

# Development of New Success Criteria for SMEs By Relying on Virtual Capital

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## ABSTRACT

The results of this study reveal that short-term profits and long-term business sustainability determine the success criteria of a business entity. Building business sustainability or viability in today's turbulent era requires strength from business players in the form of virtual capital. The objects of this study were small and medium enterprises in Indonesia. In summary, it is hoped that this study can contribute to the empowerment pattern and development of small and medium enterprises worldwide.

**Keywords:** *Intellectual Capital, Social Capital, Credibility Capital, Viability.*

## 1 INTRODUCTION

The contribution of small and medium (SME) business actors in creating employment opportunities in various regions in the world need to be appreciated (Weber & Shams, 2020). Support and alignments for the development of SMEs need to be measured and felt to provide long-term benefits to the economy in regions (Brem & Gasse, 2008). This requires a better and more prominent indicator of business success and support from relevant parties. Meanwhile, the profit indicators that are known and popular among SME business actors are not able to guarantee the sustainability of the business itself. Thus, the success measure of small and medium enterprises is more appropriate to use the operating age, which shows the ability of SMEs to sustain their business amidst the challenges of the business world in a sustainable manner. In fact, the achievements of various long-lived companies in the world can be used as a success model for small and medium enterprises in Indonesia (Geus, 1997). The main characteristics of long-lived world companies are

their awareness and ability to make the company a community managed humanely and caring for family members in a good and healthy manner. At the same time, understanding and keeping up with environmental changes that continue to occur by prioritizing human potential over the use of assets, by carefully making debt loans, and opening and generating fresh and new ideas. Empowerment of SMEs, in essence, also requires a clear, fundamental pattern and guarantees the sustainability of their business sustainably.

Successful SMEs are those who can make profits and those who can maintain their business sustainability for a long time as viability. The ability to produce material benefits often leads to a more short-term oriented. Excessive profit targets encourage SME entrepreneurs to pay less attention to the process of profitability. The profitability process reflects more on the SMEs' values and is used to obtain profit itself (Hitt et al, 2011).

The pattern of management and empowerment of SME business actors so far emphasizes the success of obtaining profits, with a short-term orientation. More indicators of success reflect the financial aspect. The par

ties concerned generally portray SMEs as more "money printing machines" (R. K. & Raya, 2019).

How is the pattern of managing SMEs that are more capable of ensuring long-term business sustainability, by relying on virtual capital of business actors (Anderson & Eshima, 2013), so that companies can be inherited to future generations and patterns of empowerment of SMEs, especially from the local government, so that sustainable SMEs are able to assure the sustainable economic progress of the region itself (Chittithaworn et al, 2011). Proving the contribution of virtual capital ownership of business actors to the sustainability of SMEs so that they can have a long operating life. Facing various challenges in the contemporary business world, SMEs need virtual capital, which is a synergy of intellectual capital, social capital, and credibility capital (A. A. Bagis, 2015).

In business economics studies, the approach to defining and measuring the performance of SMEs remains controversial among experts because company performance measures are multi-dimensional (Bourne, Kennerley, & Franco-santos, 2005), attempted to define small business performance as the ability to contribute to employment and demonstrate wealth through business, survival, and growth. Experts also try to describe business performance that aims to achieve the organization well (Bourne & Neely, 2003). Business performance that measures the success or failure of an organization in achieving its goals (Brem & Gasse, 2008) reveal that business performance can be described as the company's ability to make acceptable results and actions. Similarly, (Reijonen & Komppula, 2007), stipulate that the company performance from the dimensions of how the company is successful and uses performance and success interchangeably. In addition, it is also evident that the performance of

SMEs refer to firms in the market, which may have different results (Chittithaworn et al, 2011). Similarly, Blackburn (2013) note that firm growth is a proxy for small firms' performance measures. Gill (2012), in their study of small constraints to company growth,

proves that small company growth and success are alternatives that can be used to measure company performance. Furthermore, Alasadi (2007), in his study about critical analysis and modeling explains that the growth of SMEs is synonymous with success. Several studies consider growth as a proxy for the performance of SMEs.

In general, companies in Indonesia only have a relatively short operating life (less than 5 or 10 years), which may be due to the inability of these companies to make changes or lose in today's business competition. In addition, many companies cannot survive long due to the turmoil of change and business competition in the long run. However, some companies in different countries have managed to deal with many challenges over the centuries. There are many companies in the world that have "long-lived" (i.e., hundreds of years) with characteristics and various distinctive advantages that they build and have, as follows:

*First:* Conservatism in financing - these companies do not just risk their money for nothing.

*Second:* Sensitivity to the world around them - companies are able to adapt to changes in the market.

*Third:* Awareness of their identity regardless of the degree of diversification of the company, they put in place a system to ensure that their employees all feel like part of the whole.

*Fourth:* Tolerance of new ideas - these companies are open to new ideas, while at the same time tolerating the changes needed. Thus, business actors must prioritize people's values, not assets; loosen steering and controls, and set up a company to study. Moreover, business actors must decide whether they will only make money for the inner circle of executives and shareholders, or they will develop the organization as a community.

Likewise, Dr. James F. Moore, "The Death of Competition", author also encourages business people to build good relationships with related parties (stakeholders), which can influence the sustainability of the company

(Moore, 1996). Building good relationships without having to compete with the risk of losing - winning. Building strategic partnerships or alliances provides more opportunities for success, and avoids the costs or risks of competing in today's turbulent era (Mufudza, 2019).

These days, significant progress occurs in the development of studies on the indicators of the company's success. One of them is a balanced scorecard, which produces various indicators from a financial and non-financial perspective equally (Kaplan, 2010). The success of the company in obtaining returns (return on investment) is no longer considered sufficient and final. Financial benefits must be linked to success in other fields. It is time now that a company's success is more focused on the potential of business actors in creating the sustainability of the business itself. Where the financial gain is seen more as a logical consequence that accompanies efforts to maintain the sustainability of the business.

Business people need to be aware that today's business environment will experience continuous changes (Chittithaworn et al, 2011). Changes are often fundamental, unpredictable, without clear and ongoing patterns that cannot be dealt with in a certain and standardized way because they generally have no precedent in the past. In such circumstances, what is needed is adapting and adjusting to developments that occur continuously. New competencies and insights are needed to continually adjust to the turbulent business developments (Baker & Sinkula, 2009). What the company needs is not only healthy but also long-life business continuity.

## 2 RESEARCH METHODS

This research will discuss current and pressing themes from the perspective of management and entrepreneurship for the long-term sustainability of SME entities. The object of this study is a group of SMEs in Indonesia with the following criteria: the SMEs can be from various types of business (manufactur-

ing, trading, or services), with a minimum operating age of twenty years, and supported by formal legality. Business actors who became respondents are assumed to have dealt with various challenges in the business world. Microbusiness actors who have been operating for twenty years, at the same time, are intended as evidence of their readiness and accumulated experience as entrepreneurs who can express their perceptual attitudes correctly and objectively. The unit of analysis is determined at the company level, while the unit of observation consists of entrepreneurs and owners of SMEs in Indonesia.

Ownership of virtual capital, which includes intellectual capital, social capital, and the credibility of the SMEs, together can influence business continuity convincingly and effectively. These factual findings also confirm the role and importance of virtual capital in the development of business entities in today's turbulent environment (A. A. Bagis, 2016). The identification and classification of variables can be explained according to a conceptual framework as follows: The attitude of SMEs which can be expressed as limited character strength and virtues (Corral-Verdugo, Tapia-Fonllem, & Ortiz-Valdez, 2015). The ability of SME entrepreneurs can be expressed as intellectual capital and social capital. The company members' business values underlie the synergy of virtual capital elements: intellectual, social, and belief. As the state organizer, the government is responsible to its people, including the sustainability and development of SMEs. Policy support and the role of government for SMEs are felt and experienced by SMEs in Indonesia (Akhmad, Karsidi, Rahayu, & Wijaya, 2018).

## 3 RESULTS AND DISCUSSIONS

Intellectual capital shows the ability of entrepreneurs in managing their businesses, proven to be able to extend the operating life of the company, although with a tendency to adjust and even change the type of business they run so far. With increasingly high intel-

lectuals, business actors increasingly understand new business opportunities and encourage them to adjust their business while maintaining and developing their current business. Social capital shows entrepreneurs' ability to create business networks, convincingly able to sustain SMEs in Indonesia. Therefore, they can reach twelve years or more of an operating period.

Credibility capital shows entrepreneurs' ability to build trust with related parties. The credibility capital owned by SMEs in Indonesia is proven to extend the life of their business operations up to twenty years or more. Armed with trust capital and ease in accessing productive resources, it can increase the influence of this trust capital on business continuity for SMEs.

#### 4 CONCLUSION

Based on the findings of this study, it can be seen that the role and importance of virtual capital in the development of business entities in today's turbulent environment are critical and improve the business sustainability or viability of SMEs. Business viability needs to be a measure of success, especially for SMEs in Indonesia. Maintaining the age of business operation sustainably encourages entrepreneurs to be more serious in running their business without neglecting business profits. The concept of business viability needs to be emphasized more, especially for the development of SMEs in the future (Weber & Shams, 2020).

Findings - A new academic conceptual model that comprises linking survival, success with relying on virtual capital ownership, and government policy support for SMEs was developed. A relatively recent idea about performance in the model that can change the strategic/tactical attitudes and behavior of the owner-manager of SMEs was introduced.

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