Factors Affecting The Performance of Furniture SMEs in Jepara

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Abstract
The furniture industry in Jepara is famous locally and worldwide. More than 31% of small and medium businesses in Jepara are furniture. Its reputation has attracted a lot of attention related to its role in economic activity. This study aims to analyze the factors affecting the financial performance of furniture SMEs. These factors include management strategy, financial resources, and customer relationships. The study was conducted on 126 respondents with proportional random sampling technique. Data collection using questionnaires and Likert scale, while data analysis was carried out using multiple linear regression analysis. The results showed that the three factors, namely management strategies, financial resources, and customer relationships had a partial effect on the performance of furniture SMEs. Financial management and management strategy planning will help SMEs achieve financial success. SME owners can develop their business by developing management strategies and maintaining good relationships with customers to be able to compete.

Keywords: customer relations, SME performance, management strategy, financial resources, furniture

Faktor-faktor yang Mempengaruhi Kinerja UKM Furniture di Jepara

Abstrak
Industri furniture di Jepara terkenal secara lokal dan di seluruh dunia. Lebih dari 31% bisnis kecil dan menengah di Jepara adalah furniture. Reputasinya telah menarik banyak perhatian terkait dengan perannya dalam kegiatan ekonomi. Penelitian ini bertujuan untuk menganalisis faktor-faktor yang mempengaruhi kinerja UKM furniture di Jepara. Faktor-faktor itu antara lain strategi manajemen, sumber keuangan, dan hubungan dengan pelanggan. Sebanyak 126 pengusaha furniture menjadi responden penelitian ini. Adapun teknik penentuan sampel yang digunakan adalah *proportional random sampling*. Pengumpulan data menggunakan kuesioner dengan menggunakan skala *likert*, sedangkan analisis data dilakukan dengan menggunakan analisis regresi linier berganda. Hasil penelitian menunjukkan bahwa ketiga faktor, yaitu strategi manajemen, sumber keuangan, dan hubungan dengan pelanggan berpengaruh parsial terhadap kinerja UKM furniture. Pengelolaan keuangan dan perencanaan strategi manajemen akan membantu UKM mencapai keberhasilan keuangannya. Pemilik UKM dapat mengembangkan usahanya dengan menyusun strategi manajemen dan menjaga hubungan baik dengan pelanggan agar mampu bersaing.

Kata kunci: hubungan dengan pelanggan, kinerja UKM, strategi manajemen, sumber keuangan, furniture

INTRODUCTION

The main challenges for developing countries such as Indonesia are job creation, improving the quality of work, and job distribution (World Bank, 2018). Small and medium enterprises (SMEs) are an important part of the economic development process in a country. Quoted from www.cnnindonesia.com (2016), SMEs provide various types of contributions, including the creation of national investment, Gross Domestic Product (GDP), national employment, and the creation of a national foreign exchange. For this reason, the performance of SMEs is a top priority to maintain their lives in competitive competition. One solution to maintain the performance of SMEs is to support the development of SMEs by improving managerial and financial skills to make it easier for SMEs to access financing from financial institutions (Harash et al., 2014). However, SMEs face many challenges in maintaining their survival, for example, poor management skills (Gray, 2002) and difficult access to finance (Bottazzi et al., 2014). On the other hand, the benchmark for the success of a business is performance, both financial and non-financial (Soriano and Castrogiovanni, 2012). Knowing the limitations of managerial skills presented by previous empirical literature shows that it is not possible to assess the performance of SMEs from a managerial (non-financial) perspective. Researchers in the field of entrepreneurship mostly use financial measures (financial) to assess the performance of SMEs packaged in a questionnaire instrument due to the limitations of SME financial reports (eg, Ahmad et al., 2010; Hudson et al., 2001; Ismanto et al., 2019; Ng et al., 2019; Omerzel & Antoncic, 2008)This study refers to previous works of literature to reduce research bias.

Jepara is a city known for its icon as a carving city, where the furniture industry dominates the economy in Jepara Regency. The Minister of Industry stated that the furniture and handicraft industry is a trademark in Indonesia (reported from www.neraca.co.id, 2019). During the last three years, the growth of the furniture business unit in Jepara Regency has continued to increase. This increase was accompanied by an increase in the number of workers as detailed in Table 1. The center of the furniture industry in the Jepara Regency is located in Jepara District. The development of small and medium industries in the Jepara District contributes to the economy, especially in terms of providing employment. There are many small and medium enterprises from various industrial sectors in Jepara, many of which do not have business records (Ismanto, 2017). Company assets become one with personal assets. This has become a problem for SMEs to increase due to poor management and poor customer relations (Ismanto and Irawan, 2018).

Table 1. Data on Business Units and SME's Furniture Workers in Jepara Regency

Year	Business Units	Total Workers
2014	5.471	72.524
2015	5.870	75.603
2016	5.993	77.187

Source: BPS Jepara (2016)

The performance of SMEs has become an interesting discussion in the last decade, including Hudson, et.al. (2001), Mcmahon (2001), Tambunan (2007), Terziovski (2010), Ates, Garengo, Cocca, & Bititci (2013), Lin & Lin (2016), and Anwar (2018). The company's health can basically be measured based on the performance of a business. Financial performance is used as a subjective measurement that can describe the effectiveness of the use of assets (Widiastuti et al., 2018). Lukiastuti (2012) said that performance is multidimensional. Significant differences in the existing structure of SMEs indicate that the performance appraisal of SMEs is different from the structure of performance appraisal in large companies. For this reason, the managerial strategy of SME owners is very dominant in running their business. So that business owners are able to solve problems that arise in the company by making the right decisions. In this case, it is related to the company's management strategy. Management strategy will determine long-term performance in a company (Bugeac, 2010). SMEs need a special strategy in their growth, this is because small and medium enterprises are more vulnerable to adapting to uncertainty and competitive problems.

Liu (2010) states that the causes of business failure are lack of financial planning, limited access to funding, unplanned growth, and low strategic and financial projections. Sources of finance or business capital have an important role in running a business, SMEs need external costs to continue to run their business. Ismanto and Irawan (2018) said there are many obstacles faced by SMEs in Indonesia, especially in terms of finance and business management, they face stiff competition without access to bank loans or government institutions. Financial sources are indispensable for business owners and are used as a means of expanding operations and product development, which means that the availability of finance or capital is very important for the survival and financial performance of SMEs UKM (Fatoki, 2011; Mohamad et al., 2017). In facing business challenges, capital is needed to reduce the impact of cash flow problems and other external financings.

The problems facing SMEs are not only management strategies and the scope of financial resources. Relationship with customers is one of the problems that can affect the performance of SMEs. Relationships with customers are important to build bonds between business owners and consumers, which ultimately improves the financial performance of SMEs (Ismanto & Irawan, 2018). In establishing relationships with customers, owners must maintain the quality and consistency of managed businesses and create products of high satisfaction value, and innovation. Ngambi and Ndifor (2015) state that retaining customers is more effective than making a single sale. Relationships with

customers are a basic aspect of product marketing to increase sales volume and SME performance. However, the results of research by Siregar (2016) and Reimann, Schilke, & Thomas (2010) related to Customer Relations Management (CRM) have no effect on financial performance.

Inconsistency of research results shows that many factors can affect the performance of SMEs. Performance is measured to assess operational and financial effectiveness based on periodically defined goals, standards, and criteria (Quantananda and Haryadi, 2015). Widiastuti, Budiati & Niati (2018) assume that financial performance is the result of the process of managing and controlling owned resources including capital, liquidity, and profitability. However, financial management strategies (Karadag, 2015) and SME competencies (Man et al., 2008) are determinants of the survival, growth and performance of SMEs. Financial management strategies include financial strategies, work model strategies, fixed asset strategies, and financial reporting strategies. Meanwhile, the competence of SMEs is more related to the company's ability to build and maintain relationships with customers and suppliers.

Rapid environmental changes require a sharper and more focused awareness of the vision, mission, and goals of the company. In this way, the implementation of management strategies in SMEs is important because the operating process and business competition have risks. The formation of a management strategy is carried out by distributing a business mission statement, then in the business process trying to be able to carry out and align the mission that has been set. There are five important elements that make up a hierarchy according to Rothaermel (2017), namely vision, mission, goals, objectives, and plans. Zimmerer and Scarborough (2005) show four basic elements of management strategy related to company performance, namely environmental transfer, formula strategy, implementation strategy, and evaluation and monitoring. The monitoring process includes two things, namely internal monitoring and external monitoring (Jauch and Glueck, 1988). Internal monitoring includes work systems, capital, strategy, and product features, while external monitoring includes motivation, communication skills, delegation, and technology.

On the other hand, access to finance is a challenge for SMEs (Bottazzi et al., 2014; Karadag, 2015). In fact, funding in companies is very important for the growth and performance of SMEs. The funding can come from internal or external (Alma, 2015). Saeed (2009) defines sources of finance/funding as sources of funds that can be used for operational and investment activities that support company growth. Internal financial sources can come from own capital either from the owner of the company or from within the company, for example the sale of shares and operating profit. External financial sources are financial sources that come from parties outside the company, namely in the form of long-term or short-term loans. An important problem for SMEs is the financial gap because many companies, especially small and medium enterprises, have limited access to external financial resources. Small businesses have some problems with the availability of financial funds needed for growth (Ahiawodzi and Adade, 2012) and innovation (Lee et al., 2015).

To be truly financially healthy, SMEs strive to achieve a balance of profit and growth. However, it is still questionable how much benefit from the funds can be added without jeopardizing payments and services.Retaining customers is thought to provide long-term benefits for the company. Companies that can retain their customers through excellent service will be in the best position to achieve long-term success (Kelly, 2009). Relationships with customers are the ability of entrepreneurs to understand customers by maintaining trust, commitment, and customer satisfaction and focusing on developing these relationships (Ismanto and Irawan, 2018). Basically, the goal of an organization or company adopting Customer Relationship Management (CRM) is a strategy used to manage a relationship within an organization that is able to help companies interact with customers and retain customers (Ngambi and Ndifor, 2015). Siregar (2016) also mentions that CRM is a strategy to obtain special benefits, providing value to customers and companies that have a positive impact on the company's financial performance. For this reason, it is important to maintain awareness, confidence, commitment, and expansion to improve company performance. Dwyer and Schurr (1987) revealed that there are five stages in the development of the relationship between buyers and sellers, including awareness, exploration, expansion or improvement, commitment and termination of the relationship.

Based on the description of the problems in the previous paragraphs, this study develops previous studies that separately analyze the influence of management strategy on the performance of SMEs (Karadag, 2015), the influence of financial sources on the performance of SMEs (Saeed, 2009), and the influence of relationships with customers on the performance of SMEs (Siregar, 2016). This research is designed relatively differently from previous studies, by combining two aspects, namely management (strategy and financial resources) and competence (customer relationship). This study aims to determine and analyze the effect of management strategy, financial resources, and customer relations on the performance of SMEs.

METHOD

This study uses a quantitative approach with primary data collected from questionnaires to 126 furniture entrepreneurs in Jepara. Sampling using the slovin method with a standard error of 5 percent. This study examines the correlation between the independent variable and the dependent variable. The dependent variable of this study is the performance of SMEs (FP), while the independent variables include management strategy (MS), financial sources (FS), and customer relations (CR). Before testing it, the measurement of each variable was determined. For the FP variable, it is measured through an increase in assets, profits and income (Lukiastuti, 2012) and the level of sales (Ismanto, 2016). The measurement of the MS variable refers to a combination of indicators, namely the work system and motivation (Jauch and Glueck, 1988), as well as determining the company's vision, mission, and goals (Rothaermel, 2017). The next variable, the variable FS adopts the indicators of Alma (2015) including sales, operating

profit, owner's savings, and loans. While the CR variable refers to the indicators used (Widjaja, 2008), namely awareness, trust, commitment, and expansion.

The research hypothesis is:

H_1 : Management strategy affects the performance of SMEs

H_2 : Financial sources affect the performance of SMEs

H_3 : Relationships with customers affect the performance of SMEs

To test the correlation between the research variables, the following multiple linear regression empirical statistical analysis tools are used:

$$FP = \alpha + \beta_1 MS + \beta_2 FS + \beta_3 CR + \varepsilon$$

where the data was measured using a Likert scale with five assessment categories, namely strongly disagree, disagree, neutral, agree, and strongly agree . The rating scale ranges from 1 to 5, 1 score for strongly disagree and 5 scores for strongly agree. This measurement technique refers to the scaling technique used by Ahmad et al. (2010) and Ng et al. (2019). To obtain relevant results, test the validity of the convergent and discriminant with the criteria of alpha variance extracted (AVE) above 0.50 and cronbach alpha more than 0.60. Furthermore, the t-test and F-test were tested to determine the partial and simultaneous effect of the variables MS, FS, and CR on FP.

FINDING AND DISCUSSION

The research was conducted in Jepara with a door to door approach to obtain answers to the questionnaire. Most of the respondents were male, namely 83% of the total sample or 104 people. Many of the furniture entrepreneurs have education up to junior high school as much as 69% and the business has been started for more than 6 years. More detailed respondent information can be seen in Table 2.

All respondents answered statements well regarding management strategy, financial resources, customer relations, and company performance. Furniture SMEs have shown good performance over the last three years. This is shown from the statements answered by the respondents in the questionnaire. 34 respondents agreed and 92 respondents strongly agreed related to the statement of management strategy regarding the effectiveness of the company's current work system. 78 respondents agreed and 48 respondents strongly agreed that they often motivate employees to increase morale.

Table 2. Descriptive statistics

Number	description	Total Number	Percentage
1.	Gender:		
	a. Male	104	83
	b. Female	22	17
	Total	126	100
2.	Age:		
	a. 26 - 30 years old	7	6
	b. 31 - 35 years old	33	26
	c. 36 - 40 years old	56	44
	d. > 41 years old	30	24
	Total	126	100
3.	Education:		
	a. Junior high school	87	69
	b. Senior high school	32	25
	c. Diploma	0	0
	d. Bachelor	7	6
	Total	126	100
4.	Working Period/Business Age:		
	a. 1 – 3 years old	17	13
	b. 4 – 6 years old	25	20
	c. 7 – 9 years old	49	39
	d. > 10 years old	35	28
	Total	126	100

89% of furniture SMEs in Jepara define the company's long-term vision and mission, while 11% of respondents chose neutral. All companies that are sampled in this study have set company goals and are ready to take on competition. The financial sources for SME furniture in Jepara comes from income, operating profit, savings, and loans. This finance is allocated for the business development. Although there are 4% who choose to answer neutrally regarding loans for businesses. Furniture SMEs in Jepara have also maintained good relations with their customers. This study shows that SME owners are aware of the existence of customers to maintain customer trust and are committed to maintaining that trust. Furniture SME owners also agree that business expansion helps them to survive in the market.

To reach out the most results from this research hypothesis, first conduct a validity test to prove that the data were truly valid and can be accounted for. As shown in Table 3

Table 3. Validity and Reliability Test

Variabel	MS	FS	CR	FP
MS1	0.654			
MS2	0.946			
MS3	0.876			
FS1		0.897		
FS2		0.969		
FS3		0.921		
CR1			0.946	
CR2			0.957	
CR3			0.958	
CR4			0.913	
FP1				0.890
FP2				0.844
FP3				0.767
AVE	0.697	0.864	0.891	0.698
Cronbach Alpha	0.811	0.928	0.960	0.783

below, the convergent validity value seen from the loading factor has a value above 0.50 which means that the validity of the instrument in this study is valid. The AVE value of each construct has a value of more than 0.5, thus each construct is valid. The consistency of the respondents' answers is shown by the Cronbach alpha value. Table 3 also shows that the data is reliable, the Cronbach alpha value of each variable is more than 0.6.

Based on the Kolmogorov-Smirnov test in Table 4, the research data is normally distributed where the Asymp value. Sig. 0.186 above 0.05.

A fit model must show the similarity of variance from one observation to another and no correlation between independent variables is found. Table 5 shows the results of heteroscedasticity and multicollinearity tests, where all independent variables are homoscedastic and not correlated with each other, namely the significance value is above 0.05 and the VIF value is below 10.

To explain the results of testing the research hypothesis after the validity and

Table 4. Normality test

Items		Unstandardized Residual
N		126
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.96986075
Most Extreme Differences	Absolute	.097
	Positive	.042
	Negative	-.097
Kolmogorov-Smirnov Z		1.090
Asymp. Sig. (2-tailed)		.186

reliability are successful, then perform a linear regression analysis. Based on a series of tests on research diagnoses, the results of data processing which are summarized in Table 6 show that simultaneously, management strategy, financial resources, and customer relations affect SMEs performance, which is significantly proved from the F value of 9.325 which is greater than F table. Meanwhile, the partial test (t-statistic) shows a value greater than the t-table and is significant. Thus, all research hypotheses (H1, H2, and H3) are accepted, namely management strategy, financial resources, and customer relations affect individual SMEs performance. Whether or not the company's management strategy is right will affect the increase or decrease of SMEs performance. Likewise, a company's financial resources and how companies build relationships with their customers can lead to changes in financial performance. However, the effect is quite low because 16.7% change SMEs performance is explained by the three independent variables of the study - management strategy, financial resources, and customer relations. The rest may be determined by other factors that are not estimated in this research model.

Table 5. Heteroscedasticity and Multicollinearity Test

Model	Sig.	Collinearity Statistics	
		Tolerance	VIF
(Constant)	,520		
MS	,269	,760	1,315
FS	,269	,761	1,314
CR	,071	,998	1,002

Table. 6 Summary of Hypothesis Testing Results

Variabel	Koefisien	t-Stat	Sig.
C	16.283	6.606	.000
MS	.278	2.143	.034
FS	.243	2.188	.031
CR	-.270	-2.900	.004
Adj. R-Squared	0.167		
F – Stat	9.325		

Judging from the regression coefficient value shows that the coefficient is positive and significant. In accordance with the research of Ismanto (2016) which states that business strategy has an influence on the SMEs financial performanceand Karadag (2015) which states that the management strategy applied in small and medium enterprises has a significant influence on the SMEs performance. Management strategy isa business strategy concept that can be developed by providing a work system, setting the business vision, mission and goals. The management strategy that is applied can improve production quality which can result in increased SMEs performance. Especially for SMEs, the owner's role is very dominant in business sustainability. Individualism in small and medium-sized enterprises indicate that all decisions related to the company are entirely in the hands of the owner. So that a SMEs owner must be able to solve problems that arise in the company by making the right decisions. In accordance with what was stated by Bugeac (2010) that the management strategy determines the long-term business

performance. In the business environment, business owners must be more aware of the context of challenges and opportunities in business competition. A sustainable competitive advantage in a business will be able to encourage business owners to evaluate their business vision, mission and goals.

Financial sources have a very critical role in the company's operations. Therefore, financial resources can be used as a tool for investment activities. With adequate financial sources, both internal and external financial sources can further ensure company productivity so that operating profits increase, and this can also improve business financial performance. Agree with Fatoki (2011) and Mohamad et al. (2017) which argue that the source of venture capital has a strong influence on SMEs performance. Financial management must be carried out in the right way, with the accumulated capital it can be maximized for the company's operations. Sources of finance or business capital have an important role in running a business, SMEs need external finance to keep their business. In facing business challenges in Indonesia, business capital is needed by companies to reduce the impact of cash flow problems and other external financing. Financial resources are indispensable for business owners and serve as a means of expanding operations and product development. This also implies that finance availability is the key to the sustainability and viability of SMEs. In an effort to increase SMEs income, management can access financial services from banks or other financial institutions to increase production capacity, which in turn affects SMEs performance.

The company's competence is an important component in capturing the market. The main one is the customer relationship. Understanding that the buyer is king (Kelly, 2009). Relationships with customers are one aspect that underlie product marketing which aims to increase product sales volume. In establishing relationships with customers, business owners must still be able to maintain the business quality and efficiency in order to survive in a competitive industry. This relationship creates an interaction between the owner and the buyer that forms a bond between the two, followed by rapid technological developments. On the positive side, the mediation process between business owners and buyers is getting faster, but on the negative side it is clear that the competition is getting tougher. In this study, the relationship with customers has a significant negative value, which does not mean that every company does not pay attention to the relationship between business owners and customers. However, business owners focus more on customers who have high loyalty, this is also conveyed by Siregar (2016).

CONCLUSION

Based on testing results and discussions that have been served, it can be concluded that there are two important points related to the following research results. First, based on the respondents' responses in the questionnaire, SMEs furniture showed good performance over the last three years. This study shows that 89% of furniture SMEs have set their long-term vision and mission well, while 11% of furniture entrepreneurs have not set their vision, mission, and goals for long-term development properly. Most of the financial sources for SME furniture acquire from income, operating profit, savings, and

loans. Although there are 4% who choose to neutrally respond for loans for businesses. SMEs furniture has also maintained good relations with their customers. This management strategy and customer relationship must be maintained and/or enhanced by furniture entrepreneurs to maintain current performance and improve future performance.

Second, all of the predictors affect the SMEs performance either partially or simultaneously. Management strategies, financial resources, and customer relations simultaneously affect the furniture SMEs performance. Management strategy has a significant positive effect on furniture SMEs performance, so it can be explained that better management strategy applied by entrepreneurs, the higher performance of furniture SMEs. Likewise, the variety of financial sources used by SMEs will have an impact on improving performance because of the use of financial resources for developing business operations.

Referring to this result study which has proven that furniture SMEs performance is influenced by factors, namely management strategy, financial resources, and customer relations. Thus, SME owners are expected to be able to develop their business so that they can compete by relying on creativity and quality business products. This study is not missed from limitations, but does not reduce the quality of this study. Some of the limitations that appear and may be a blemish for evaluation for further research. First, the population of this study is confined to a local area (city) which may mitigate the results generalizability. With this limitation, further researchers can conduct research with a wider scope related to small and medium enterprises performance. Second, the SME performance measurement instrument refers to the financial aspect only. Further researchers can improve SMEs performance measurement into managerial instruments, of course with field and ground theory adjustments. Finally, this research only focuses on the factors of management strategy, financial resources, and customer relations. Further research can explore other factors that may affect SMEs performance, such as taxation, social and environmental responsibility of SMEs, which are one of the management strategies in business sustainability, maintaining business reputation, and increasing funding.

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