

# FACTORS AFFECTING THE DEVELOPMENT OF SMALL AND MEDIUM INDUSTRY BUSINESS IN MALANG CITY

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**Abstract:** The purpose of this study is to explain the influence of the quality of human resources, marketing systems and partnerships on the development of SMEs. The research population is SMEs engaged in the business of processed food and beverage products in Malang City, amounting to 110 SMEs and there are 56 SMEs that meet the requirements as samples. By using multiple regression analysis concluded that the quality of human resources, marketing systems and partnerships affect the development of SMEs. In order to improve SME development, SME owners need to pay attention to HR competencies by involving employees in training activities on SME management, owners also pay attention to the marketing system by developing marketing information technology in addition to strengthening partnership with external parties.

**Keywords:** quality of human resources, marketing systems, partnerships for and development of SMEs

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One business actor who has an important role in the country's economic policy is Small and Medium Enterprises (UKM), because SMEs have the ability as an economic engine that can improve the quality of life of the community as a large economic engine for the Gross National Product (GNP) in a country. Competition in the SME sector will be even tighter with the establishment of the ASEAN Economic Community in 2015. The ASEAN Economic

Community (MEA) will change ASEAN to become an area with a free flow of goods, services, investment and skilled labor, as well as more free capital flows. Therefore, Small and Medium Enterprises (SMEs) will compete not only domestically but also compete with industries in all ASEAN countries.

Empowerment of SMEs in the midst of globalization and high competition make SMEs able to face global challenges, such as improving product and service innovation, developing human resources and technology, and expanding the marketing area. This needs to be done to increase the selling value of SMEs, especially in order to compete with products that are increasingly flooding industrial centers and manufacturing in Indonesia, considering that SMEs are an economic sector that is able to absorb labor in Indonesia (Sudaryanto. 2011).

Most of the Small and Medium Enterprises that dominate in Malang City are mostly engaged in food & beverage, handicraft, and fashion, this can be understood because the food & beverage business, crafts, fashion is one of the supporters of the tourism sector. Whereas when viewed developments in small and medium enterprises in the city of Malang from year to year show the number of SMEs which are likely to increase with an always positive growth rate. Almost all of the small and medium-sized businesses that are spread throughout Malang City are dominated by the creative economy. Based on Malang City BPS data, the number of Small and Medium Enterprises (SMEs) in 2017 reached 76,290 SMEs.

Crijns and Ooghi (2000) assess that each stage of company growth is the result of two environments in which the company conducts its business, namely the internal and external environment. Factors from within include (ISBRC - Pupuk, 2003): (1) managerial capabilities, (2) experience of owners or managers, (3) ability to access input and output markets, production technology, and capital sources, as well as (4) the size of the capital owned. While some external factors, among others (Tambunan, 1999): (1) support in the form of technical and financial assistance from the government / private sector, (2) economic conditions reflected in domestic and world market demand, and (3) technological progress in production .

One indicator of the development of SMEs is to look at business growth. Own business growth can be seen from (Shanmugam and Bhaduri, 2002): (1) production growth, (2) sales growth, (3) income growth, and (4) profit growth. According to Malang City Bappeda (2015), there are 6 aspects that affect the development of Small Business namely: human resources, production / operations, finance, marketing, partnerships, infrastructure and regulation. While according to Madura (2001), business development can be measured through business performance with indicators of return and risk from investment to the business. Whereas according to Shanmugam and Bhaduri (2002), the development of small businesses can be seen through production

growth, sales growth, income growth and profit growth.

In order to formulate strategies and appropriate policy recommendations to encourage the growth of SME businesses, a study or identification study of the variables that cause the growth of the business is needed. Although many studies have been conducted on SMEs, they are still relevant to be studied. Handrimurtjahyo et al. (2007) stated that the development of small industries was influenced by variables or factors originating from small industrial business units as well as from outside business units. Internal factors include (1) managerial abilities; (2) Experience from the owner or manager; (3) Ability to access output and input markets, production technologies and capital sources; (4) The amount of capital owned. Whereas external factors include (1) Support in the form of technical and financial assistance from the government / private sector, (2) Economic conditions reflected in domestic and world market demand and (3) Technological advances in industry.

Research conducted by Maupa (2004) found that individual characteristics, company characteristics, business external environment, the impact of socio-economic policies and business strategies simultaneously had a significant influence on the growth of small businesses in South Sulawesi Province. Business strategy variables have the most dominant influence on the growth of small businesses in the province of South Sulawesi. Susanty, et al. (2013) showed that the factors that influence the growth of Pekalongan batik cluster are the existence of supporting and related industries, strategy and business competition, and the role of the government. Indriyatni (2013) shows that Working Capital factors, abilities / skills, and business locations have a positive and significant effect on the success of small micro-enterprises.

The logical reason for this study is that SMEs in various regions have unequal characteristics, although in general their profile is no different. Especially for this research, the identification and analysis of variables that affect the growth of SME businesses is very important. The results of this research

can be used as a foundation for developing strategies and policies to encourage the growth of SMEs. Thus this research is important to be examined by considering various phenomena that underlie this research.

Based on the description above, the purpose of this study is to explain the influence of the quality of human resources, marketing systems and partnerships on the development of SMEs. Small and Medium Enterprises (SMEs) need to be aware that the quality of Human Resources (HR) plays an important role in determining the performance of SMEs, SME activities will not run without their participation. According to Nawawi (2011: 40) Human Resources (HR) is one of the most important factors in a business because key human resources determine the development of a business. Marketing is one of the main activities carried out by entrepreneurs in their efforts to maintain the survival of the company and the development of its business and to be able to win the competition. Success or failure in achieving these goals depends on the ability and expertise in the field of marketing (Purwanti, 2012). Partnership is a synergic, voluntary, and based on the principle of mutual need, mutual support, and mutually beneficial business cooperation relationships in various parties accompanied by fostering and developing SMEs by large businesses (Rachmat, 2004).

## FOUNDATION OF HYPOTHESIS THEORY AND DEVELOPMENT

### Quality of human resources

According to Joesron (2005), the quality of human resources is the potential, strength, or ability that exists in humans that determines the attitudes and qualities of humans to be able to achieve and make the organization alive and running. Whereas according to Soekidjo (2003), the quality of human resources includes physical and non-physical aspects involving the ability to work, think and skill. Kasanudin (2011) measures the quality of human resources based on productivity, attitudes and behavior, communication, and relationships. Indarti & Langenberg (2003) show that education and capital resources significantly influence business success.

Anggadwita & Mustafid (2013) concluded that there are two factors that greatly influence the performance of SMEs, namely aspects of entrepreneurship and aspects of human resources. Indriyatni (2013) shows that the ability / skill factor has a positive and significant effect on the success of small micro enterprises. Musran (2010) also supports the results that human resources have a strong influence on business performance

H1: The quality of human resources has a significant effect on the development of SMEs in Malang City.

### Marketing system

According to Tjiptono (2004), an important marketing strategy is to help improve a company's competitiveness in the face of the era of globalization and liberalization. Marketing strategy is a fundamental tool planned to achieve company goals by developing sustainable competitive advantage. So, the marketing strategy used can guide managers or business owners in carrying out tactics and other activities to improve company goals. Tubastuvi and Purwidiyanti (2004) concluded that marketing competencies had a significant positive effect on business performance. Maupa (2004) found that business strategies have a significant influence on the growth of small businesses in South Sulawesi Province. Rutnawati and Hikmah (2013) show that marketing techniques affect the performance of SMEs. H2: Marketing systems have a significant effect on the development of SMEs in Malang City.

### Partnership

Business Partnership is a network of mutually beneficial business cooperation between small entrepreneurs and medium / large entrepreneurs (Partner Companies) accompanied by coaching and development by large entrepreneurs, so that they need each other, benefit and strengthen (Liptan, 2000). Meanwhile, according to Government Regulation of the Republic of Indonesia No.44 of 1997, partnerships are business cooperation between Small Businesses and Medium Enterprises and / or Large Businesses accompanied by guidance and development by Medium and Large Businesses by taking

into account the principle of mutual need, mutual reinforcement and mutual benefit. For the development of small businesses, a significant partnership is needed between small businesses, suppliers, government, entrepreneurs, financial institutions and centers (Bappeda Kota Malang, 2015).

Bejawi and Hamilton (2012) state that the implementation of business partnerships has a positive and significant effect on the performance of financial and non-financial businesses. Susanty, et al. (2013) showed that the factors that influence the growth of Pekalongan batik cluster are the existence of supporting and related industries, strategy and business competition, and the role of the government

H3: Partnerships have a significant effect on the development of SMEs in Malang City.

## **METHOD**

### **Population and Samples**

The research population was SMEs engaged in the business of processed food and beverage products in Malang City, amounting to 110 SMEs. The sample selection method is taken non-randomly (non random sampling). The criteria set for sampling are:

1. Small and Medium Enterprises engaged in the business of processed food and beverage products located in Malang City
2. The SMEs has an investment value of between Rp. 15,000,000 to Rp. 150,000,000.
3. If at the time this research was conducted it turned out that the place of business had changed address so that the SMEs was issued as a sample

Based on the criteria of the sample, there were 56 SMEs that met the requirements as samples.

### **Data Collection Techniques**

Data collection techniques using a questionnaire which is a technique of data collection is done by giving a set of questions or written statements to the respondent to answer. Questionnaires are efficient data collection techniques if researchers know for sure the variables to be measured and know

what is suitable to use if the number of respondents is quite large and spread over a large area. Sekaran (1992) suggests several principles in questionnaire writing as data collection techniques, namely: the principle of writing, measurement and physical appearance.

## **Identification of Variables and Measurements**

### **Quality of human resources**

Quality of Human Resources is a resource that meets the criteria of physical and health quality, intellectual quality (knowledge and skills), and mental / spiritual / financial quality (Danim, 1996). The influence of the quality of human resources can be measured from the indicators of the entrepreneur's initiative to develop the business, the knowledge of entrepreneurs on technological development, worker motivation and worker discipline.

### **Marketing system**

Marketing is one of the main activities carried out by entrepreneurs in their efforts to maintain the survival of the company and the development of its business and to make a profit. Success or failure in achieving goals depends on ability and expertise in the field of marketing (Purwanti, 2012). The influence of the marketing system can be measured from the marketing system quality indicators, the accuracy of market segmentation and the accuracy of marketing strategies.

### **Partnership**

Business partnership is a mutually beneficial partnership between small-scale and large-scale entrepreneurs (Partner Companies) accompanied by coaching and development by large entrepreneurs, so that they need each other, benefit and strengthen (Liptan, 2000). The influence of partnerships can be measured from the indicators of the effectiveness of the partnership system with suppliers, the effectiveness of the partnership system with similar entrepreneurs (centers) and the effectiveness of the linkage system with large companies, universities and government.

### Development of SMEs

According to Shanmugam and Bhaduri (2002), the development of small businesses can be seen through production growth, sales growth, income growth and profit growth.

### Data analysis technique

The purpose of this study is to investigate the influence of the quality of human resources, marketing systems and partnerships on the development of SMEs in Malang City. Testing this hypothesis will be done with a regression model. The regression models in this study are as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Information:

- Y = Business development
- X1 = quality of human resources
- X2 = marketing system
- X3 = partnership
- $\beta$  = Coefficient
- $\varepsilon$  = disturbance error

The significance in this test is 5%. With a significance level of  $\alpha = 5\%$ , then if Sig.  $t < 5\%$  then  $H_0$  is rejected and  $H_a$  is accepted which means that the quality of human resources, marketing systems and partnerships have a significant effect on the development of SMEs in Malang City

### RESULT

In this analysis it is used to find out whether there is / is no influence on the quality of human resources, marketing systems and partnerships on the development of SMEs in Malang City. The following table is the result of calculations from multiple regression tests with Statistical Package for Social Science (SPSS) 19.0 for Windows

Based on Table 1, it can be explained that the F Test in this study is used to test the accuracy or significance of the research model. Based on the results of the study obtained F value of 39.465 with a probability value of 0.000 and significant at alpha ( $\alpha$ ) of 5% (0.05). This means that the development of SMEs in the city of Malang can be explained by the quality of human resources, marketing systems and partnerships

**Table 1 Results of Multiple Regression analysis**

| Variable                   | Beta     | t     | Sig t | Result     |
|----------------------------|----------|-------|-------|------------|
| quality of human resources | 0.261    | 2.863 | 0.006 | Signifikan |
| marketing system           | 0.381    | 3.313 | 0.002 | Signifikan |
| partnership                | 0.425    | 4.159 | 0.000 | Signifikan |
| $\alpha$                   | : 5 %    |       |       |            |
| R                          | : 0.834  |       |       |            |
| Adjusted R Square          | : 0.677  |       |       |            |
| F                          | : 39.465 |       |       |            |
| Sig. F                     | : 0.000  |       |       |            |

The magnitude of the multiple correlation coefficient (R) is 0.834, this shows that the magnitude of the relationship between the quality of human resources, the marketing system and the partnership with the development of SMEs in Malang City is 83.4%. The predictive power of the regression model formed in this test is 0.677. This means that the quality of human resources, marketing systems

and partnerships have contributed to the development of SMEs in Malang City by 67.7%, while the remaining 32.3% is influenced by other variables outside the model.

The value of t count for the variable quality of human resources is 2,863 with a probability of 0.006 smaller than the statistical significance at  $\alpha = 5\%$ , while the value of the coefficient for the variable

quality of human resources is 0.261 with a positive coefficient, thus rejecting H<sub>0</sub> which means that the quality of human resources has a positive and significant effect on the development of SMEs in the city of Malang. These results indicate that the increasing quality of human resources will increase the development of SMEs in the city of Malang by 26.1%.

The value of t count for the marketing system variable is 3.313 with a probability of 0.002 smaller than the statistical significance at  $\alpha = 5\%$ , while the value of the coefficient for marketing system variables is 0.381 with a positive coefficient, so it rejects H<sub>0</sub> which means that the marketing system has a positive effect and significant to the development of SMEs in the city of Malang, these results indicate that the increasing marketing system will increase the development of SMEs in Malang by 38.1%.

The value of t count for partnership variables is 4.159 with a probability of 0.000 smaller than statistical significance at  $\alpha = 5\%$ , while the magnitude of the coefficient for the partnership variable is 0.425 with the direction of the positive coefficient, thus rejecting H<sub>0</sub> which means that the partnership has a positive and significant effect on the development of SMEs in the city of Malang, these results show that with increasing partnerships, it will increase the development of SMEs in Malang City by 42.5%.

## **DISCUSSION**

### **Effect of the quality of human resources on the development of SMEs in Malang City**

The results of the study show that the quality of human resources has a significant positive effect on the development of SMEs. This means that the better quality of human resources owned by an entrepreneur will have an impact on the increase in business development managed. By having sufficient HR competencies, business people will be able to continue to develop and innovate so that the managed SMEs will be more developed and qualified. The quality of human resources needed is the initiative of business owners in developing their business, knowledge of SME owners of technological devel-

opments, and the motivation and discipline of workers in carrying out their work.

As revealed by Son, (2010) HR competencies reflect the productive capacity of human resources, including various skills (literacy, numeracy, cognitive and analytical) to produce economic added value. Khalique et al (2013: 78) in a theory suggest that the quality of human resources is highly considered as the lifeblood of an organization and human capital is a very crucial resource for innovating and developing organizations. The results of this study corroborate a study conducted by Indarti & Langenberg (2003) showing that education and capital resources significantly influence business success. Anggadwita & Mustafid (2013) concluded that there are two factors that greatly influence the performance of SMEs, namely aspects of entrepreneurship and aspects of human resources. Indriyatni (2013) shows that the ability / skill factor has a positive and significant effect on the success of small micro enterprises. Musran Munizu (2010) also supports the results that human resources have a strong influence on business performance

### **Effect of marketing systems on the development of SMEs in Malang City**

The results of the study show that the marketing system has a significant positive effect on the development of SMEs. This means that the better the marketing system carried out by SMEs, will have an impact on the increase in business development managed. This is because marketing is one of the main activities carried out by entrepreneurs in their efforts to maintain the survival of the company and the development of its business and to make a profit. Success or failure in achieving goals depends on ability and expertise in the field of marketing (Purwanti, 2012). Marketing systems that can improve the development of SMEs can be seen from the quality of the marketing system developed, the accuracy of market segmentation to be addressed and the accuracy of the use of Marketing strategies.

The results of this study reinforce the study conducted by Tubastuvi and Purwidiyanti (2004) con-

cluded that marketing competencies have a significant positive effect on business performance. Maupa (2004) found that business strategies have a significant influence on the growth of small businesses in South Sulawesi Province. Rutnawati and Hikmah (2013) show that marketing techniques affect the performance of SMEs.

### Effect of partnerships on the development of SMEs in Malang City

The results of the study show that partnerships have a significant positive effect on the development of SMEs. This means that the better the partnership that is carried out by SMEs, will have an impact on the increase in business development managed. Business partnership is a mutually beneficial partnership between small-scale and large-scale entrepreneurs (Partner Companies) accompanied by coaching and development by large entrepreneurs, so that they need each other, benefit and strengthen (Liptan, 2000). The role of partnerships that can improve the development of SMEs can be seen from the effectiveness of the partnership system with suppliers, the effectiveness of the partnership system with similar entrepreneurs (centers) and the effectiveness of the linkage system with large companies, universities and government.

The results of this study reinforce the study conducted by Bejawi and Hamilton (2012) stating that the implementation of business partnerships has a positive and significant effect on the performance of financial and non-financial businesses. Susanty, et al. (2013) showed that the factors that influence the growth of Pekalongan batik cluster are the existence of supporting and related industries, strategy and business competition, and the role of the government.

## CONCLUSIONS AND REKOMENDATIONS

### Conclusions

The quality of human resources has a significant positive effect on the development of SMEs, so that the better quality of human resources possessed by an entrepreneur will have an impact on the increase in business development managed.

Marketing systems have a significant positive effect on the development of SMEs. This means that the better the marketing system carried out by SMEs, the greater the development of managed business. Partnerships have a significant positive influence on the development of SMEs, so the better the partnership that SMEs do, will have an impact on the increased development of businesses managed.

### Rekomendations

In order to improve SME development, SME owners need to pay attention to HR competencies by involving employees in training activities on SME management, owners also pay attention to the marketing system by developing marketing information technology in addition to strengthening partnership with external parties.

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