

## **The Effect of Strategy Asset and External Business Environment Toward Performance of Small Micro and Medium Enterprise (SME) in Makassar City**

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**Abstract:** The purpose of this study is determining the effect of strategic assets variable and external business environment toward entrepreneurship orientation and business performance of UKM in Makassar. This study uses survey towards UKM subject in industrial sector of Makassar City; food and beverages, wood and rattan, handy craft, basic metal industry. While data collection techniques use a questionnaire and analyzed by Structural Equation Model (SEM). The results of this study showed about the strategic asset that doesn't have effect toward entrepreneurship orientation directly or indirectly. Besides, it has an affect toward the business performance of UKM directly or indirectly in Makassar. The external business environment influences the entrepreneurship orientation directly or indirectly. Thus, the external business environment influence directly and indirectly toward business performance. Entrepreneurship orientation affects directly or indirectly to the business performance of UKM in Makassar.

**Key words:** Strategic asset, external business environment, entrepreneurship, performance, strategic, orientation

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### **INTRODUCTION**

The success of Small Micro and Medium Enterprises (SME) in improving the business performance not only derived from the mastery, control and development of strategic resources. Therefore, the implementation of competitive strategies which is appropriate with strategic resources is able to provide superiority in competition. It's also directing SMEs to achieve a better business performance that is very needful in the long term.

SME development is a part of the development program of SMEs in Makassar. It's intended as one of the democratic economy pillars in order to become a prime mover of the regional economy, especially, the "mas gate taskin and agribusiness commodities" program. Government attention to this sector is evidenced by their strategies, programs and action plans (action plan) to develop the SMEs.

Some of the programs that have been done such as training and mentoring, access to capital and support market access for the enterprise. However, not all programs run effectively. It is impacted on the potential decline the performance of SMEs in Makassar. On the other side, based on the data from Department of Cooperatives and SMEs of Makassar in 2013 showed that the growth of micro and small manufacturing industry (IMK) in Makassar still low. Whereas, the growth of SME financing through credit facilities from banking in this region is more increase. Based on data from the Central

Statistics Agency (BPS) of Makassar along 2013, the sector is corrected up to 6.54%. As for the type of industry that is most dropped to growth is non-metallic mineral products industry that is experiencing minus 18.83%, food and beverage industry with minus of growth about 15.82% and the furniture industry in the field of timber is minus about 13.7%.

Enterprise management with resources-based is one alternative solutions for SMEs because it can create a special competence and provide strategic choice to achieve sustainable competitive advantage (Hasmi and Asaari, 2002). On the other hand, to achieve a sustainable competitive advantage cannot be separated from the Resource-Based View (RBV) which directs the company's management to identify, control and develop strategic resources in order to produce performance optimally (Felix and Michael, 2006).

According to Analoui and Karami (2003), the strategic resources are a set of assets and capabilities that is used as core competencies (core competency) for companies in creating a competitive advantage. Aaker argues that strategic resources are an instrument of strategic fundamental to generate competitive advantage for a company that provides benefits to the operation and competition. It is also used as the basis for selecting strategies. Thus, the process of development, maintenance and control of strategic resources an important effort performed continuously to achieve sustainable competitive advantage as well as creating a superior performance for the company.

Generally, SMEs has limited control of strategic resources, the level of market research and formal planning. These conditions encourage the importance of investment to develop strategic resources in line with the implementation of strategies in order to create competitive advantage and result to improve the performance of the company (Bennett *et al.*, 1998).

Moreover, Aaker stated that a competitive advantage can be gained from strategic resources that is created or acquired, maintained and developed by the company as a basic of competitive strategy selection that acts as “strategic weapon” to face the maneuver market competition. Thus, the success of SMEs in improving business performance gained from the application of competitive strategy that is appropriate with strategic resources. It is able to provide an edge to better understand market orientation that directs SMEs to achieve better business performance in the long term.

Based on the research, the aims of the research is the influence of the strategic assets, market orientation and business environment partially toward business performance.

**MATERIALS AND METHODS**

This study is explanatory research that is non-experiment. The purpose of this study is to analyze the influence of external business environment, strategic assets, market orientation on business performance of SMEs. This study also uses hypothesis testing to become a reliable basis for formulating the hypothesis that affects to the level of accuracy in predicting hypothesis, explain, predict a phenomenon or relationship between phenomena that is determined by the level of accuracy or truth of the theory used to create theoretical framework.

**RESULTS AND DISCUSSION**

The analysis model used Structural Equation Modeling (SEM) based on two models such as the measurement model and the structural model.

**Test measurement model:** Determining the proportion size of each manifest variable (indicators) is done through the measurement model in every latent variables studied. So, the amount of contributions of each manifest variable in forming a latent variable is measured with construct reliability value that can be known to determine the degree of conformity of an indicator variable in forming a latent variable. The amount of construct reliability value received between 0.5-0.7 (Joseph, 2006). Then, it is

Table 1: Goodness-of-fit model research measures test

GOF size	Estimation
Chi-square	1817.1510
Degrees of freedom (df)	1704
p-value	0.0000
RMSEA (Root Mean Square Error of Approximation, <0.08)	0.01982
GFI (Goodness of Fit Index = approaching 1)	0.9692
AGFI (Adjusted Good of Fit Index = approaching 1)	0.8198
NFI (Normed Fit Index)	0.9791
CFI (Comparative Fit Index = approaching 1)	1.0000
IFI (Incremental Fit Index = approaching 1)	1.0000
RFI (Relative Fit Index)	0.9783
PNFI (Parsimony Normed Fit Index)	0.9426
Data processing result, Lisrel 2016	

measured by using goodness of fit measures based on several criteria of size suitability model (goodness-of-fit measures) as shown in Table 1.

The test results in the analysis of SEM Model can be described as follows: In terms of RMSEA value (Root Mean Square Error of Approximation) to the model studied around 0.01982 that shows a model obtained meet the criteria for suitability model, where the expected value of RMSEA is smaller than 0.08. Table 1 shows the GFI value (Goodness of Fit Index) to models studied around 0.9692 shows a model obtained meets the criteria where the expected value of GFI close to 1. Based on the suitability test models, the RMSEA, GFI, AGFI, CFI NFI, IFI, FFI and PNFI exceeds the average value or close to 1. So, it meets the suitability test models.

**Structural model:** The processing results by using robust maximum likelihood, obtained path diagram as shown in Fig. 1. Based on Fig. 1, it can be formed as an equation function that describes the relationship between the variables constructs. Mathematically, structural equation function which is researched can be shown in Table 2.

In Fig. 1, there is a red number that explains the strategic Asset variables (AS) has no effect on the orientation variable Entrepreneurship (EP), like internal business environment variable toward variable of Entrepreneurship Orientation. Based on the two images, it can be arranged between the structural equation constructs or latent variables as shown in Table 3 that is in line with the research of Budiprasetya and Benedictus.

So, the equation can explain the relationship between the latent variables that is expressed in every hypothesis of the study. After the researchers presented the measurement model and structural model of the respective latent variables above then the researcher is doing significance

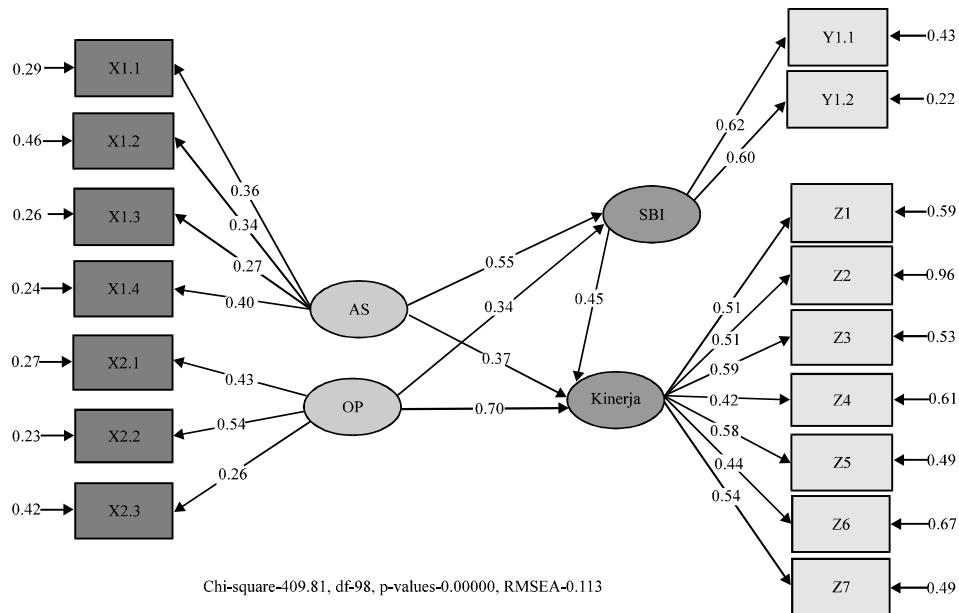


Fig. 1: Full model line

Table 2: Structural equation model function between latent variables

Endogenous constructs	Exogenous constructs			Error
	$\xi_1$	$\xi_2$	$\theta_1$	
$\theta_1$	$\gamma_{11}\xi_1$		$\theta_1$	$+\xi_1$
$\theta_2$	$\gamma_{21}\xi_1$	$\gamma_{22}\xi_2$	$\beta_{21}\theta_1$	$+\xi_2$

Data processing result, 2016;  $\xi_1$ : Ksi 1 is an exogenous latent constructs 1 (Strategic asset);  $\xi_2$ : Ksi 2 is an exogenous latent constructs 2 (External business environment);  $\theta_1$ : Eta 1 is an endogenous latent constructs 1 (Orientation entrepreneurship);  $\theta_2$ : Eta 2 is an endogenous latent constructs 2 (SME performance);  $\xi_1$ : Zeta 1 was a mistake in the equation between exogenous variables with the endogenous variable 1;  $\xi_2$ : Zeta 2 is an error in the equation between endogenous latent variable 1 with the endogenous variable 2;  $\gamma$ : Gamma is a path coefficient of latent exogenous to endogenous latent 1;  $\beta$ : Beta is the path coefficient between endogenous latent constructs

Table 3: Structural similarities between latent variables

Endogenous constructs	Exogenous constructs			Error
	$\xi_1$	$\xi_2$	$\theta_1$	
$\theta_1$	0.1560 (1.7043)	0.1832 (4.0241)		+0.02527
$\theta_2$	0.2544 (1.9696)	0.6737 (1.9664)	0.03082 (1.3597)	+0.04190

Description: Figures in brackets are the t-test statistical value; Source: Data processing result, 2016

influence test between latent variables. Generally, the equations used to see the relationship between the four latent variables it can be examined test hypotheses about the influence test hypotheses regarding the effect of the Strategic Asset and internal business environment against entrepreneurship orientation and it gives impact on SME performance of SMEs in Makassar.

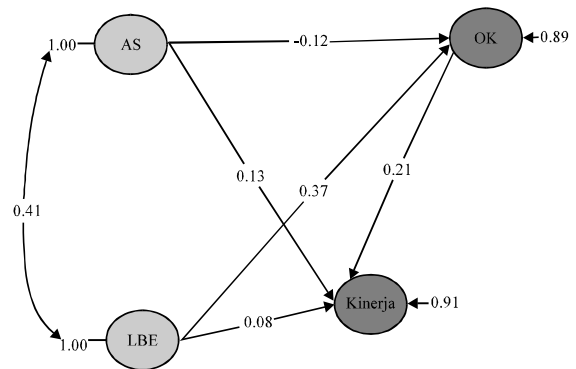


Fig. 2: The relationship between the four latent variables

**Direct and indirect effect of strategic asset performance against small and medium enterprises in Makassar through entrepreneurship orientation:**

Based on the diagram in Fig. 2, the contribution of direct and indirect influences of intellectual capital on performance of SMEs through entrepreneurship orientation can be presented in the following Table 4.

Based on the Table 4, the known value of F calculated through the formulation, namely:  $(\frac{R^2}{K}) / [(1-R^2)/(n-k-1)]$  where k = number of variables that follow Intellectual variable capital ( $\theta_1$ ). The effect of intellectual capital variable is simultaneously indicated by the calculated F around 47.0352. While, F table value of 3,042 at  $\alpha = 0.05$  and degrees of freedom db1 and db2 = 2 of 167 was obtained from (n-k-1). Thus, the strategic asset

Table 4: Contributions asset strategic influence (ξ1) toward SMEs performance (η2) through entrepreneurship orientation (η2)

Latent variable	Path coefficient	Direct influence (%)	Indirect influence (%)	Total
Strategic asset	0.50	50	36	86
Entrepreneurship orientation	0.36	36	27	63
Total effect (R <sup>2</sup> )			63	

Table 5: Contributions influence of external business environment (ξ1) towards the performance of SMEs (η2) orientation through entrepreneurship (η2)

Latent variable	Path coefficient	Direct influence (%)	Indirect influence (%)	Total(%)
Emotional intellectual	0.13	13	38	49
Managerial skills	0.38	38	13	53
Total effect (R <sup>2</sup> )			51	

simultaneously has an influence indirectly through orientation entrepreneurship toward confidence level of 95% of the SMEs performance in line with the research of Wiklund and Shepherd (2003).

The contribution of variables simultaneously intellectual capital of the SME performance is shown through the table where the total value of R<sup>2</sup> simultaneously by 63% and the remaining 1-R<sup>2</sup> = 27% is explained by other factors. The amount of the contribution simultaneous effect is obtained through total direct influence around 50% and indirect influence around 36%.

**Effect of internal business environment on the performance of smes in makassar via. through orientation entrepreneurship:** Based on the path diagram, the contribution of the direct and indirect effects of the business environment against external SME performance through entrepreneurship orientation can be seen in the following Table 5.

Based on the Table 5, the F-value calculated through the formulation, namely:  $(\frac{2}{K})/[(1-R^2)/(n-k-1)]$  where k = number of variables that follow intellectual capital variable (η1). The influence of external business environment variables are simultaneously indicated by the calculated F-value of 47.0352. While, F table value of 3,042 at α = 0.05 and degrees of freedom db1 and db2 = 2 of 167 was obtained from (n-k-1). Thus, It has the effect simultaneously toward external business environment directly or indirectly through entrepreneurship orientation at 95% of confidence level towards the SMEs performance in line with the research of Pearce and Robinson (2008).

The contribution of the simultaneously influence of external business environment to the performance of

SMEs indicated in the table above where the total value of R<sup>2</sup> simultaneously by 51% and the remaining 1-R<sup>2</sup> = 49% is explained by other factors. The amount of the contribution simultaneous effect is obtained through total direct influence around 13% and indirect influence around 38%.

## CONCLUSION

Based on the data analysis and discussion of the research results, it can be concluded as follows asset strategic orientation has no effect on enterprise either directly or indirectly but it has affects directly or indirectly in the business performance of SMEs in Makassar. External business environment is influenced toward entrepreneurship orientation directly or indirectly. It is influenced to business performance directly and indirectly. Entrepreneurship orientation is influenced to the business performance of SMEs directly or indirectly in Makassar.

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