Micro and Small Enterprises (MSEs):
What are the Best Indicators of Their Performance?

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Abstract: MSE is one of the sectors that contribute to economic development, especially in the creation of employment and value added. One of the developing MSEs in Riau Province is MSEs of crispy mushroom. The MSEs' performance is influenced by a number of variables. This study aims to analyze the variables that affect the MSEs' performance. The subjects of this research were MSEs of crispy mushroom in Riau Province, Indonesia. The data were collected by interviews based on the questionnaire, and then analyzed using multiple linear regression analysis. The study found: 1) Capital access, business plans, business networks, and government support have significant and positive impacts on MSEs' performance; and 2) business networking has the most significant impact on MSEs' performance. To improve their performance, MSEs have to expand their business networking, so that the existence of the business can be maintained, and even grow better.

1 INTRODUCTION

Micro and Small Enterprises (MSEs) have been recognized as very important sectors, not only for economic growth but also for income distribution. Viewed from the business scale, from 26.7 million businesses (outside the agricultural sector), 98.33 percent are micro and small enterprises. Meanwhile, medium and large enterprises are only 0.45 million, or only about 1.6 percent of the total 26.7 million businesses or non-agricultural enterprises in Indonesia. In Riau Province, out of 278 thousand businesses, 98.66 percent are micro and small enterprises and only 1.34 percent of medium and large enterprises (Indonesian Central Bureau of Statistics, 2016).

Therefore, both central and local governments continue to make various efforts in the development of MSEs, with the hope that the impact of such development can increase the contribution of MSEs significantly in improving the regional economy and national economic resilience. These conditions are in line with the studies' results of Ivanová (2011), Rao (2014), Ratten (2014), ulHaq et al. (2014) which concluded that the success of MSEs has a direct impact on economic development, especially in developing countries.

One type of MSEs in Riau Province is MSEs of crispy mushroom. This business utilizes mushrooms that grow on empty bunches of palm oil as raw material production. In Riau province, palm oil is the main commodity that many cultivated by society and business entity. Based on data from the Directorate General of Plantation (2015), the production of fresh palm fruit bunches of 1,792,481 tons in 2000 increased to 7,442,557 tons in 2015. The increase in the production also resulted in the increase of empty palm fruit bunch waste. One effort to overcome the waste is to change the empty bunches of oil palm into a medium of growing mushrooms. For every 1,600 kg of oil palm empty bunches for 40 days will produce 65-70 kg of fresh mushroom. This is a potential for MSEs of crispy mushroom to increase production. With the potential it is expected that MSEs of crispy mushroom can increase their sales and ultimately can improve business performance.

But, the fact indicates that the sale of crispy mushroom has not increased significantly in the last five years. The sales average of crispy mushroom in 2016 was 40 kg per month, and only increased by 5 kg compared to 2013. It can be said that its business performance is still poor. Allegedly the cause is lack of business networks owned by business actors.

According to Polo-Pena et al., (2012) and Lane (2017), there are many variations in assessing MSEs' performance. Profitability and non-financial measures can be used to measure the success of MSEs (Lucky and Minai, 2011). Blackburn et al. (2013) assesses the small business performance of changes in employment, capital turnover and profit growth. Meanwhile, in the research of Pinho and de Sa (2014), the MSEs' performance is measured from the perception of business actors towards the company's growth due to the sensitivity surrounding the profit data. In contrast to previous research, this study does not only assess business actors' perceptions of business profit growth as an indicator of MSEs' performance, but also assess market growth and sales growth from the MSEs perceptions.

There are several factors that affect the MSEs' performance. Capital is one important factor to improve business performance. Even equity access to capital for all segments of society is believed to be an alternative to equitable income. It is based on the idea that with capital, we can optimize the existing resources to increase business profits, which in turn can increase revenue. There-fore, the lack of access to capital is the first determinant of the failure of small businesses in Pakistan (Lussier, 2016). In Indonesia, Indrawati and Caska (2015) found that lack of access to the capital of sago cake craftsmen caused most craftsmen not able to produce cakes regularly, so that consumers' demand for cakes was often not met.

Besides capital, the business plan is also one of the factors that determines of MSEs' performance (Jasra et al., 2011). Business plan is a written document that describes the employer's plan to take advantage of business opportunities that exist in the company's external environment. It also explains the competitive advantage of the business, and explains the various steps that must be taken to make the business opportunity into a real business form. The first failure to start a business is due to the inability to design a good business plan, so that when entering the business world, many unexpected things arise and cause the business not knowing what to do. One of the benefits of creating a business plan is that it can reduce the risk of business failure. A directed plan will help to show a general description of what and why a mistake or failure can occur. In addition, it can also minimize high cost expenses that are not in accordance with the plans and needs.

Business networking and government support are also key determinants of MSEs' performance (Jasra et al., 2011). Business networking is the process of building a mutually beneficial relationship with other entrepreneurs or customers in order to increase business revenue. Business networking is an important entrepreneurial tool that contributes to the formation, development and growth of small businesses (Salavisa et al., 2009). The government' support for improving MSEs' performance, among others, can be done by facilitating access to markets, or access to formal financial institutions (Indrawati and Caska, 2015).

Jasra et al. (2011) find that the business plan, business networking and government support is a determining factor on MSEs' performance in Pakistan. However, the results of research by Pinho and de Sa (2014) found that government support did not affect the performance of MSEs in Portugal. Another study by Lane (2017) also found that business plans did not affect the success of MSEs in California. Whereas business actors who make written business plans are more likely to experience higher levels of capital turnover and employment in the UK (Blackburn et al., 2013).

Several previous studies have shown the diversity of research results. Therefore, to know clearly the variables that have the greatest impact on the performance of crispy mushroom MSEs in Riau Province of Indonesia, it is very important to do this research with the aim of analyzing the variables that affect the MSEs' performance. In this study, the variables that affect the MSEs' performance are measured from capital access, business planning, business networking, and government support. The results of the research will be useful for MSEs and government as decision makers in connection with the MSEs' development.

2 METHODS

2.1 General Background of Research

This research is a quantitative research using a survey as a method of data collection. The research was conducted in Indragiri Hulu, Pelalawan, Kampar, and Siak, Riau Province, Indonesia.

2.2 Sample of Research

The research samples were 225 MSEs of crispy mushrooms. The samples were taken by purposive random sampling, with the criteria of MSEs that have been existed for at least 5 years.

2.3 Instrument and Procedures

The data collected consist of primary and secondary data. The primary data were obtained from MSEs through interviews based on questionnaires. The secondary data were obtained from the offices related to this research, i.e. Directorate General of Plantation, Industry and Trade Agency, and Indonesian Central Bureau of Statistics.

The variables tested in this study consist of dependent and independent variables. The dependent variable is MSEs' performance with three indicators (sales growth, market growth, and profit growth). The independent variable consists of capital access with two indicators (capital access from bank, capital access from other financial institutions), business planning with two indicators (MSEs knowledge about business planning benefits in improving performance, awareness about business planning needs), business networking with three indicators (business network with school cafeteria, business network with food store, online business network), and government support with three indicators (government support in the form of promoting products when certain activities are held, government support in the form of equipment production, government support in the form of guidance activities and guidance from relevant offices).

The measurement of research variables were conducted based on perceptions or responses of respondents on all indicators of variables that have been built on the model. Respondents' answers to each statement were scored, that is score 1 for the lowest score and score 3 for the highest score. The range of research criteria can be seen in Table 1.

Table 1: The Range of Research Criteria.

No.	Category	Interval
1	Good	2,34 – 3,00
2	Pretty Good	1,67 – 2,33
3	Not Good	1,00 – 1,66

2.4 Data Analysis

To analyze the influence of independent variable to dependent variable, multiple linear regression analysis was used. The research hypotheses are as follows:

H1: capital access has a significant and positive impact on the MSEs' performance.

H2: business planning has a significant and positive impact on the MSEs' performance.

H3: business networking has a significant and positive impact on the MSEs' performance.

H4: government support has a significant and positive effect on the MSEs' performance.

To answer the research hypotheses, F test (simultaneous) and t test (partial) were used with 5% significance level. The coefficient of determination (R^2) was also analyzed to see the contribution of the independent variable in explaining the dependent variable. If the value of R Square approaches is 1, it means that the independent variable gives almost all the information needed to predict the variation of the dependent variable. In other words, the model is getting better (Gozali, 2011).

3 RESULTS AND DISCUSSION

This study is aimed at analyzing the variables that affect the MSEs' performance. The analysis used was multiple linear regressions. The feasibility of the model used in the study was analyzed from the coefficient of determination presented in Table 2. The coefficient of determination (R Square) is 0.755. According to Gozali (2011), if R Square is close to 1, the independent variables gives almost all the information needed to predict the variation of the dependent variable. In other words, the model is more appropriate. The significance value of the F test 0.000 <0.05 shows that simultaneously all the independent variables significantly influence the dependent variables.

Table 2: Test Result of Feasibility of Research Model.

Model	R Square	F	Sig.
1	0.755	34.581	.000

Partial analysis of the variables affecting the performance of MSEs can be seen in Table 3. The Table shows that the capital access, business planning, business network, and government support partially have positive and significant impacts on the MSEs' performance. The significance level of all variables shows smaller than $\alpha = 5\%$.

According to the respondents, the business performance is perceived to be in pretty good category with an average value of 2.12. Most of the respondents classified their sales grew quite well in the last five years. The good growth also happened to the market and profit.

Capital access has a significant and positive impact of 0.273 on the MSEs' performance. Therefore, the first hypothesis in this study is

accepted. Average of capital access is 1.78 which is in the pretty good category. MSEs have difficulties to access capital from formal financial institutions, such as banks. The capital owned by most of MSEs comes from their own capital although it is not sufficient for the capital requirement. Only 24 percent of MSEs are able to access capital from banks and 10 percent of loan sharks. These loan sharks are the last option sought by MSEs when they need money, despite of the fact that the interest is very high. The loan sharks are more attractive to access because financing procedures are not complicated. The process is quick, no collateral, and trust based. Shibia and Barako (2017) stated that MSEs' growth in Kenya is also positively influenced by access to formal credit.

Tabel 3: Test Results of Variables Affecting the MSEs' Performance.

	Model	Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	.395	.205	1.925	.061
	Capital Access	.273	.112	2.424	.019
	Business Planning	.247	.096	2.561	.014
	Business Networking	.293	.117	2.511	.016
	Government Support	.253	.091	2.771	.008

a. Dependent Variable: Performance

Business planning has a significant and positive effect of 0.247 on the MSEs' performance, so that the second hypothesis in this study can be accepted. The average of business planning is 1.82 in the pretty good category. Knowledge of most MSEs about benefit business planning in improving business performance is still low. Only 28 percent of MSEs know the benefits of business planning can improve business performance. Likewise with the awareness of MSEs of the need to make business planning, it is found that 10 percent of MSEs have the awareness of the need to make business planning. They have even made it, although the business plan is still simple. The business planning made still includes the location of the business, the name of the business owner, the reason for establishing the business, the product produced, the production process, and the amount of capital needed. The MSEs that make written business planning are more likely to experience higher levels of capital turnover and employment in the UK

(Blackburn et al., 2013). The findings of this study support the findings of Jasra et al., (2011) in which business planning shows a significant impact on business success in Pakistan, but are inconsistent with Lane's (2017) study that found business planning did not affect to the success of MSEs in California.

Business networking has a significant and positive effect of 0.293 on the MSEs' performance. Therefore, the third hypothesis in this study can be accepted. The average respondents' answer about business networking is 2.00 in pretty good category. 35 percent of MSEs of crispy mushrooms have business networks with school cafeteria, 20 percent have with food store, but no one has an online business network. In this study, business networking is the best variable that affects MSE performance. The wider of MSEs' business network are there is a tendency of better performance. In the context of small business, certain resources must be met by the MSEs by creating a business networking. But Hernandez-Carrion et al. (2017) state that not all business networks allow MSEs in Spain to access relevant resources, with only a few sources provided by each network that actually proves to be valid from a business standpoint.

The fourth hypothesis in this study can be accepted because government support has a significant and positive impact on the MSEs' performance. The average answer of respondents about government support is 1.93 which is in fairly good category. According to 22 percent of respondents, the Department of Industry and Trade, and Social Services have supported the efforts of MSEs by promoting products when there are activities such as exhibitions and seminars held in the region and outside the region. Production equipment aid has also been received by 5 percent of respondents from the Department of Industry and Trade, which is an electronic plastic press tool. However, because the electric power of the business is still low, the tool can't be used optimally by the MSEs. This finding is inconsistent with Pinho and de Sa' (2014) study which found that government support did not impact on MSEs' performance in Portugal. However, in this study government support through coaching and guidance is still lacking, as only 8 percent of respondents have ever received coaching from the local government.

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4 CONCLUSIONS

This study concludes that capital access, business planning, business networking and government support have positive and significant impacts on MSEs' performance. Business networking is the best variable that affects MSEs' performance. The implication of this study is that the findings provide valuable insights for MSEs, and governments as policy makers. MSEs must expand their business network so that the existence of their business can be maintained, and even better. In addition, through business networking, MSEs are able to compensate or accumulate resource constraints. Some efforts that can be done are to form a network of production and marketing network. MSEs can join with other MSEs to add variety to the products, and work together to penetrate new markets. Governments are expected to implement appropriate policies and incentives to develop MSEs and reduce the burden of bureaucracy for new businesses, facilitate business licensing, and facilitate MSEs and formal financial institutions in an effort to reduce the difficulties of accessing MSEs' capital.

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