

Critical Success Factors for Micro, Small and Medium Enterprises in Indonesia

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ABSTRACT

This study aims to examine the predictive ability of Critical Success Factors (CSF) for Micro, Small and Medium Enterprises (MSMEs) in Indonesia. The MSMEs sector plays an important role in driving Indonesia's economic growth. Thus far, a lot of research has been done on what contributes to the failure or trust of MSMEs, but specific research on CSF for MSMEs is still limited, and the findings are still inconclusive. The data was collected using an online questionnaire and analyzed by using PLS-SEM. This research was conducted by descriptive method with a total sample size of 69 respondents and the sampling technique using purposive random sampling. These results indicate that brand reputation, excellence customer service, reliable delivery, and government support affect MSMEs in Indonesia, whereas innovation does not.

Keywords: Critical success factors, Innovation, Brand reputation, Government support, Success of MSMEs

1. INTRODUCTION

According to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), small businesses are defined as independent productive economic activities [1]. It is generally accepted that MSMEs play an important role in economies around the world [2]. Breaking the poverty chain by creating jobs is the main task of MSMEs [3]. In developing countries, MSMEs are the main source of income, breeding ground for employers and job providers [4]. According to BPS [5] the number of MSMEs is 64.19 million businesses and the MSMEs workforce is 117 million workers. The BPS Economic Census [5] released data on the contribution of MSMEs, namely absorbing up to 97 percent of the total workforce, providing up to 99 percent of total employment, and contributing 60.34 percent of total National GDP, 14.17 percent of total exports, and 58.18 percent of the total investment.

Thus far, many studies have been conducted about something that is related to the failed and fruitfulness of MSMEs, but research more specifically on Critical Success Factors (CSF) for MSMEs is narrow and the invention are yet undetermined [6]. Punctual research before, generally discussing what contributed to the failed of MSMEs, trying to find the factors that influence these failures, and discussing how to avoid these factors in order to reduce the risk of failure. These factors could be devided equally a person typical such as businessperson behavior, or nonindividual typical such as organisantional stalwartness and the MSMEs environment [7] [8]. Besides Jasra, Hunjra, Rehman, Azam, and Khan [3] analyzed the effects of fiscal resource, strategy of commerce, resource of technology, government supports, way to information, enterprise plans and entrepreneurial skills on successful businesses. Skills

from entrepreneurship are lacking, and financial resources are common factor. Even if these factors are met, it does not guarantee success. Therefore, further learning needs to be done about how these factors influence the successful of MSMEs.

Research on CSF for MSMEs has not been widely studied in Indonesia. Some of the studies that have been carried out generally do not specifically discuss CSF for MSMEs, for example, as has been done by Subanidja & Legowo [9] which examines the investigation of financial constraints that help the success of the Enterprise Resource Planning (ERP) system and will improve performance. UKM. Therefore, the important reason this research is conducted is to examine what factors drive the success of MSMEs in Indonesia, with the variables to be studied replicating from Alfoqahaa's research [6], namely brand reputation, customer service excellence, reliable delivery and innovation. Reputation of brand served as a source of lasting demands and appeal [10]. Today's excellence in customer service is an important factor for business success [11]. Reliable delivery is the cornerstone of logistics process because it considers potential losses [12]. Based on Warren's et al. literature review [13] innovation means the application of new technology, market science and also a form of business that is able to provide a combination of new products or services to consumers who can afford to buy with the price that providing profits. This study also examines the relationship of government support to the success of MSMEs, because according to Doh and Kim [14] [15] government support has a positive effect on the success of MSMEs.

The purpose of this study is to empirically test the predictive ability of CSF on MSMEs in Indonesia. The results of this study are expected to be used to investigate the success of



MSMEs in Indonesia, and thus participate in science about the CSF of MSMEs in Indonesia. This research, decribes that achieving a successful become more possible if it is done by determining the right area to operate and carry out various tasks that must be carried out by businessperson in accordance with the mechanisms of CSF which participate in encouraging the successes of MSMEs.

2. LITERATURE AND HYPOTHESIS

Reputation of brand is a prediction of a company's services or products that are generally able to providing more profits [10]. Brand reputation is an important construct that is widely recognized to influence brand loyalty [16]. Loyalty is represented by the number of repurchases made by consumers in a certain period of time without considering the reasons why the product or service was obtained and the factors that influence the decision [17]. Alfoqahaa's research results [6] show that there is a positive influence on brand reputation on the success of MSMEs. The first hypothesis (H1) is defined as brand reputation has a positive effect on the success of MSMEs.

Customer service is defined as an organization's ability to consistently meet the needs and expectations of its customers [18]. According to Zeithaml, Bitner and Gremler [19] service quality means the focus of evaluation that describes customer perceptions on (1) reliability, the ability to carry out services appropriately and reliably, (2) assurance, employee knowledge and politeness and organizational ability to generate trust and confidence. (3) responsiveness, willingness to help customers and provide services quickly, (4) empathy, personal care or attention that the organization gives to its customers, and (5) tangibility, physical appearance, equipment, personnel and communication media. The research results of Ogunnaike, Salau, Adeniyi, Tairat [20] and Alfoqahaa [6] show that customer service excellence positively effect on a successful of MSMEs. The second hypothesis (H2) which is elucidate as customer service excellence positively effect on a successful of MSMEs.

Reliable delivery is a chain of tasks, which deliver product directly, that is, from the point of producer, to the point of consumers, or through the ship and storage route [21]. Bowersox [22] elucidate distribution of shipments as a business tasks, for examples, send finished goods, or raw material, by arriving at specified place when needed or under certain conditions. Oncoming with the businessoriented, can produce good logistics system performance in terms of implementing the 7R formula, namely: right product, right quantity, right quality, right place, right time, right customer), and right price [23]. Alfoqahaa [6], Davis, Aquilano, Balakrishnan, and Chase [24] and Stalk [25] in their research found that reliable delivery can contribute positively to the success of MSMEs. The third hypothesis (H3) is formulated as a reliable delivery that can have a positive effect on the success of MSMEs.

Innovation can be defined as the application of new ideas to products, processes or other aspects of company activities [26]. The innovation of the products produced provides a

focus of attention to be able to develop MSMEs in Indonesia on the achievement of realizable competitive advantages [27] [28]. Philip [29] in his research shows that innovation positively affect a successful of MSMEs. The fourth hypothesis (H4) is elucidated as innovation that can positively affect a successful of MSMEs.

The government has an important role in encouraging economic growth [30]. According to SMERU [31], government agencies play the most prominent role (50.9 percent) compared to the roles of other institutions, such as NGOs (29.4 percent) and donor agencies (10.1 percent) in the MSMEs development program. The findings of Doh and Kim [14], and Tambunan [32] show positive results between government support for the success of MSMEs. The fifth hypothesis (H5) is defined as government support can positively effect on a successful of MSMEs.

3. METHOD

This research is a quantitative study using descriptive research. The subjects of this research are micro, small and medium enterprises engaged in food and beverage in Indonesia. The objects of this research are brand reputation, customer service excellence, reliable delivery, innovation, government support and the success of MSMEs. The data was collected by means of an online questionnaire survey using google form with an ordinal scale which required respondents to choose one of five answer choices written in 1-5 Likert scale numbers (1 for strongly disagree, 2 for disagree, 3 for neutral / doubtful, 4 to agree, 5 to strongly agree). The population in this study were the owners of micro, small and medium enterprises in Indonesia. A large population makes it impossible to study everything that exists, because of limited manpower, time, and others, so this research can use samples taken from that population. The sample technique used in this study was purposive random sampling. The specific requirements for being a sample are having a business that is already running, a business that is in Indonesia, and a business that is run in the food and beverage sector. So in this study, the sample was taken as many as 69 respondents in Indonesia, because this number was considered appropriate and able to represent the existing population. The calculations in this study were carried out systematically by using the SmartPLS 3.0 version application. PLS model evaluation based on predictive orientation has non-parametric properties.

Brand reputation is measured by five statements, namely I have a business with a good brand reputation, I have a business with a reliable brand reputation, I receive responses from customers that the brand I use is good, I have a brand that performs well, I receive comments positives from customers regarding the brands I use. Customer service excellence is measured by five statements, namely I have a business with clear objectives, namely reducing complaints, increasing business volume, increasing customer satisfaction levels, I respect norms for customer service performance, I discuss service quality at every meeting or briefing with employees, I develop and



coach employees to practice a positive attitude towards customers, I have employees who are good at communicating with customers. Reliable delivery is measured by five statements, namely I do my best when dealing with customers, I deliver the type of product the customer needs, I send consumer's order appositely, I am providing reliable delivery, I made product available for consumer at no cost to customers. exaggerated. Innovation is measured by five statements, namely I provide products tailored to customer desires, I modify products offering to cater customer needs, I give good feedback to consumers requests for "new features", I ensure that the production process is in line with market needs, I continue to do updates with technological developments in my field. Government support is measured by six statements, namely I get technical support from the government, I get financial support from the government, I get help from the government to get the raw materials and equipment I need for operations, I get a contract with the government, I get special support from government when starting a business, I get help from the government when starting a business. The success of MSMEs is measured by five statements, namely I presume that my own business is success, I presume that my own business is grown up, I have a business that reaches the target market, I have a business whose financial goals are achieved, I have a business that is superior to competitors.

4. DATA ANALYSIS

The analytical method used in this research is PLS-SEM. PLS-SEM analysis usually consists of two sub models, namely the measurement model or often called the outer model and the structural model or often called the inner model. Validity and reliability tests are included in the measurement model. The level of data validity can be seen from the value of convergent validity and discriminant validity. Convergent validity can be seen from the Loading Factor (LF) and Average Variance Extracted (AVE). LF is the correlation between the item / indicator score and the construct score. Individual indicators are considered valid if they have a correlation value (≥ 0.7). However, research at the scale development stage, LF 0.5 to 0.6 is still acceptable. The AVE value is said to be valid if each value construct is (≥ 0.5) [33]. Discriminant validity can be seen from fornell larcker and cross loading. Fornell larcker is measured by looking at the correlation between variables and variables. The correlation between the variables itself must be greater than the correlation with other variables. Furthermore, cross loading is measured by looking at the correlation between indicators and variables. For indicators that measure the variables themselves, the correlation must be greater than the correlation between indicators and other variables. The level of reliability can be seen from the value of Cronbach's alpha and composite reliability. The reliability of a variable is said to be good if it has a Cronbach's alpha value (≥ 0.6) [34]. Composite reliability is said to be reliable if it has a value (≥ 0.7) [33].

After the reliability and validity of the outer model are fulfilled, then several steps are required to test the hypothesis in the inner model or structural model, namely the test of the coefficient of determination R-Square (≥ 0.1), Q-square or predictive relevance (> 0), Goodness of Fit (GoF) with the values of 0.75, 0.50, and 0.25 can be concluded that the model is strong, moderate, and weak [33], and the path coefficient (t-statistics ≥ 1.96 and p-value ≤ 0.05).

5. RESULT

5.1. Validity and Reliability (Outer Model)

All indicators have a valid loading factor, with the lowest value of 0.579 greater than 0.5. All AVEs are also valid with a value greater than 0.5, namely 0.566 brand reputation, 0.544 customer service excellence, 0.512 reliable delivery, 0.502 innovation, 0.872 government support and 0.709 MSMEs success. Fornell Larcker has a valid result because the correlation between the variables itself is greater than the correlation with other variables. Furthermore, cross loading has valid results, because the indicators that measure the variables themselves, the correlation is greater than the correlation between indicators and other variables. Composite reliability on all variables of this study was greater than 0.7, namely brand reputation 0.866, customer service excellence 0.855, reliable delivery 0.839, innovation 0.834, government support 0.976 and the success of MSMEs 0.924. Cronbach's alpha on all the variables of this study is greater than 0.6, namely 0.810 brand reputation, 0.784 customer service excellence, 0.768 reliable delivery, 0.753 innovation, 0.970 government support and 0.897 MSME success.

5.2. Data Analysis

The output of SmartPLS 3.0 shows that R-Square is worth 0.505, which means the independent variables, namely brand reputation, customer service excellence, reliable delivery, innovation and government support represent 50.5% to predict the dependent variable, namely the success of MSMEs. The Q2 output in this research produces a value of 0.319, which means that Q2 is more than 0 indicating that the variable is able to predict the model well and relevant. Based on the calculation of the Goodness of Fit value, the result value is 0.56, which means that the value has a moderate level of model suitability. Based on the path coefficient analysis shown in Table 1. Brand reputation has a t-statistics of 2.078, this value is bigger than the cut-off value of 1.96 and the p-value of 0.038 is smaller than 0.05 so that H1 is supported by data. Thus, brand reputation affects the success of MSMEs and the two variables have a positive relationship. The excellence of customer service is that it has a t-statistic of 2,075, this value is bigger than the cut-off value of 1.96 and the p-value of 0.039 is smaller than 0.05, so that H2 is supported by the data. Thus, customer service excellence affects the success of MSMEs and the two variables have a positive relationship. Reliable delivery



has a t-statistics of 2.063, this value is bigger than the cutoff value of 1.96 and the p-value of 0.040 is smaller than
0.05, so that H3 is supported by the data. Thus reliable
delivery has an effect on the success of MSMEs and the two
variables have a positive relationship. Innovation has a tstatistic of 0.218, this value is smaller than the cut-off value
of 1.96 and a p-value of 0.828 is bigger than 0.05, so that
H4 is not supported by data. Thus, innovation has no effect
on the success of MSMEs and the two variables have a
negative relationship. Government support has a t-statistic
of 4.078, this value is bigger than the cut-off value of 1.96
and the p-value of 0 is smaller than 0.05 so that H5 is
supported by data. Thus government support has an effect
on the success of MSMEs and the two variables have a
positive relationship.

Table 1. Path Coefficient Test

Hypothesis Relationship		Path Coef.	t-statistic	p-values	Decision
Brand Reputation → The success of MSMEs	H1	0.219	2.076	0.038	Supported
Customer Service Excellence → The success of MSMEs	Н2	0.263	2.075	0.039	Supported
Reliable Delivery → The success of MSMEs	НЗ	0.247	2.063	0.04	Supported
Innovation → The success of MSMEs	H4	0.027	0.218	0.828	Not Supported
Government Support → The success of MSMEs	Н5	0.323	4.078	0	Supported

6. DISCUSSION

Brand reputation can predict the success of MSMEs in Indonesia significantly and positively. The first hypothesis test is in line with research conducted by Alfoqahaa [6], namely that brand reputation contributes to the success of MSMEs.

The excellence of customer service can predict the success of MSMEs in Indonesia significantly and positively. The second hypothesis test is in line with research conducted by Ogunnaike, Salau, Adeniyi, Tairat [20] and Alfoqahaa [6], namely that customer service excellence contributes to the success of MSMEs.

Reliable delivery can predict the success of MSMEs in Indonesia significantly and positively. The third hypothesis test is in line with research conducted by Alfoqahaa [6], Davis et al., [24] and Stalk [25], namely that reliable delivery contributes to the success of MSMEs.

Innovation activities, especially product related innovation, can be associated with the success of a company because innovative products, quality, cost, reliability and service are the main keys to business success [29]. However, the research results show something different. Based on this research which is also in line with Alfoqahaa's research [6],

that in contributing to the success of MSMEs, CSF is an activity that focuses more on customers, rather than focusing on products or innovation. These results are relatively consistent with what Corsino and Gabriele [35] conclude, namely that applied research in growth and innovation seems to indicate that successful innovation does not significantly increase firm growth. However, that does not mean that innovation is not important, but must be linked to the needs of customers in the market, such as providing them with real and cost effective solutions to daily life problems. According to Alfoqahaa [6] innovating is carrying out a series of activities, such as producing goods or services in accordance with market demands, changing the way products are offered, modifying existing product by adding new features and delivering information technology for market use. All of this makes product innovation seen as an ineffective attempt at the source of success. Alfoqahaa's research findings [6] show that there is a need to be more likely to drive the success of MSMEs, and to take advantage of costs for more important things, such as determining specific areas for marketing entrepreneurial activities. Thus it can be concluded, that innovation is not enough to encourage the success of MSMEs.

Government support can predict the success of MSMEs in Indonesia significantly and positively. The fifth hypothesis test is in line with research conducted by Doh and Kim [14] and Tambunan [32], namely that government support contributes to the success of MSMEs.

7. CONCLUSION

The results of this study indicate that brand reputation, customer service excellence, reliable delivery, and government support can positively predict the success of MSMEs in Indonesia, while innovation has not been able to predict the success of MSMEs in Indonesia. This research was conducted in a limited time and scope. Respondents who were sampled in this study were Micro, Small and Medium Enterprises (MSMEs) engaged in food and beverage in Indonesia, so it is necessary to be careful in generalizing the results of this study and if the research is carried out with different subjects, it is possible that there will be results that different too. Future studies suggest conducting tests on different subjects and on a wider scope, as well as examining the moderating effect of MSMEs characteristics on the relationship between CSF and success, which would provide a deeper view of why and how some MSMEs are more successful than others. Further research could also use more specific constructs to explain success such as market versus product orientation.

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