

The Role of Dynamic Environment in Indonesia SMEs

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ABSTRACT

Introduction – The importance of SMEs in a country's economy encourages the government to increase the competitiveness of SMEs. Indonesia is no exception; SMEs can support the country's economy and accommodate most of the population as workers.

Purpose – Financial performance is something that must be achieved by SMEs in order to survive in business competition. SMEs need to expend all their abilities to achieve good financial performance. The self-motivation of SME actors is needed to do this. The relationship between motivation and financial performance has not been conclusive, so that other variables may strengthen this relationship. During the Covid 19 Pandemic, it encouraged more dynamic environmental changes.

Methodology/Approach – This study used 120 SMEs in the Special Region of Yogyakarta as respondents by testing the hypothesis using MRA on Stata software. Our tests separate respondents as owners and managers based on business experience.

Findings – The experience of doing business in SMEs shows that there is a learning curve for SMEs owners to perform even better.

Originality/ Value/ Implication – The more experienced SMEs owners show that the dynamic environment strengthens the relationship between motivation and financial performance.

Keywords: Financial performance, motivation, dynamic environment, SMEs.

INTRODUCTION

The importance of the development of the SMEs sector in driving the Indonesian economy. The Global Entrepreneur Index (GEI) places Indonesia in 74th position out of 136 countries in the world even at the Southeast Asian level below Singapore, Malaysia, Brunei Darussalam and Thailand (knoema, 2022). Entrepreneurs during the Covid 19 Pandemic as many as 94.69% of businesses experienced a decrease in sales. The biggest decline was in SMEs aged 0-5 years 23.7% and offline/physical sales businesses 47.44% (LIPI, 2022). The decline in profit occurs due to fixed production costs or even increased while sales decreased.

The financial performance of SMEs is an important aspect in measuring the success and sustainability of SMEs' businesses (Kasi et al., 2019; Ferraboschi et al., 2022). The financial performance obtained from the main operations of SMEs is highly expected. There are various measures used to evaluate the financial performance of SMEs. Financial performance measures such as sales growth, profit level, profit margin, cost efficiency, turnover, market share, asset growth, and return on investment (Basana et al., 2023; Jalali, 2023) relative profit, rate of return, addition of employees, and performance business in general (Mamun, 2018). These indicators provide insight into a company's ability to generate profits, manage costs, and utilize its resources effectively and efficiently.

Management at this time is not only statistical but needs a touch of motivational aspects. Aspects of both intrinsic and extrinsic motivation will encourage SMEs to be more productive. Motivated employees will be more productive, innovative, and committed to business success (Uka &

Prendi, 2021). Employee motivation contributing to customer satisfaction will have an impact on increasing sales and market share. Therefore, it is important for SMEs to foster a positive and motivating work environment to improve their financial performance (Kasi et al., 2019). Measurement of employee motivation is in the form of financial management freedom, balance between work and family, freedom of activity, desire to be a role model, and position in the family (Jha et al., 2018).

The results of previous research that the relationship between motivation and financial performance is not conclusive. There is a finding that motivation has an effect on financial performance, but there are also research results that motivation has no effect on financial performance. Based on the inconclusive contingency theory, moderating variables can be included. In this study using dynamic environment variables. Dynamic environmental measurements use indicators of the ability to identify and take advantage of changes in market trends that can improve financial performance. Dynamic environmental awareness will have a positive impact on financial performance (Miller, 1987). This research has a novelty about the ability of dynamic environmental perceptions to moderate the relationship between motivational variables and financial performance variables in SMEs owners whose businesses have been in business for more than ten years.

LITERATURE REVIEW

The Resource Based View (RBV) theory represents a substantial change in thinking based on an interdisciplinary approach (Barney, 1991; Ghozali, 2020). The approach is a science developed in the disciplines of economics, ethics, law, management, marketing, supply chain management, and general business. Based on the RBV theory, it explains

that a person will use everything he has to achieve goals. SMEs actors will use internal resources such as entrepreneurial orientation to obtain good performance. Business people will use all their individual abilities to achieve a sustainable competitive advantage.

Resources are all assets, capabilities, organizational processes, company attributes, information, knowledge used to achieve goals (Barney, 1991). Assets can be tangible and intangible in the form of entrepreneurial orientation, financial capability and motivation. The better the intangible assets that are owned and supported by tangible assets, the better the business management will be. It is this good management that will result in high financial performance and the ability to maintain a sustainable competitive advantage.

1. The role of motivation in financial performance

This study focuses on individual entrepreneurial factors, namely motivation. The N-Ach theory refers to an individual's desire for significant achievement (McClelland, 1961). Someone who has decided to become an entrepreneur wants to excel. This individual desire is called motivation. This motivation is a psychological aspect that will be able to encourage someone to do everything better to achieve the expected performance.

Entrepreneurs have become a profession by business people to fulfill their daily needs. For the sake of survival, business people will release their potential to excel. The N-Ach theory explains that individuals tend to do everything to achieve individual desires (McClelland, 1961). The desire of individuals in business activities is financial performance. Motivation has a positive effect on financial performance (Rohim & Budhiasa, 2019). Based on these explanations and findings a research hypothesis can be made.

H1. the longer the owner is in business, the greater the influence of motivation on financial performance.

2. The role of the dynamic environment in financial performance

This dynamic environment not only poses challenges, but can also provide growth opportunities for companies. Technological changes can create new opportunities to carry out new production processes, develop products or enter new markets. Companies that can identify and take advantage of these opportunities can improve financial performance.

Dynamic environments often result in changes in market or technology trends which can create new opportunities to develop products or enter new markets. Companies that can identify and take advantage of changes in market trends can improve financial performance. Dynamic environmental awareness will have a positive impact on financial performance (Miller, 1987). High dynamic environmental awareness has an impact on high financial performance as well. From the results of the study above it can be concluded

the hypothesis as follows.

H2. the longer the owner is in business, the greater the influence of the dynamic environment on financial performance.

The moderation aspect, which is the interaction between motivation and the dynamic environment, will have an impact on the relationship between motivation and financial performance.

H3. the longer the owner is in business, the dynamic environment influences the relationship between motivation and financial performance.

METHOD

Our research design uses a positive quantitative approach to collecting data by conducting a survey. Our study uses cross-sectional data on SMEs in Yogyakarta. The research locations are Yogyakarta City, Sleman Regency, Bantul Regency, Kulonprogo Regency, and Gunung Kidul Regency. The sampling technique used purposive sampling with the criteria of being an SMEs owner. Filling out the survey independently, to maintain reliability, is carried out using several control questions to anticipate response bias and order the dependent variable and independent variable questions (Echebiri et al., 2020). We obtained 120 data (3 non-Yogyakarta SMEs, 9 as managers, and 3 as employees). This research will only use a sample of 105 people who are SMEs owners. There were 26 respondents running a business for less than five years, 48 respondents running a business between five and ten years, and 31 respondents running a business for more than ten years (data can be seen in Table.1).

Tabel.1 Sample Description

	< 5 years	5-10 years	>10 years	Total
Owners	26	48	31	105
Manager	3	3	3	9
Staff	2	0	1	3
	31	51	35	117

Source: data processed at 2023

We tested the hypothesis using a sub-group analysis to classify respondents as SMEs owners and length of business. Testing the hypothesis of the moderating effect of the dynamic environment on the relationship between motivation and financial performance uses Moderated Regression Analysis (MRA) to test the moderating variable (Muslichah M. et al., 2019). Stages of testing carried out with Stata16 software. The MRA equation as follows.

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 (X_1 * X_2) + e_i$$

Where: X_1 = motivation

X_2 = dynamic environment

Y = financial performance

Therefore β_1 measures the direct impact of motivational variables on financial performance. β_2 measure the direct impact of dynamic environmental variables on financial performance. β_3 measures the moderating impact of

dynamic environmental variables on the relationship between motivation and financial performance.

1. Motivation measurement

Motivational variables are divided into five statements about financial freedom, balance between work and family, freedom of activity, desire to be a role model, and position in the family (Jha et al., 2018). The validity test shows that there is one item, namely X12, which must be dropped because the loading factor is below 0.4 (Hair et al., 2010). The reliability test showed that the Cronbach's alpha value of this instrument was quite good, namely 0.7808 (Nunally, 1967). Detailed explanations can be seen in table 2.

2. Dynamic environment measurement

Dynamic environment is a change in the business environment due to technological advances. Business environment question items include developments in the business environment, changes in production technology, innovation in products, and increased research and development (Miller, 1987). The validity test shows that the four items have invalid questions, namely X23 because the loading factor is below 0.4 (Hair et al., 2010). The reliability test shows that the value of Cronbach's alpha variable is quite good at 0.7166 (Nunally, 1967). The detailed explanation is in table 2.

3. Financial performance measurement

This study uses the dependent variable in the form of financial performance. The financial performance measure consists of seven questions in the form of relative profit, rate of return, addition of employees, and business performance in general (Mamun, 2018). The validity test shows that all items are valid because the loading factor is above 0.4 (Hair et al., 2010). The reliability test showed that the Cronbach's alpha value of this instrument was quite good, namely 0.7609 (Nunally, 1967). Detailed explanations can be seen in table 2.

Tabel 2. CFA and Cronbach's alpha

Variable	Loading	Variable	Loading	Variable	Loading
Financial Perf		Motivation		Dynamic	
Y11	0.5754	X11	0.5277	X21	0.5261
Y12	0.6341	X12	0.3856	X22	0.4594
Y13	0.5408	X13	0.4867	X23	0.3192
Y14	0.8845	X14	0.7392	X24	0.9447
Y15	0.6487	X15	0.7537	alpha	0.7166
Y16	0.5256	alpha	0.7808		
alpha	0.7609				

Source: data processed at 2023

RESULT AND DISCUSSION

We conducted statistical tests by creating a group of respondents between the manager and the owner. After that we carried out the following sub-groups based on the duration of doing business operations (results can be seen in Table 1). We tested the hypothesis for each sub-group analysis in three, namely less than five years, between five years and ten years, and more than ten years. Testing the hypothesis of the impact of moderating variables using Moderate Regression Analysis (MRA).

1. Hypothesis test

Testing hypothesis 1, namely the main impact of the motivational variable on financial performance shows that the value of β_1 is 4,741 for owners who have been in business for more than ten years, -0.191 for owners who have been in business for between five and ten years, and -2,759 for owners who have been in business for less than five years (results can be seen in Table. 3). From these three results, the probabilities are then seen which indicate that the motivation of SMEs owners who have been trying for more than ten years has an effect on financial performance. These results indicate that Hypothesis 1 is supported. The coefficient value shows a positive meaning that the longer SMEs owners try, the increase in motivation will increase their financial performance. These results indicate that the motivational aspect of work influences the level of achievement of financial performance.

Testing hypothesis 2, namely the impact of dynamic environmental variables on financial performance shows that the β_2 value is 6.021 for owners who have been in business for more than ten years, 0.315 for owners who have been in business for between five and ten years, and -3.930 for owners who have been in business for less than five years (results can be seen in Table 3). From these three results, the probabilities are then seen which indicate that the dynamic environment of SMEs owners who have been trying for more than ten years has an effect on financial performance. These results indicate that Hypothesis 2 is supported. The coefficient value shows a positive meaning that the longer SMEs owners try, the increase in the dynamic environment will increase their financial performance. These results indicate that the perception of changes in the dynamic business environment will affect the achievement of financial performance.

Tabel 3. Moderate Regression Analysis

	Financial Performance		
	> ten years	5-10 years	< five years
Motivation	4.741**	-0.191	-2.759
Environment Dynamism	6.021**	0.315	-3.930
interaction mot*Env	-0.281**	0.017	0.187
Constant	-75.34*	18.07	80.68

p-values in parentheses: * p<0.10, ** p<0.05, *** p<0.001
Source: data processed at 2023

Testing hypothesis 3, namely the impact of dynamic environment on the relationship between motivation and financial performance. This test was carried out using the MRA which showed that the β_3 value was -0.281 for owners who have been in business for more than ten years, 0.017 for owners who have been in business for between five and ten years, and 0.187 for owners who have been in business for less than five years (results can be seen in Table 3). From these three results, the probability is seen which shows that the interaction between motivation and the dynamic environment of SMEs owners who have been

trying for more than ten years has an effect on financial performance. These results indicate that Hypothesis 3 is supported. The coefficient value is negative, meaning that the longer the SMEs owner tries, the increase in the interaction between motivation and the dynamic environment will reduce its financial performance.

CONCLUSION AND RECOMMENDATION

Motivation in SMEs needs to be maintained and maintained by SMEs owners. High motivation will increase the financial performance of SMEs. The motivational aspect shows the desire of SMEs owners to do business that does not leave their role in the family and has time constraints. This kind of motivation will suit business people starting from home. Emphasizing the motivational impact is carried out both intrinsically from within the SMEs owner. This motivational increase can be carried out based on the official organizational structure of SMEs or carried out in positive activities that have nothing to do with the official organizational structure of SMEs.

Environmental awareness is dynamic, which means moving continuously towards more effective and efficient technology. Technology will lead SMEs to be even more automated which will ultimately increase productivity. This increase will have the impact of improving the financial performance of SMEs. Owners who are aware of the use of technology as a dynamic environmental responsibility will also have an impact on their financial performance.

Owners who have high experience, namely those who have run their business for more than 10 years in the interaction aspect between motivation and dynamic environmental awareness will affect financial performance. Learning curve is a key word for owners in running their business and in addition there is awareness of the dynamic environment and the impact on financial performance.

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