong relationship among the variables. While the KMO and Bartlett's Tests of Sphericity value shows the variables data in this study was suitable for factor analysis.

CONCLUSION

The paper has provided a basic conceptual framework to help SMEs performance by providing more comprehensive overview about some factors that influence SMEs' development. The previous literatures in this paper are tend to focus on limited numbers of configurations that can obscure toward the complex conceptual framework. The framework can also contribute to provide a complete picture of the case.

There are many ways to improve the conceptual framework followed by the explanation of role from each component or variables. Kaiser-Meyer-Olkin test (KMO) resulted the pilot test and obtained that all six variables had gotten the high KMO value. It was bigger than 0.5, means that the collected data was distributed well and represented the strong relationships among variables.

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