COMPETITIVENESS OF FOOD AGRO-INDUSTRIAL MSMEs: ROLE OF BUSINESS MANAGEMENT AND GOVERNMENT POLICY

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Abstract: Micro, Small and Medium Enterprises (MSMEs) are the business Group that become important part in the development of the national economy, and also as strategic sector for the nation of Indonesia. The increasing of the number MSMEs is not accompanied by an increase the quality and competitiveness to face the competition from other MSMEs, many factor which influenced toward the increased of performance and competitiveness should come first, as well as reduce the problems that become obstacles the development MSMEs. The problems faced by MSMEs in Malang Regency including managerial aspect to managed business and government policies that have not fully give benefit for micro and macro business. The purpose of this research is to analyze influence of business management variables (X_1) and government policies (X_2) on the performance (Y_1) competitiveness (Y_2) food agro-industrial MSMEs in Malang. The research used Partial Least Square (PLS) method to analyzing the data. Respondents of this study are 30 MSMEs, who were taken using purposive sampling technique. The results showed that the variables of business management not significant effect on performance and significant effect on the competitiveness of MSMEs. Government policies have a significant effect on the performance of MSMEs and not significant effect on competitiveness. Performance of MSMEs has a significant effect on competitiveness. Variable business management provides the strongest direct influence on the competitiveness of MSMEs.

Keywords: Business Management, Government Policy, Partial Least Square (PLS), SMEs

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Micro Small and Medium Enterprise (MSME) is a business group that becomes an important part in national economic development and becomes a very strategic sector for Indonesia. The role of MSMEs is demonstrated by the large number of small and micro-industries in each region and sector of the economy (Abdullah, 2006). The large number of MSMEs is not accompanied by the improvement of quality and competitiveness of SMEs; therefore, there are still many businesses with low competitiveness.

Low competitiveness is caused by many obstacles faced by micro and small business actors. Obstacles often faced by MSMEs are especially in the aspect of business management related to the managerial skill of business owners. In addition, funding and facility provision that support the development of MSMEs affect the competitiveness of MSMEs. According to Munizu (2010), internal

factors consisting of aspect of human resources, financial aspects, aspects of production/ operational technique, and market and marketing aspects as well as external factors consisting of aspects of government policy, socio-cultural and economic aspects, and aspects of the role of relevant institutions have a significant and positive influence on the performance of MSMEs.

The constraints faced by MSMEs result in weak business network, limited market penetration and market diversification, small scale of economy lead to difficulty to reduce costs, very small profit margins, and can reduce the performance and competitiveness of MSMEs. Therefore, the influence of a number of variables on the competitiveness of SMEs is very important to be analyzed to determine the factors that give a significant effect on the competitiveness of MSMEs. According to Tambunan (2010), the indicators used to measure the competitiveness of MSMEs can be seen from factor of market share, turnover value, and net profit.

Analysis of the intterelationship of influential variable is done by using Partial Least Square (PLS) method. PLS is Structure Equation Model (SEM) based on components or variants. Covariance-based SEM generally tests the causality or theory, while PLS is more predictive model. Variance-based or component-based is a SEM type that uses variants in the iteration process, so it does not require correlation between indicators or the latent constructs in a structural model, while covariance-based SEM requires the construct and indicators to correlate with each other in a structural model (Jogiyanto and Abdillah, 2009). Partial Least Square (PLS) is more adaptive because it is also logical in addition to logical because PLS does not require normal distributed data, and the number of sample used should not be large, with at least 30 data (Putong, 2015).

RESEARCH METHOD

This research was conducted on several SMEs in the field of food agro-industrial which are located in Malang, East Java. Data processing was done at Laboratory of Agro-industrial Management, Department of Agro-industrial Technology, University of Brawijaya. Analysis tool used in this research is PLS. Stages in data analysis include designing structural model and measurement, drawing path diagram, converting path diagram into equation, estimating (path coefficient, loading, weight), evaluating and testing the hypothesis. Data collection methods used are questionnaire distribution, interview, literature study, and observation.

Questionnaire preparation was done by using *likert* scale, which is one form of closed questionnaires with criteria from strongly disagree to strongly agree, with the range of assessment 1-5. Variables used in this study can be seen in Table 1.

Table 1   Research Variables and Indicators

Variable	Indicator
Business Management (X_1)	Marketing (X_{11}) Finance (X_{12}) Production and Operational Technique (X_{13}) Human Resources (X_{14})
Government Policy (X_2)	Funding (X_{21}) Training (X_{22}) Facility of Machine and Equipment (X_{23}) Uncomplicated Business Permission (X_{24}) Marketing Facility (X_{25})
Business Performance (Y_1)	Sales Volume (Y_{11}) Capital (Y_{12}) Quality of Product (Y_{13})
Competitiveness (Y_2)	Market (Y_{21}) Turnover value (Y_{22}) Net Profit (Y_{23})

This research use non probability sampling with purposive sampling technique because in selecting sample, the researchers specified certain criteria. Samples taken must be food agro-industrial MSMEs. According to Hermawan (2006), purposive sampling is used because in selecting sample, the researchers specified certain criteria. Samples taken must be food agro-industrial MSMEs. According to Hermawan (2006), purposive sampling is a sampling method that is included in non-probability sam-

pling technique. Sample is taken based on consideration with certain criteria. This sampling technique occurs when the researcher wants to select a sample based on certain criteria. The number of samples taken is 30 MSMEs.

FINDINGS

Respondents Characteristics

Respondents of this research are owner of MSMEs selected by purposive sampling technique. Characteristics of respondents in this study are based on age, sex, and last education (Table 2). The characteristics of business managed by the respondents include the age of business, monthly production capacity, monthly sales volume, and net (Table 3). The majority of respondents are male (53.3%), aged over 50 years old (50%), primary education graduates (43.3%). According to Setyawan et al. (2015), level of education indicates the level of industry, higher education of the owner means that business performance will be higher. This shows that educated entrepreneurs have better competitiveness than the uneducated entrepreneurs. The level of education at MSMEs is related to the ability to conduct business plans and risk taking in business.

Table 2 Characteristics of Respondents

Characteristics	Number	(%)
Sex		
a. Male	1	53.3
b. Female	6	46.7
	1	
	4	
Age (Years old)		
a. 31-40	3	10
b. 41-50	1	40
c. >50	2	50
	1	
	5	
Last Education		
a. Primary School	1	43,3
b. Junior High School	3	26,7
c. Senior High School	8	13,3
d. University	4	16,7
	5	

The majority of MSMEs (73.3%) in Malang Regency managed by the respondents have been running between 11-20 years. Long running business shows that MSMEs can face market competition and have a lot of experience in entrepreneurship. 33.3% of MSMEs belonging to micro and small enterprises have production capacity between 100-1000 kilograms per month. Net profit of the majority of MSMEs (40%) is 5 million rupiahs per month because most MSMEs have been established for more than 10 years, so they are more experiences and have more customers.

Table 3 Business Characteristics

Characteristic	Number	(%)
Age (Years)		
a. 1-10	3	10
b. 11-20	22	73.3
c. 21-30	5	16.7
Production Capacity / Month (Kg)		
a. 100-1000	10	33.3
b. 1100-2000	5	16.7
c. 2100-3000	9	30
d. >3000	6	20
Sales Volume /Month (Kg)		
a. 100-1000	10	33.3
b. 1100-2000	5	16.7
c. 2100-3000	9	30
d. >3000	6	20
Net Profit		
a. 1-5 million rupiahs	1	3.3
b. 6-10 million rupiahs	9	30
c. 11-15 million rupiahs	8	26.7
d. >15 million rupiahs	12	40

Results of Research Instrument

1. Validity and Reliability Test

The result of validity test shows that each indicator has *Pearson* correlation value > r-table (0.3610) and has sig value <0.0s5 so that all research indicators are valid. According to Gumilar (2007), validity test is conducted to measure the validity of research instruments using correlation analysis by using SPSS program by looking at the

value of *pearson* correlation and its significance. The indicator is valid if the value of output *pearson* correlation> r_{tabel} and sig value. <0.05 (Gumilar, 2007).

The result of reliability test shows that the resulting *cronbach's* alpha value is 0.858> 0.6, so it can be concluded that the research instrument has

good reliability. A measuring instrument is considered reliable if alpha coefficient value obtained is equal to or greater than 0.6 (Rangkuti, 2008). According to Pujiati and Rusliah (2007), the value of *Cronbach's* Alpha is in between 0-1. The higher reliability coefficient value, then the instrument is more reliable.
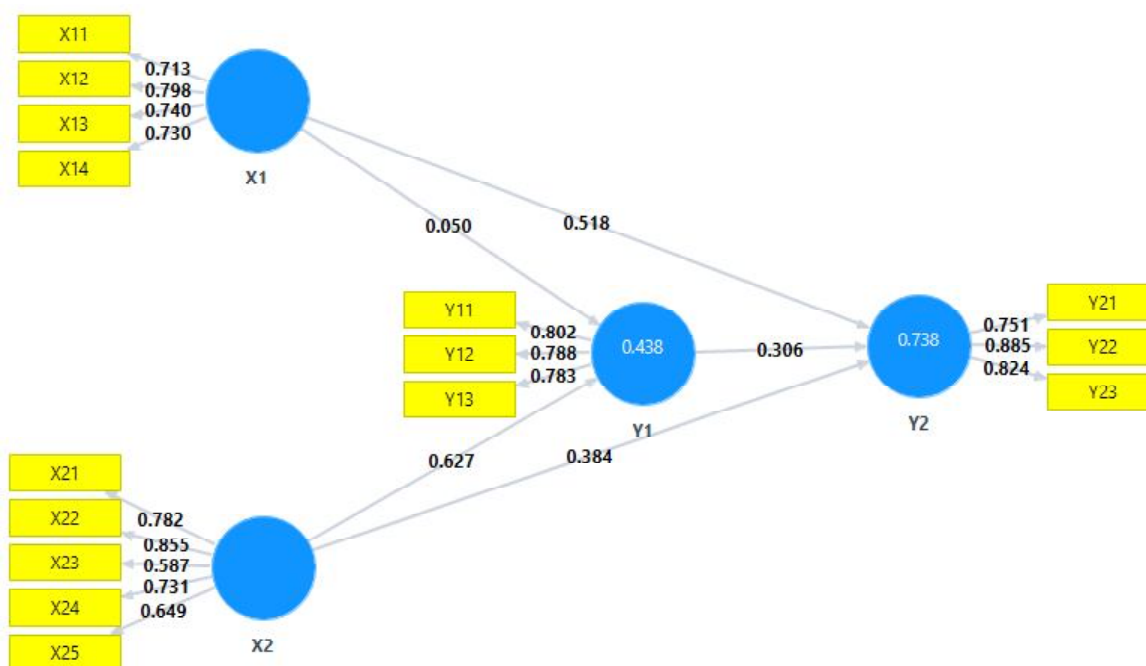

Figure 1 Path Diagram of *Partial Least Square*

2. *Partial Least Square* Evaluation Assumption

Path Diagram

Path diagram shows the value and relationship between indicators with variables, between latent exogenous variable and latent endogenous variable, as well as the result of analysis of the effect of business management and government policy on the performance and competitiveness of MSMEs. PLS modeling is a model specification in the research to be conducted. Model specification consists of two types: designing inner model and outer model. Inner model is a structural model that connects X variable (exogenous) with Y variable (endogenous). Exogenous variable (X) in this study consists of

business management and government policy. Endogenous variable (Y) in this research consists of performance and competitiveness. The path diagram of the results of data processing can be seen in Figure 1. Loading factor value in the diagram is > 0.5.

Parameter Estimation Results

Parameter estimation by using path estimation will result in outer loading value. This stage aims to see the relationship between latent variable with its indicator. Outer loading value ≥ 0.5, which means that the indicators used in the study are worth maintaining (Hair et al., 2014). The results of data processing can be seen that outer loading value for all

indicators $\geq$ 0.5, so there is no indicator that must be eliminated. The results of parameter estimation can be seen in Table 4 below.

a. Business Management Variable (X_1)

The highest outer loading value for business management variable is financial report indicator

Table 4   Parameter Estimation

Variable	Indicator	*Outer Loading*	t-count	*Mean*
Business Management (X1)	X11	0.713	6.665	4.10*
	X12	0.798*	10.204	3.40
	X13	0.740	6.775	3.60
	X14	0.730	5.877	3.57
Government Policy (X2)	X21	0.782	9.931	3.43*
	X22	0.855*	11.619	3.37
	X23	0.587	3.544	3.43*
	X24	0.731	7.038	3.43*
	X25	0.649	4.034	3.27
Business Performance (Y1)	Y11	0.802*	8.921	3.80*
	Y12	0.788	5.874	3.43
	Y13	0.783	5.897	3.47
Competitiveness (Y2)	Y21	0.751	11.497	4.13*
	Y22	0.885*	27.310	3.70
	Y23	0.824	9.439	3.87

*: Highest Value

Significance value of all indicators is seen from $t_{count} > t_{table}$ (1.96) for significance level of 5%, then indicators can be considered significant.

(X_{12}) amounted to 0.798, while the highest value of respondents' opinion is in marketing indicator (X_{11}) amounted to 4.10. The result of comparison which is not suitable indicates that the indicator is not suitable between the model and realization felt by respondents. Owners of MSMEs assume that good marketing strategy can provide benefits for MSMEs because appropriate marketing will increase the volume of sales and profits. Whereas on the model, the indicator that has a high value on business management variable, namely financial statement (X_{12}). The respondents did not prepare the financial statements according to the standard, but they only recorded the amount of money received/ expended, the amount of debt, and the amount of goods purchased/ sold. The quality of financial statements will have an impact on the amount of capital loans to banks or other financial institutions. A research which was conducted by Cziraky et al. (2005) in Croatia

found that the cause of low level of credit distribution in MSMEs is that banks do not have enough information to conduct creditworthiness assessment. A large amount of credit can be used by business actors to develop their business so as to have competitiveness.

b. Government Policy Variabel (X_2)

The government policy variable has the highest outer loading value on coaching and training indicator (X_{22}) of 0.855, but in fact, the highest value of respondents' opinion is in funding indicator (X_{21}), machinery and equipment facility indicator (X_{23}), and uncomplicated business permission (X_{24}) amounted to 3.43. Business owners obtain capital assistance from the local government with low interest rate of 6% per annum, on easy terms. Regional Regulation IUMK for ease of micro business permission is according to Presidential Regulation No. 48 of 2014

that business permission is only done to sub-district level, so the business legalization will be easier.

In fact, the real benefits of training and coaching have not been felt by the owners of MSMEs. This is because the lack of enthusiasm of business owners to attend training and business development in Department of Cooperatives and MSMEs. In addition, limited time and busyness are the cause of the lack of MSMEs' contribution to get involved. Moreover, training and coaching program is not implemented in a sustainable manner, whereas sustainable training and coaching keeps MSME entrepreneurs to be able to improve their production quality in order to compete with others.

c.   Performance Variable

Performance variable has the highest outer loading value on sales volume indicator (Y_{11}) of 0.802, corresponding to the highest value of respondents' opinion on sales volume indicator (Y_{11}) of 3.8. Most owners of MSMEs prioritize buying and selling activities to gain big profits, so that the size of sales volume becomes a benchmark for business performance improvement. The respondents agree that MSMEs assess business success through sales volume. This shows that most respondents measure the success of their business with the volume of sales obtained. This is consistent with the statement of Cocca and Alberti (2010) that business performance in MSMEs is usually measured by financial capability.

According to Cole (1999), sale and service growth determine the success rate achieved by a business. Fairness, stability, and competitive prices determine the level of sale growth of the business. The higher the sales volume of a business, the higher the achievement of the company (Hadiyanto, 2006).

d.   Competitiveness Variable

Competitiveness variable has the highest outer loading value on sales turnover indicator (Y_{22}) of 0.885, compared with the highest value of respondents' response on market size indicator (Y_{21}) of 4.13, in which model is not suitable with the conditions in the field. The respondents agree that increasing marketing area means that the product is in demand by many consumers and able to compete with other products. Marketing strategy undertaken by business owners is useful for expanding the marketing area. It is expected to increase the demand of products to out of town and even island.

The Government of Malang Regency continues to encourage MSMEs to face ASEAN Economic Community (AEC), which is done by inviting Singaporean entrepreneurs to become a liaison for SME entrepreneurs. Cooperation with Singaporean entrepreneurs becomes a good strategy to market products from Malang Regency. Regent of Malang Regency, Ir. Hadi Prasetyo, ME, will include MSME's flagship products to East Java Mart in Singapore. However, it must go through a long process. They must be able to meet the market demand, beginning with sampling process, *testering*, and test market. In addition, efforts are done to improve the quality of product, either through packing, labeling, and certification. The difference between the responses of respondents and PLS capitalization is because increase in sales volume on performance variables can affect the gross revenue and net income. Respondents argue that large marketing area   will increase the profits of MSMEs.

Evaluation Results of Goodness of Fit Criteria

a.   Evaluation Results of Measurement Model (Outer Model)

1.   Validity Test

Construct validity consists of convergent and discriminant validity. Convergent validity in PLS for reflective indicators can be seen based on factor loading value (correlation between item score/ component score and construct score) of indicators that measure the construct (Abdillah and Jogiyanto, 2009). Analysis result shows that the value of indicator has fulfilled the requirement of convergence validity with loading factor value> 0.7. According to Ghozali (2011), convergence validity indicator value is considered valid if loading factor> 0.7, but for initial stage, loading factor of 0.5 to 0.6 is considered sufficient, and can also be shown by Average Variance Extracted (AVE) value >0.5. The

value of X_{23} indicator is 0.587, which is considered sufficiently qualified for initial research, so it should not be eliminated. According to Jaya (2008), loading factor value > 0.5 to 0.6 is considered sufficient, on the number of indicators per construct is not large i.e. between 3 to 7 indicators.

Validity test of discriminant is seen based on cross loading measurement value and its construct. Cross loading value on each indicator of this study is greater compared with the value of other indicators, thus the construct has a good discriminant. According to Wiyino (2011), discriminant validity on reflective measurement model is assessed based on cross loading value, in which latent variables must be greater than the correlation with other latent variables.

2. Reliability Test

From the results of reliability test, it can be seen that the variables in this study has fulfilled the requirement of reliability, where the resulting value> 0.6, so that research variables are considered reliable. According to Hartono (2008), the reliability of the measured variable can be known by looking at *cronbachs* alpha value. A variable can be said to be valid if *cronbachs* alpha value > 0.6.

b. Results of Structural Model Evaluation (Inner Model)

Evaluation of structural model in PLS is done by looking at the value of R-Square (R^2) for each dependent latent variable. R-Square value is used to measure the level of variation of independent variable changes to the dependent variable. The higher the R-Square value, the better the prediction model of the research model performed (Jogiyanto, 2009). The result of R-Square value in this research can be seen in Table 5.

Table 5   R-square value

Variable	R-Square
Business Performance	0.438
Business Competitiveness	0.738

This shows that the model formation of business performance research is influenced by at-tributes on other independent variables by 43.8%, while the rest by 56.2% is influenced by other factors that are not contained in the model. R-Square value of business competitiveness variable is 0.738. This shows that the model of business competitiveness is influenced by attribute of business management, government policy, and business performance, amounted to 73.8% and 26.2%, influenced by other factors not found in the model.

Based on both R-Square values, the value of Q^2 predictive relevance can be determined as follows:

$$Q^2 = 1 - (1- 0.438) (1- 0.738) = 0.853$$

The calculation result shows Q^2 predictive relevance value of 0.853. A construct has good prediction relevance if the value of $Q^2 > 0$, and the model does not have a relevant predictive value if $Q^2 \leq 0$ (Ghozali, 2008).

Results of Hypothesis Testing

Hypothesis and path coefficient testing can be seen in Table 6. In addition, it can also be known the mathematical model that is formed based on the original value of sample, as follows:

$$Y_1 = 0.050X_1 + 0.627X_2$$
$$Y_2 = 0.503X_1 + 0.193 X_2 + 0.306 Y_1$$

1. The Effect of Business Management Variable on Business Performance

The result of hypothesis test shows that the value of $t_{statistic} < t_{table}$ is 0.206 <1.96, so that business management has no significant influence on performance, have positive relationship with outer loading value amounted to 0.050. MSMEs are dominated by micro and small businesses with a simple mindset that prioritizes production, both to be sold directly and large quantities, and individual's order rather than the performance of its business. Micro-business owners have low managerial skill. According to Bouazza et al (2015), in developing countries most MSMEs do not have managerial skill and connection to run business effectively. They tend not to deal with complex law and regulation.

Table 6   Hypothesis Testing Results

Statistical Hypothesis	Original Sample	Outer Loading	t-count	t-table	Information
Business Management -> Business Performance	0.050	0.050	0.206	1.96	Not Significant
Business Management -> Business Competitiveness	0.518	0.503	3.819	1.96	Significant
Government Policy -> Business Performance	0.627	0,627	3.291	1.96	Significant
Government Policy -> Business Competitiveness	0.384	0.193	1.332	1.96	Not Significant
Business Performance -> Business Competitiveness	0.306	0.306	2.699	1.96	Significant

2. The Effect of Government Policy Variable on Business Performance

The result of hypothesis testing shows that government policy has a significant effect on performance improvement with value of 3.291 ($t_{statistics}$)> 1.96 (t_{table}). Outer loading 0.627 means that government policy gives a positive influence on business performance. The local government of Malang Regency gives full support for the competitiveness of MSMEs, but from all MSMEs, there are only a few who feel the benefits of the policy. Local government makes policy for the development of regional superior potential to explore the potential of MSMEs by developing superior products through (One Village One Product -OVOP) as an effort to increase the value-added of local superior products in order to improve the welfare of the society. According to Eniola (2015), Government policy has an effect on performance improvement of MSMEs. Likewise, government policy has a major impact on the competitiveness of MSMEs. The performance of MSMEs varies in accordance with government policies that are implemented.

3. The Effect of Business Management Variable on Competitiveness

The result of hypothesis test shows that business management variable is positively related to competitiveness with value of 0.503 and has significant effect because 3.819 ($t_{statistic}$)> 1.96 (t_{table}).

This means that an increase or decrease in business management affects the increase or decrease of competitiveness. The competitiveness of MSMEs can be influenced by indicator of innovation, marketing, production, human resources, finance, and some indicators according to the nature and characteristics of these factors. Marketing strategy has to be done appropriately because promotional activities that are not right on target can cause waste, so it will reduce the rate of profit. Promotional activities do not always have a positive effect on profit increase in a given period of time (Handriani, 2011).

Business management skill is related to entrepreneurial skill. Optimizing entrepreneurial skills factor will be able to implement management functions that include business management, self-confidence, and being brave to take a risk. Inadequate managerial skill and inability to respond to business actors in facing change and adaptation are obstacle factors in achieving small business success (Kamble, 2010).

According to Nurzamzami and Siregar (2014), the strategy to improve the competitiveness of MSMEs which becomes the main priority is the condition factor. Because human resources, natural resources, capital, technology, and infrastructure that support business actors can make business actors to be able to choose high quality raw materials, competent labor, and buy sophisticated technology tools, so that they can compete with other entrepreneurs.

4. The Influence of Government Policy Variable on Competitiveness

The result of hypothesis testing shows that government policy variable has positive relationship with competitiveness, with value of 0.193 and not significant influence because 1.332 (t $_{statistic}$) <1.96 (t $_{table}$). The increase or decrease in government policy does not affect the increase or decrease in competitiveness. High government policy will not affect the competitiveness of MSMEs in Malang Regency. It means that respondents feel that government policy will not affect the competitiveness of MSMEs in Malang Regency. However, policies that support the development of MSMEs should still be provided by the government because it can indirectly affect the improvement of MSMEs' competitiveness through business performance improvement.

In fact, the practice of government policy is not optimal yet in realizing policies related to training and market distribution. Business actors still do not feel the function of cooperatives and Technical Implementation Unit (UPT) that play a role in terms of facility and market. In addition, respondents feel that the training provided is less appropriate to their business and the machines and equipment given is less appropriate with the products they produce because the food products produced by MSMEs are mostly made manually or in traditional way.

Another obstacle in increasing the competitiveness of MSMEs is the weakness of Malang Regency Government in communicating well to get the same understanding with small business actors. In addition, the government of Malang Regency only socializes its work program to the public directly, such as training given to MSME entrepreneurs, fishermen, and farmers through PENAS (National Farmer-Fisherman) program in 2014. Socialization to the wider community as public consumer has not been done well.

According to Irdayanti (2012), government as a facilitator in the development process of potential area has been considered less able to develop regional business in accordance with the program being run. In the practice, policies and facilities given by the government do not contribute to regional business development. The government is expected to be complement to encourage various efforts that have been done by MSMEs to improve their competitiveness. Business climate which is conducive created by the government will facilitate MSMEs to improve their competitiveness, both in the enterprises and products produced. Stakeholders should improve the cooperation that has been created with MSMEs because the support from stakeholders in the form of education/ training/ counseling, promotion, and other facilitation is proven to able to encourage efforts to increase the competitiveness of MSMEs significantly (Susilo, 2010).

5. The Influence of Business Performance Variable on Competitiveness

The result of hypothesis testing shows that business performance variable correlates positively to competitiveness with value of 0.306 and gives significant influence because 2.699 (t $_{statistik}$)> 1,96 (t $_{table}$). The performance of MSMEs must be increased first because government policy has a significant effect on performance; therefore, through performance improvement, government policy indirectly can affect the competitiveness of MSMEs in Malang Regency.

Good competitiveness can be characterized at least by the achievement of three key indicators, namely broader marketing coverage (Y_{21}), an increase in total monthly sales (Y_{22}), and increase in net profit every month (Y_{23}). The increase and decrease of these indicators reflects the activeness of business actors in conducting business development. In addition, the success of the product sold to new customers is a reflection of the ability to compete. The size of this indicator is related to the level of new consumers' acceptance of regional food products.

According to a research which was conducted by Handriani (2011), there is a positive influence between performance factor on the competitiveness of SMEs in Semarang Regency. Competitiveness variable measured by small business performance indicators namely sales, profit, business productivity, innovation skill, service, and labor productivity also influence the competitiveness of SMEs in Semarang Regency. Factors that affect the perfor-

mance of a business, including small business, can be grouped into three namely internal factors, external factors, and entrepreneurial skill factor. They can directly or indirectly affect the performance of small businesses by implementing strategies and ultimately improving business competitiveness in a region.

Results of Mediation Testing

This research used variable of MSMEs' performance (Y_1) as intervening variable; therefore, second phase hypothesis needs to be done to test the influence of mediating variable. The result of data processing shows that the eligible construct in this research is government policy (X_2) because

government policy-> performance has significant effect with value of 3.365 (t $_{statistic}$)> 1.96 (t $_{table}$). Business management variable (X_1) is a construct that does not meet the requirements of mediation influence test, so mediation influence testing on this variable cannot be continued. Mediation effect testing can be done if the main effect (direct relationship of independent variable with dependent variable) is significant (t $_{count}$> t $_{table}$) (Jogiyanto, 2009). Path that meets the requirement of mediation effect testing is government policy (X2) -> performance (Y1) -> competitiveness (Y2).

The value of direct, indirect, and total effects can be seen in Table 7 and Table 8 for overall effect of this model.

Table 7   Direct, indirect, and total effect

Construct	Direct Effect	Indirect Effect	Total Effect
Government Policy	0.384	(0.627)(0.306)= 0.192	0.576

Table 8   Direct, indirect, and total effect

Construct	Direct Effect	Indirect Effect	Total Effect
Business Management -> Business Performance	0.050		0.050
Business Management -> Competitiveness	0.518*	0.015	0.533*
Government Policy -> Business Performance	0.627*		0.627
Government Policy -> Competitiveness	0.394*	0.192*	0.576
Business Performance -> Competitiveness	0.306*		0.306

(*) Significant

According to Ghozali (2006), a variable is called an intervening variable if it affects the relationship between endogenous and exogenous variables. The test is done by looking at the significance of indirect effect done by comparing the t $_{count}$ with t $_{table}$ (1.96). If t $_{count}$ > t $_{table}$, there is a significant influence of mediation.

The result of mediation test shows that performance variable fully mediates government policy variable on competitiveness indirectly. If the independent variable no longer has an effect on the dependent variable after controlling the mediator variable, then it is declared that there is perfect or com-

plete mediation (Preacher and Hayes, 2004). According to Baron and Kenny (1986), full mediation occurs when it meets the criteria that path coefficient of independent variable to the intervening variable is significant, the path coefficient of intervening variable to dependent variable is significant, the path coefficient of independent variable to the dependent variable controlled by intervening variable is significant.

Government policy has a significant effect on competitiveness improvement of MSMEs. In the reality, MSMEs cannot be separated from government support. Improvement of MSMEs' competi-

tiveness becomes the vision and mission of local government by improving the ability of cooperatives and SMEs in developing innovative, creative, high quality, and competitive products. The Government of Malang Regency has made efforts such as funding, partnership, marketing assistance, human resources development through training and technical guidance related to production, packaging and entrepreneurship, implementation of Indonesian National Standard (SNI), as well as technical guidance and facilitation to UMKM in Malang Regency in order to obtain Intellectual Property Rights (HAKI) such as brand and others. Government provides support for bank financing facilities with interest rate of 6% per year and easy loan terms to overcome the capital problem of MSMEs. Local government is regulating and protecting the rights of modern markets and traditional markets by obtaining a share of sales for local products or MSMEs in modern markets.

Conclusions

Business management has no significant effect on performance, but it has a significant positive effect on the competitiveness of MSMEs. Government policy has a positive and significant impact on performance, but it has no significant effect on competitiveness. To improve the competitiveness of MSMEs in Malang Regency, a joint action is required to raise business management skill and government support that provide benefits for MSMEs. Performance variable fully mediates government policy variable so as to have a significant effect on the competitiveness of SMEs.

Suggestions

Based on the results of this research, the suggestions that can be given are as follows:
1. MSMEs are expected to improve their business management skill by attending training and coaching organized by Department of Cooperatives and MSMEs and seeking information about government programs provided.
2. Local government should provide training and coaching in accordance with the needs of MSMEs in a directed and sustainable way and

supervise the use of facilities and infrastructure provided for MSMEs to be more effective.
3. Further research should add other internal and external factors that can affect the competitiveness of MSMEs in addition to business management and government policies.

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