Study on Improving MSMEs Performance through Business Strategies

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Abstract: This study aims to determine the effect of the independent variable innovation on the performance of SMEs in Salatiga City with the business strategy variable as an intervening. This study is a quantitative study using primary data from a population of all MSME owners in Salatiga in 2022. This study emphasizes resource-based theory (RBT) which emphasizes competitive advantage in companies. The sampling technique used is simple random sampling, which produces 100 samples. Data collection methods were carried out using questionnaires and interviews with MSME owners in the city of Salatiga in 2022. The data was processed using the IBM SPSS statistic version 23. The results in this study indicate that innovation and business strategy have a positive and significant effect on MSME performance, innovation has a positive effect and significant impact on business strategy, and finally, the business strategy succeeded in mediating innovation on the performance of MSMEs.

Keywords: innovations; business strategy; MSMEs performance

1. Introduction

One of the potentials that can be developed in each region is various kinds of Micro, Small, and Medium Enterprises (MSMEs). MSMEs play an important role in national economic development. Based on data from the Ministry of Cooperatives and MSMEs, MSMEs currently reach 64.2 million and contribute to the Gross Domestic Product (GDP) of 61.07%, or equivalent to 8,573.89 trillion rupiahs (Haryo Limanseto, 2021). The growth of MSMEs continues to increase in Indonesia. In 2019, the number of MSMEs in Indonesia increased by 1.98% from 2018. Indonesia had 64.2 million MSME units recorded in 2018 and in 2019 this number increased by 65.5 million business units. 798.7 thousand units are small businesses, while 65.5 thousand are medium enterprises. This number is estimated to continue to increase over time (Jayani, 2021).

Many Salatiga MSMEs have won achievements as MSMEs that can innovate, be creative, and create products that are needed by the community (dinkopukm, 2019). However, although many MSMEs in the city of Salatiga have won achievements, there are still quite some problems faced. In most developing countries, the performance of MSMEs is one of the main problems (Herath & Mahmood, 2013).

MSME performance is an important tool for the sustainability of market activities. The
smaller size of MSMEs allows for faster strategy development than large firms. Based on resource-based theory, performance will increase if the company invests in internal resources appropriately (Virglerova et al., 2020). In addition, a qualitative study from (Linton & Kask, 2017) shows that business strategies improve firm performance when applied in combination with innovation.

The chosen object is Micro, Small, and Medium Enterprises (MSMEs) which have different characteristics from large companies but can become the biggest economic drivers in Indonesia. In addition, several previous studies have shown inconsistencies regarding the relationship between innovation and MSME performance. As research conducted by (Domi et al., 2019) and Kraus et al., (2012) states that innovation has no significant effect on company performance. Meanwhile, in the research conducted by Price et al., (2013) and Tsai & Yang, (2013) it is known that there is a significant influence between innovation and performance.

Based on research gaps that occur due to these inconsistencies, there are problem formulations, namely: How can innovation affect the performance of MSMEs?, How can business strategies affect the performance of SMEs?, How can innovation affect business strategies?, and How business strategies can mediate innovation on the performance of SMEs?. The results of this study are expected to determine the performance improvement of MSMEs in the city of Salatiga through business strategies.

2. Literature Review

This research is based on resource-based theory (RBT). This theory was first put forward by Penrose (1959) who theorized that company resources affect growth, namely company growth is hampered when resources are inadequate (Barney et al., 2011). Later it was developed by (Wernerfelt, 1984), who said that the company is a broad collection of resources, in the form of tangible or intangible assets that are tied to the company (Arifin & Dionysus, 2020). This theory states that diverse resources are inherent in the company thus creating strong competencies that

Innovation refers to the level of organizational desire to innovate in business operations processes (Bhatti et al., 2020). Innovation can be defined as an organizational approach to implementing new ideas that lead to product and service innovation (Bigos & Wach, 2021). Research (Domi et al., 2019) considers innovation as attitudes, values, and beliefs as well as the openness of individuals or companies to change. Several studies have proven that innovation is very important to driving performance improvement (Isichei et al., 2020). The literature is written by (Arshad et al., 2014), assessing technology-based MSMEs in Malaysia and finding that innovation has a significant effect on MSME performance. This is supported by other literature written by (Ajayi, 2016) which states the same thing that innovation affects performance.

H1: Innovativeness has a positive influence on the performance of MSMEs.

Innovation enables businesses to take advantage of new opportunities, meet consumer needs through new products and services, and become first movers in the industry (Isichei et al., 2020; Shah & Ahmad, 2019). In research conducted by (Tsai & Yang, 2013) which states that company innovation affects business performance, the differential of innovation can improve performance under the influence of market turbulence and intensity of competition. Innovation in products or services strengthens the business position thus enabling the growth of business performance (Isichei et al., 2020). For this reason, innovation and business strategies which are also a competitive advantage of the company allow for an effect on the performance of MSMEs. So, it can be said that innovation can improve business strategy.

H2: Innovation has a positive influence on the business strategy

Business strategy is an important resource for an organization in achieving sustainable
competitive advantage. Business strategy plays a role in any business activity (Haseeb et al., 2019). Several studies reveal that providing the valuable resources needed to build capabilities that enhance company performance is the way to ensure sustainable excellence (Lin et al., 2014). Phongpetra & Johri, (2011) conducted research on the manufacturing sector in Thailand, from the study it was found that the company’s business strategy has a direct positive effect on organizational performance. In line with research conducted by (Yanney, 2014) which states that business strategy has a significant influence on the performance of MSMEs in the city of Ghana. Bature et al., (2018) stated that innovation and being proactive can be a strategic posture and resource for developing organizational performance. Meanwhile, a study conducted by (Meekaewkunchorn et al., 2021) revealed that the dimensions of entrepreneurial orientation affect business strategy and improve overall business performance. Innovation and proactivity influence business strategy and leads to business performance.

**H3:** Business strategy has positive influence on the performance of MSMEs

**H4:** Business strategy mediates the positive influence of innovation on the performance MSMEs

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3. **Research Method**

This study aims to determine the relationship between innovation and performance of MSMEs through business strategies. This study uses a quantitative method with a population of 23,491 (dinkopukm, 2021) SME owners in the city of Salatiga. Sampling in this study used simple random sampling and took 100 samples. Data was collected through the distribution of questionnaires manually or using an electronic form (google form). This research uses IBM SPSS version 23. With a 5-point scale range (1 = strongly disagree, 5 = strongly agree).

4. **Result and Discussion**

4.1. **Validity and Reliability Test**

The results of the validity test on all indicators in the variables of innovation, performance, and business strategy were declared valid with an r-count greater than the r-table. Likewise with the reliability, that all variables the Cronbach alpha value is stated to be greater than 0.60. Innovation variable (0.790 > 0.6), business strategy variable (0.868 > 0.6), and MSME performance (0.877 > 0.6).

4.2. **Normality Test**

The results of the normality test using the one-sample Kolmogorov-Smirnov test showed that the data in this study were normally distributed with the Asymp value. Sig. (2-tailed) 0.200 which means greater than 0.05.

4.3. **Coefficient of Determination Test (R²)**

From the R² test, it can be seen that the value of R-square gets 0.643. This means that the innovation and business strategy variables have a contribution of 64.3% to the performance. As for the other 35.7% were influenced by variables not examined in this study.
4.4. **Hypothesis Test**

Based on the F-test that has been carried out, there are results from the regression model of 87.351 and a significance level of 0.000, smaller than 0.05. That means that this regression model can be used to predict the increase in the performance of MSMEs. The T-test that has been carried out shows that innovation and business strategy have a positive and significant impact on performance. With a significance value of the innovation variable of 0.000 <0.05 and getting a t-count value of 3.678. From the business strategy variable, it got a significance value of 0.000 <0.05 and a t-count of 7.651. Meanwhile, in the second test, between innovation and business strategy, a significance value of 0.000 and a t-count of 7.868 also resulted, which means that the t-count is greater than the t-table.

Mediation test using Sobel test with the help of online Sobel calculator. It was found that the arithmetic value of the Sobel test was 5.535 with a probability value of 0.000. It can be concluded that the business strategy is successful in mediating innovation in improving the performance of MSMEs.

4.5. **Discussion**

The test results on the innovation variable on performance got positive and significant results with a significance value of 0.000. This means that the more innovative, the performance of MSMEs will also increase. So vice versa. The results of this study are in line with research conducted by (Tsai & Yang, 2013) and (Price et al., 2013) which state that innovation will improve the performance of MSMEs.

Testing the innovation variable on business strategy resulted in a significance value of 0.000 <0.05. These results prove that innovation can improve business strategy in MSMEs. So the research conducted by (Isichei et al., 2020) which in this study stated that innovation can strengthen the business position so that business performance can also grow. In this case, it means that the better the innovation is carried out, the higher the probability of a successful business strategy.

In the business strategy variable, it is found that the variable can improve performance. The test results of the business strategy variable get a significance value of 0.000 <0.05. Similar to research conducted by (Li & Tan, 2013) where in this study it was stated that business strategy has a positive and significant influence on business performance. That way, it can be said that the more often a business strategy is implemented, the business performance will increase.

The test results on the business strategy variable can mediate the effect of innovation on the performance of MSMEs. This is evidenced by the value of the Sobel test got a t-count of 5.535 and a probability value of 0.000 <0.05. This result is in line with research conducted by (Meekaewkunchorn et al., 2021) which states that the influence of innovation on MSME performance can be increased by being mediated by a business strategy.

5. **Conclusion**

Based on the findings of the research that has been done, namely regarding the effect of business strategy in mediating innovation on the performance of MSMEs in the city of Salatiga. So, it can be concluded from the results of hypothesis testing that there is a positive and significant effect. Another significant influence is also evident in the business strategy that can mediate innovation in the performance of MSMEs in the city of Salatiga. This means that the better the innovation is carried out, the more successful the business strategy will be and the performance of MSMEs will also increase.
Reference


Indonesia memiliki 65% ribu unit merupakan usaha kecil.


