Analysis that Influence Business Product Development Through Performance Factors in SMEs.

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Abstract

This research aims to determine how the competence of the human resources of small and medium entrepreneurs in Surabaya, Sidoarjo, and how their competencies affect their business performance partially or simultaneously. The research method used is descriptive exploratory. Competency variables are translated into four indicators: Knowledge, Skills, Ability, and Leadership. To answer research problems and test hypotheses, researchers used statistical analysis with SPSS software, especially correlation analysis, regression, F test, and t-test. Purposive sampling was utilized to choose the sample of respondents for this study, who were MSME respondents for leather items from Small and Medium Enterprises in Surabaya, Sidoarjo. The test results demonstrate that by enhancing the performance of MSME employees through leadership elements and their abilities, product creation may be made better.

Keywords: Ability, business performance, Knowledge, and skills.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the business sector that supports the regional and national Economy. Even during the Covid-19 pandemic, the Micro, Small, and Medium Enterprises (MSMEs) sector, although it was the sector that was hit the hardest, could still move to become the foundation of the national Economy and contribute to the revival of the Indonesian Economy (Coordinating Ministry for Economic Affairs, 2022). Limited activities during a pandemic ultimately put pressure on the Economy, so people hold back their spending. (Aryanto & Farida, 2022) Argues that MSMEs contribute to opening employment opportunities and employment. MSMEs have a substantial contribution, where MSMEs can absorb 96.9% of the total jobs and contribute 60.34% to Indonesia's gross domestic product (GDP). The impact of the pandemic greatly affected the performance of MSMEs, ultimately hampered the national Economy (Ika Purnama et al., 2021). The problem was that most MSME players experienced difficulties implementing performance in companies. (Fontana & Musa, 2017) (Suparjo & Widyarini 2022) investigate the effects of leadership, innovation management, strategic agility, and innovation capability on Small and Medium Enterprises (SMEs) success. Therefore, this study aims to examine how small and medium-sized enterprises (SMEs) perform in terms of their ability to successfully manage and develop their businesses so that they can grow into large corporations with uncertain environmental dynamics. Alarasoul and others, 2022 2020 (Lee et al.) Using the following three (three) entrepreneurial leadership principles, it is possible to study human resources development in MSMEs with character and leadership spirit to access the global market: establishing an ambidextrous cognitive mindset and being more socially responsible. The following was achieved from previous research on MSME human resource development regarding leadership in the global market era. (Asbari, 2020) examines the impact of entrepreneurial leadership on small business performance in mid-sized companies in India with the results of studies of continuous improvement, Innovation, Productivity, and the positive effects of resource allocation on business performance. (Miao et al., 2019) studied entrepreneurial leadership and its relationship to business performance in micro and small enterprise companies in the East Java region; the study found a connection between leadership and company performance. (Wurzel et al., 2019) Argues that innovative leadership, strategies, skills, and values align exporters with opportunities for MSMEs. This research is interested in researching MSME human resource development using leadership quality and discovering how it can prepare for performance (Gamage et al., 2020). Small businesses have a strategic role and have an important position not only in absorbing labor and social welfare but also in strengthening the problem of social inequality. Products produced by small businesses are generally based on the broader community's needs and have a comparative advantage (Cahyanti & Anjaningrum, 2017). The excellent performance of MSMEs will impact the expansion of the nation's Economy. The growth of the national gross
domestic product will automatically increase with the improved performance of MSMEs. (Muritala et al., 2012) (Reswita et al., 2021) The quality of MSMEs' human resources significantly impacts their performance. Excellent human resources are needed to adapt to these changes in an era of increasing competition and environmental changes, especially those brought about by information technology. (Julianto et al., 2022) (Triyani et al., 2023) Small and Medium Enterprises (MSMEs) are essential in a country's economic and industrial growth. (Al-Shaikh & Hanaysha, 2023) A good product will be superior in the market and survive attacks from competitors. To be attractive to consumers, production must have excellent quality with the characteristics consumers need (Pemenang & Soesanto, 2016). Therefore, micro, small, and medium enterprises (MSMEs) must consider product quality to win the market competition despite their various limitations. Product quality can be improved by developing better business products. However, small businesses face complications in achieving rapid development, such as limited capital, poor quality resources, and lack of literacy. The main goal of product innovation is to meet market demand so that product innovation can be used as a competitive advantage for companies. Customers generally want innovative products according to their wishes. Product innovation also has a vital role in creating excellence in the market. An entrepreneur creating product innovation is a must to win the competition with quality products and uncertain consumer desires (et al., 2018); thus, product innovation must be planned for the development of business products. This study aims to determine the factors that influence the performance of MSME product development, such as Knowledge, ability, the leadership of the company owner, and Innovation.

2. Literature Review

According to his research (Denton, 2020; Nikoli et al., 2019) a number of elements, such as the specific qualities of MSME owners tied to demographic aspects, one of which is related to the ability to manage a business, have an impact on the success of MSMEs. The next group consists of internal, non-individual characteristics, one of which is influenced by the age of MSMEs. The third category consists of non-personal external factors, such as the location of a company's facilities and infrastructure. The performance of SMEs can be explained by fourteen different indicators, some of which include reputation, Productivity, employee satisfaction, profit, sales or income, product suitability, capital adequacy, operational effectiveness in production, product quality, achievement of predetermined targets, customer base, and ease of doing business. These are just a few examples. These fourteen signs may be (Innov, 2008) states that government support, especially in the capital, helps MSMEs maintain and develop their business, especially in the current Covid-19 pandemic. This pandemic has impacted all aspects of life, not only in the health sector but also in the social and business fields. The global impact of Covid-19 has caused almost all MSMEs to experience difficulties in running their business, impacting their cash flow. (Entrialgo & Iglesias, 2017) Argues that the personal characteristics of MSMEs also influence the success of their businesses, including those related to age, gender, and level of education. (T. Tambunan, 2019) argues that the capital factor, both in terms of the amount and sources/ Capital and managerial capabilities, including marketing, are fundamental issues all MSMEs face in starting and developing their business. Unfair corporate competition causes the availability of progressively small and constrained commercial premises. The government has a significant role in overcoming this by issuing regulations to suppress unfair business competition. Sitharam et al. (2016) argued that external factors, government regulatory factors, macroeconomic conditions, competition, globalization, criminal acts, and corrupt practices are the main challenges for MSMEs. This research was conducted in South Africa. The findings in his study are that there is a significant relationship between the performance of SMEs compared to the previous year's version and competition. Competition as an outside factor has a big impact on how well SMEs function. (Saunila, 2020) says that Innovation is a process and result. Every business can innovate according to the company it runs. The benefits of social media in marketing products are also a form of Innovation, and if MSMEs can make the most of social media, it will impact sales performance. (T. Tambunan, 2019) (Purwaningsih & Kusuma, 2015) Female MSME actors show a trend of decreasing business size because women tend to avoid complicated and heavy matters. Most of them carry out their business activities because of family economic pressure and to help supplement their husband's income. Meanwhile, the three things that became their difficulties were capital, marketing, and access to raw materials.
3. Materials and Methods

3.1. Materials
The sampling technique used in this study was intentional, i.e., taking samples based on considerations to comply with some of the sample search criteria to increase the model's accuracy. The requirements of respondents in this study were MSME owners located in Surabaya and Sidoarjo City.

3.2. Methods
This research is included in the descriptive analysis, which aims to describe the state of competence of the population or empirical facts. The population situation or empirical facts described in this study is about the influence of MSME HR competencies (Small and Medium Enterprises), including Knowledge, Skills (Ability), and Leadership (X4) on the performance of MSME leather products.

Research Variables The following variables were used in this study: HR Competency variable, the independent variable consisting of; Knowledge (X1), Skills (X2), Ability (X3), and Leadership (X4), while the dependent variable used is MSME Performance variable (Y). A causal flow model based on competence demonstrates how a situation's production of competence, abilities, skills, self-concept, and acknowledgement can anticipate capable actors. Performance is the work that an individual or group of individuals within an organization can execute by adhering to their various responsibilities and authorities to accomplish organizational goals. If a person performs well, it is likely that the business or organization will as well. Knowledge, Skill, Ability, and Leadership (X4) are the main focus areas for this study's Operational Definition of UMKM HR Competence. Knowledge is technological and scientific mastery acquired through education and experience. In this instance, the Knowledge indicator refers to business management knowledge of goods or services, customers, promotions, and marketing tactics. A skill is an exceptional capacity, while the data source is from respondents (MSME HR) consisting of MSME owners or management at the MSME Centers in Surabaya and Sidoarjo City. Data Collection Procedures Data collection was done using interview techniques supplemented with questionnaires. The questionnaire used to guide interviews was more structured and standardized.

The steps that must be taken in the data collection process are as follows:
   a) Prepare questionnaires and conduct validity and reliability tests.
   b) Gathering of data implementation.
   c) Furthermore, the collected data is tabulated, processed, and interpreted according to the research objectives.

Data Gathering Methods The following methods were used to collect the data: Documentary Techniques, Used to cache data sourced from secondary data such as a. Physical and Geographical Conditions of area b. Existing MSME centers Number and characteristics of MSMEs. a) Questionnaire technique, used to create a sequence of inquiries into the Knowledge of MSME HR. b) In addition to other data collection approaches, interviewing techniques are employed to confirm the data collected. We'll use various statistical analytic methods to examine field data descriptively. Techniques for Analyzing Data Before diagnosis, the entered data will be reviewed again for accuracy and completeness. Data is processed using Excel, SPSS, and other relevant applications.
   c) The analysis's findings will be presented descriptively in qualitative and quantitative form, along with tables to improve their communicability.
   d) While the data analysis employed multiple linear regression analysis (simultaneous), an inferential statistical technique, to evaluate the impact of numerous independent factors (X) on the dependent variable (Y) simultaneously. The Independent's Lone impact

Data Sources and Research Flow
Initial data collected from MSME actors served as this study's primary data source. A total of 100 samples were made up of the respondents. As it relates to the background of persons interested in researching factors that affect performance for product business development, the framework in this study is associated with the following.

Research Framework
Numerous global studies, particularly in low-income/poor nations, demonstrate MSMEs' critical role in removing obstacles to poverty, inequality, and job development, particularly in rural areas. Young people and women with low education levels are an essential source of job or entrepreneurial chances. These businesses are the primary promoters of GDP growth and manufactured product exports in many nations. But because of the numerous obstacles they encounter, including trouble obtaining bank loans, problems with marketing, and restricted access to cutting-edge technology and trained labor, many (if not all) MSMEs struggle to survive or prosper. (TTH Tambunan, 2017) (Oyelana & Adu, 2015).
Leaders are profitable for all types of businesses that can generate income for survival can explain in Figure 1.

![Research Framework](image)

**Figure 1: Research Framework**

The research variables used consist of four exogenous variables (Knowledge, Ability, Innovation, and Leadership) and two endogenous variables (Performance and Improvement). The following is an explanation of the variables used.

4. Results and Discussion
4.1. Results

The measuring model must be assessed to confirm indicators and latent variables that can be further investigated before putting the prediction of the link between latent variables in a structural model to the test. The reliability of the instrument items was examined using the Pearson product-moment. All research instrument items can therefore be used in accordance with the results of the validity test that was conducted on them for the study. \( r = 0.3 \), correlation index value, is valid. These findings suggest that the instruments can extract information from thoroughly studied variables. Meanwhile, the outcomes of evaluating the dependability of the study's instrument items revealed that all research tools could be trusted because they adhered to. Outcomes of evaluating the dependability of the study can seen in the Table 1.

<table>
<thead>
<tr>
<th></th>
<th>Alpha Cronbach</th>
<th>rho_A</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability (X3)</td>
<td>0.809</td>
<td>0.814</td>
<td>0.875</td>
<td>0.636</td>
</tr>
<tr>
<td>Repair (Y2)</td>
<td>0.815</td>
<td>0.821</td>
<td>0.878</td>
<td>0.644</td>
</tr>
<tr>
<td>Innovation (X2)</td>
<td>0.718</td>
<td>0.719</td>
<td>0.825</td>
<td>0.542</td>
</tr>
<tr>
<td>Knowledge (X1)</td>
<td>0.811</td>
<td>0.813</td>
<td>0.876</td>
<td>0.639</td>
</tr>
<tr>
<td>Leadership (X4)</td>
<td>0.888</td>
<td>0.896</td>
<td>0.919</td>
<td>0.695</td>
</tr>
<tr>
<td>Performance (Y1)</td>
<td>0.878</td>
<td>0.881</td>
<td>0.911</td>
<td>0.673</td>
</tr>
</tbody>
</table>

The following path diagrams and path coefficients are generated from calculations performed using smart-pls software and can seen in the Figure 2.
4.2. Discussion

Path coefficients are used to assess the structural model (inner model), which depicts the relationship between latent variables. R². Using a sample size of 100 for resampling and 5000 iterations, Table 3 shows the outcomes of the bootstrapping process's path coefficient and t-statistic values.

Table 2: Direct Impact Estimation Results

<table>
<thead>
<tr>
<th></th>
<th>Original Sample (O)</th>
<th>Sample Average (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T</th>
<th>Statistics</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge (X1) -&gt; Performance (Y1)</td>
<td>0.079</td>
<td>0.072</td>
<td>0.079</td>
<td>1.000</td>
<td>0.318</td>
<td></td>
</tr>
<tr>
<td>Innovation (X2) -&gt; Performance (Y1)</td>
<td>0.085</td>
<td>0.092</td>
<td>0.080</td>
<td>1.061</td>
<td>0.289</td>
<td></td>
</tr>
<tr>
<td>Capability (X3) -&gt; Performance (Y1)</td>
<td>0.377</td>
<td>0.398</td>
<td>0.119</td>
<td>3.161</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td>Leadership (X4) -&gt; Performance (Y1)</td>
<td>0.425</td>
<td>0.405</td>
<td>0.121</td>
<td>3.527</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Performance (Y1) -&gt; Improvement (Y2)</td>
<td>0.902</td>
<td>0.903</td>
<td>0.023</td>
<td>39.715</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

a) Knowledge has an impact on performance. The test results in the above table demonstrate that there is a statistically significant correlation between performance and knowledge, with a T value of 1.000 and a p-value of 0.317. The test results demonstrate that there is no significant association between knowledge and performance, as indicated by the statistical T value of 1.96.

b) Innovation's Effect on Productivity. The test results in the preceding table demonstrate that there is a statistically significant correlation between Knowledge and performance, with a T value of 1.061 and a p-value of 0.289. The test findings reveal that there is no significant correlation between innovation and performance, with a T statistic value of 1.96.

c) The impact of aptitude on output. The test results shown in the above table indicate that the command relationship with the implementation of MSME employees has a T statistical value of 4.383. According to the test results, the statistical T value is greater than 1.96, which has a substantial impact on performance.

d) Effect of a leader's style on output. A statistical T value of 3.527 indicates a favorable link between leadership style and student accomplishment based on the test results in the aforementioned table. According to the test results, there is a significant correlation between leadership style and performance (statistical T value > 1.96).

e) Performance's effect on product development. The test results in the table above demonstrate that the correlation between leadership style and academic achievement has a statistical T value of 39.715. According to the test results, the version considerably influences product development because the statistical T value is > 1.96.
Indirect Influence Estimation Results can be seen in Table 3.

| Knowledge (X1) -> Performance (Y1) -> Improvement (Y2) | Original Sample (O) | Sample Average (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P value |
|--------------------------------------------------------|---------------------|-------------------|---------------------------|----------------|---------|
| Knowledge (X1) -> Performance (Y1) -> Improvement (Y2) | 0.071               | 0.065             | 0.071                     | 1.001          | 0.317   |
| Innovation (X2) -> Performance (Y1) -> Improvement (Y2) | 0.077               | 0.083             | 0.072                     | 1.059          | 0.290   |
| Ability (X3) -> Performance (Y1) -> Improvement (Y2)  | 0.340               | 0.360             | 0.110                     | 3.075          | 0.002   |
| Leadership (X4) -> Performance (Y1) -> Improvement (Y2) | 0.383               | 0.365             | 0.107                     | 3.585          | 0.000   |

a) Effect of Knowledge on product development through performance mediation. The test results in the table above show that the statistical T value of the relationship between Knowledge and Performance is 1.001 with a p-value of 0.317. The test results show that the statistical T value is <1.96, indicating no significant effect of Knowledge on product development through performance mediation.

b) The influence of Innovation on product development through performance mediation. The test results in the table above show that the T statistical value of the relationship between Knowledge and performance is 1.059 with a p-value of 0.290. The test results show that the statistical T value <1.96 indicates no significant relationship between Innovation and product development through performance mediation.

c) The effect of capability on product development through performance mediation. The test results in the table above show that the statistical T value of the relationship between the ability and performance of MSME employees is 3.075. The test results show that the statistical T value is > 1.96, so performance mediation significantly influences product development capabilities.

d) Through performance mediation, the influence of leadership style on product development. The test results in the table above show a positive relationship between leadership style and student achievement, as indicated by the statistical T score. Is 3.585. The test results show that the statistical T value is > 1.96, so the leadership style significantly affects product development through performance mediation.

The model's goodness can also be measured using the R square shown in the following table based on parameter estimation tests carried out directly or indirectly can show in Table 4.

<table>
<thead>
<tr>
<th>Table 4: R Square Results</th>
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</thead>
<tbody>
<tr>
<td>R square</td>
</tr>
<tr>
<td>Performance (Y1)</td>
</tr>
<tr>
<td>Repair (Y2)</td>
</tr>
</tbody>
</table>

According to Table 3 above, the R square (R2) value is 0.808, which indicates that Knowledge, Ability, Innovation, and Leadership together have an effect of only 80.8% on product development (improvement), and this is included in the high category, meaning that the structural model obtained has relevant predictions. Performance also has an impact on product development by 81.3%.

5. Conclusion

The study's findings lead to the following conclusions:

a) This model directly shows that the ability and leadership style significantly positively affect business performance and product development. In addition, the version also has a significant positive impact on improving product development, so improving the quality of performance will enhance product development for the better and be able to compete with competitors.

b) This model indirectly uses performance as a mediator variable; this shows that the ability and style of leadership indirectly affect the increase in product development through a performance mediator.

c) The test results show that product development can be improved by increasing the performance of MSME employees through leadership factors and the ability of these employees.
References


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