Model of Micro Entreprises' Financial Performance in Developed Village

Husnah
Management Study Program
Faculty of Economy and Business
Tadulako University
Indonesia, Palu
husnahatjo@yahoo.co.id

Abstract— **The study aims to determine financial performance of micro enterprises that can be influenced by tangible resources, intangible resources, environmental dynamics, and competitive strategies by using Resource- Based View (RBV) theory. In accordance with this objective, the method of research is explanatory survey, which explains the influence between variables with hypothesis testing. The research population involves entrepreneurs in Sigi District, Donggala District, and Poso District. Data is obtained from the Village Empowerment Agency in each district. Sample of this study consists of 26 micro businesses in 3 districts, in some 'developed villages'. Data analysis is descriptive and inferential statistic of PLS (Partial Least Square). The results show that there are four significant influences that are tangible resources have significant influence on competitive strategy; intangible resources have significant influence on competitive strategy; tangible resourceshave significant influence on financial performance, and intangible resources have significant influence on financial performance. While the non-significant variables are: environmental dynamics has insignificant influence on competitive strategy; intangible resourceshave insignificant influence on financial performance; and environmental dynamics has insignificant influence on financial performance. Mediation model integrates tangible resources, competitive strategies, and financial performance; and also intangible resources, competitive strategies, and financial performance. R-square value for competitive strategy is 0.78, which means that the influence of tangible resources, intangible resources, and environmental dynamics on competitive strategy is 78% and the remaining 22% is influenced by other variables outside the research model. The R-square value for financial performance is 0.80, which means that the influence of tangible resources, intangible resources, environmental dynamics, and competitive strategy on financial performance is 80% and the remaining 20% is influenced by other variables outside the research model.**

Keywords— *tangible resources, intangible resources, competitive strategy, environmental dynamics, and financial performance of micro entreprises .*

I. Introduction

Small and Medium Enterprises (SME) Businesses have a strategic role in national economic development. In addition to its role in economic growth and employment, small and medium enterprises also play a role in the distribution of development results. Micro entreprises development faces several problems that are generally related to internal problems, such as the low quality of human resources, both technical and managerial skills; the low ability of Micro entreprises in the mastery of production, especially capital, technology and limited access to productive resources, especially financing from bank credit. One way to solve Micro entreprises problems is through the management of resource-based enterprises so that companies are able to create special competencies [1];[2]. This is related to the existence of Micro entreprises that exist in rural areas. Government commitment to the development of Indonesian Micro entreprises Law No. 6 of 2014 on Villages has wide implications for Rural Development because (a). villages have self-government with autonomous village organizations, instruments and budgets; (b). villages are authorized to organize and build their potential for the benefit of the people and income of the village.

II. LITERATURE REVIEW

Resources-Based View (RBV) Theory

RBV assumes that every organization/company is a unique set of resources and capabilities that are the basis of strategy and are the main source of company return. According to the RBV perspective, differences in firm performance are mainly due to the uniqueness of the company's resources and capabilities, not because of the characteristics of the industrial structure [1]. In the context of RBV, resources are inputs for the production process. A single resource will not result in a competitive advantage. Competitive advantage is achieved through the combination and integration of a set of corporate resources.

Resources and Core Competencies

RBV makes the core competency concept more focused and measurable to conduct internal analysis. The RBV model is based on three basic resources as the foundation for discovering and developing core competencies. Core competence is considered as a capability or expertise that is in the business of a company that has been identified, developed, and applied to the company and will be the basis of a lasting competitive advantage. The essence of the RBV concept is the separation of three core resource types, some of which may be the basis for special competencies [17], namely: tangible assets, intangible assets, and organizational capabilities; so it is not a special "input" such as tangible or intangible assets, but rather

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capabilities and ways to combine the assets, labor, and processes used by a company to convert inputs into outputs.

Business Environment and Environmental Dynamics

The conception of environmental dynamics is considered relevant in assessing the behavior of small and medium enterprises in determining business strategy to achieve superior performance [3]; [4]. Dynamic environment is a business environment that identifies the uncertainty of environment and intensity of competition [4].

Competitive Strategy

The RBV model states that the company's unique resources and capabilities are the basis for formulating a strategy. Strategy should enable the company to use its core competencies to seize opportunities in its external environment. Integration of competitive environmental resources is a condition of corporate strategy. Corporate strategy and performance have a backlash on competitive environments and resources. All these changes generate new information that will generate new resource development opportunities.

Business Strategy

Business strategy is also known as a competitive strategy. This business strategy focuses on improving the competitive position of the company's products and services in the industry or specific market segments the company serves [18]. If the company's strategy tackles what business and industry issues the company should serve, business strategy overcomes how companies and units can compete in business and industry. Porter offers three 'generic' competing strategies to outperform other companies - low cost, differentiation, and focus [5].

The Concept of Financial Performance

Measurement of financial performance based on the manager / owner's perspective has been widely practiced in research [19]. These reasons identify that the financial performance typically used in the Micro entreprises sector consists of profitability, sales, and growth. This is in accordance with the survey results from [20] in Micro entreprises s in Australia. The results of the survey reviewed the use of financial performance measurements used by Micro entreprises located in Australia consisting of sales re venue, profit, and sales growth, each ranked first, second and third. In general, the measurement of the success of Micro entreprises is based on the assesmicro entreprises nt of financial performance [21]; [27]; [19].

III. METHOD

This study aims to describe and test the hypothesis. Method of research is explanatory survey, which is expected to explain the influence between variables with hypothesis testing. The research population is entrepreneurs in Sigi, Donggala and Poso districts. Samples are selected from each district, based on the category of villages that have Community Village Market with shops, cooperatives, BUMDES (Village Owned Enterprises), pawnshops, kiosks, various businesses in the village, community with relatively high levels of education, and the desire of the community to manage the joint business (Source: Village Empowerment Board of Sigi, Donggala and Poso districts). The sample of this study consists of 26 Micro entreprises from 3 districts.

The operational variables in this study are tangible resources (X1) with indicators of financial assets (business capital), and physical assets (buildings / buildings, production equipment, and raw materials); intangible resources (X2) with indicators of human capital, organizational capital, and relational capital; Environmental dynamics (X3) with indicators consist of uncertainty of environment and intensity of competition. Competitive strategy (Y1), using 3 indicators, namely: cost leadership strategy; differentiation strategy; and focus strategy. Micro entreprises Financial Performance (Y2), using 3 indicators, namely: revenue sales; Profitability ROI; Growth. Respondents were asked to respond to each question, each item was judged on the likers scale. Data analysis used descriptive and inferential statistic PLS (Partial Least Square).

IV. RESULT AND DISCUSSION

Direct Influence Testing

Based on path coefficient value and p-value, significance value of each variable in the village is as follows.

TABLE. 1
PATH COEFFICIENT OF VILLAGES' DIRECT INFLUENCE

Direct Influence	Path Coefficient	p-value	Result
Tangible Resources → Competitive Strategy	0.372	<0.001	Significant
Intangible Resources → Competitive Strategy	0.672	<0.001	Significant
Environmental Dynamics → Competitive Strategy	-0.075	0.222	Insignificant
Tangible Resources → Financial Performance	0.907	<0.001	Significant
Intangible Resources → Financial Performance	0.062	0.262	Insignificant
Environmental Dynamics → Financial Performance	0.143	0.075	Insignificant
Competitive Strategy → Financial Performance	0.230	0.012	Significant

Source: Results of data processing (August, 2017)

Indirect Influence Testing

The results of the examination on indirect influence (with mediation variables) are used to justify whether a model based on RBV theory is acceptable or not. Test results as follows:

TABLE. 2
The Result of Mediation Testing of Villages' Competitive Strategy

Indepen den Variables	Mediation Variables	Dependen Variables	Path Coefficien t	P Value	Results
Tangible Resources	Competitiv e Strategy	Financial Performan ce	0.372	<0.001	Significant

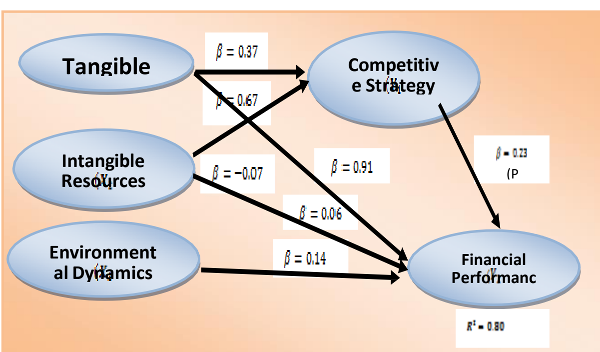
Intangible Resources	Competitive Strategy	Competitive Strategy	0.672	<0.001	Significant
Environmental Dynamics	Competitive Strategy	Competitive Strategy	-0.075	0.222	Insignificant

Source: Results of data processing (August, 2017)

Based on the result, it shows that the R-square value for competitive strategy is 0.78, which means that the influence of tangible resources, intangible resources, and environmental dynamics on the competitive strategy is 78% and the remaining 22% is influenced by other variables outside the research model. The R- square value for financial performance is 0.80, which means that the influence of tangible resources, intangible resources, environmental dynamics, and competitive strategy on financial performance is 80% and the remaining 20% is influenced by other variables outside the research model. The results of the test and the explanation resulted in a Model Image of the Research in the 'developed village' as follows.

FIGURE 1.

Model of Micro Entreprises' Financial Performance in Developed Village



Tangible Resources influences Competitive Strategy

The Influence of intangible resources on competitive strategy is positive and significant. This means that the variable consists of human resource dimensions, organizational resources, and relational resources have a central role for corporate in determining their competitive strategy, which ultimately impacts high performance achievement. This finding is in line with the results of [22] and [23] research which stated that there is a strong and positive relationship between intellectual capital management (human capital, structural capital, and relational capital) as part of intangible assets, which in turn affect business performance.

Based on the results of testing both direct and indirect impacts, intangible resources owned by Micro entreprises that consists of human capital, organizational capital, and relational capital can improve financial performance. This is relevant to the concept of financial performance as part of the financial statements showing the position of resources owned by the company during one period and the financial statements describing the financial performance with the company's ability to generate revenue from its resources [24].

The Influence of Environmental Dynamics on Competitive Strategy

The dynamic of the environment poses a challenge to the business, so the unwillingness of entrepreneurs to face environmental changes will derail the business. A rapidly moving business environment, especially those that are stimulated by technological changes that impact on rapidly changing consumer tastes, is a key challenge for a small business. Changes in the environment facing the company will always move quickly. To exist, the company must be able to adapt itself to the changing environment [3]; [6]. Observation of a dynamically changing and continuous environment allows companies to gain useful information in designing appropriate strategies [7]. Positive and significant environmental dynamics of competitive strategy indicate that any changes in business will encourage entrepreneurs to make adjustments to the strategies. This finding is different from the findings of [7]and [23] which shows that Micro entreprises in the village can not respond to environmental changes, thus reducing the ability to select and determine appropriate strategies.

The Influence of Tangible Resources on Financial Performance

The results of this study indicate that the influence of tangible resources is significant. Investment and management of tangible assets will improve the capability of the company in creating efficiency that ultimately impacts the ability of Micro entreprises in rural areas to improve financial performance. This finding is in line with the finding of [7] who states that among strategic resources, human resources are the most important factor in shaping business performance. Therefore, strong asset management must be directed not only to the mastery of physical assets, but also to focus on key strategic resources, including organizational resources and human resources to produce superior and sustainable Micro entreprises performance [7].

The Influence of Intangible Resources on Financial Performance

Intangible resources do not affect financial performance. Financial performance can be achieved by existing Micro entreprises if mediated by the selection of competitive strategies. Intangible assets in the form of human resources, resource relations, and organizational resources are an important force and as the core strength of a business. The strength of human resources as a determinant of the success of a business proves the significance of these variables in determining and choosing a company's competitive strategy, as well as in shaping good financial performance. The human resources that exist within an organization or company with a set of skills, knowledge, and capabilities as human capital representations, are very difficult to imitate by competitors [25]. This is in line with the RBV theory that explains the differences in corporate performance due to variations in the difference in resources and capability in choosing competitive strategies to achieve outstanding financial performance.

The Influence of Environmental Dynamics on Financial Performance

This research reveals that the influence of environmental dynamics is not significant to financial performance as measured by inventory turnover rate, profit growth, and return. Changes to business environment do not necessarily make financial performance change significantly.These findings are consistent with [23] which state that the company's environmental variations do not have a direct impact on business performance. This finding contrasts with the findings of [10] which suggests that environmental hostility will hinder the achievement of company marketing performance. This finding means that Micro entreprises tend to have weak managerial skills and control the impact of environmental changes on their business performance [7].

The Influence of Competitive Strategy on Financial Performance

The results of this study show that competitive strategy is a perfect mediator to achieve strong financial performance of Micro entreprises. The influence of competitive strategy is positive and significant to financial performance. These results justify that the independent variables of tangible assets, intangible assets, and environmental dynamics are predictors of how companies can make sound business decisions. The results of this study are consistent with studies from [11]; [12] and [13], that there is a direct influence ofPorter's competing strategy on financial performance. This finding is also in accordance with the results of the study [14] who conducted research on Micro entreprises in Surabaya. However, these findings are different from those of [26] that competitive strategy does not affect the company's performance. Conceptually, RBV is based on the assumption that every organization has a unique set of resources and capabilities that become the basis of its strategy and the main source of return. It can also be interpreted that strategic integration is important to adjust the strategy with some contingency variables so that the established strategies lead to optimal business performance achievements [15] and [23].

V. Conclusion

Significance testing on Micro entreprises in*'developed villages'* shows that tangible and intangible resources have significant influences on competitive strategy and financial performance. While insignificant results show that environmental dynamic has insignificant influence on competitive strategy, intangible resources has insignificant influence on financial performance, and dynamics environment has insignificant influence on financial performance. Mediation model integrates tangible resources, competitive strategies, and financial performance; and demonstrates integration of intangible resources, competitive strategies and financial performance.

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