



Management Practices and Msme Performance in North Sumatra Province

Abdi Tanjung¹, Mara Judan Rambey², Toharuddin Harahap³, Abdul Latif Lubis⁴

^{1,2,3}Institut Pendidikan Tapanuli Selatan

⁴Universitas Graha Nusantara

Email: Abditanjung.1992@gmail.com,

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Abstract

From the results of my research, there is a relationship between management practices and the performance of SMEs in Indonesia in the 2017-2021 period. data collection technique using a data collection linking survey data on management practices with company performance data from official Indonesian business registers. In this research, it was found that MSMEs tend to use formal management practices rather than large companies. However, the practice appears to have real benefits for the MSMEs that use it, as it is positively linked to the survival, growth, and productivity of firms. The results of this study add to policy initiatives that seek to encourage MSMEs to improve management skills and abilities in business.

Keywords: MSMEs, Employment Growth

INTRODUCTION

Small and medium enterprises (MSMEs) have long been seen as important sources of job creation and output growth (eg Birch, 1981; OECD, 2002; Hijzen *et al*, 2010; Criscuolo *et al*, 2014). Indeed, more than 70 percent of Indonesia's employment growth between 2010 and 2016 was located within MSEs, turnover in MSMEs rose by almost a fifth over the same period. However, as concerns about Indonesia's persistently weak productivity growth have deepened, attention is increasingly turning to small and medium-sized firms representing in the long tail of low productivity firms (Ardanaz-Badia et al, 2017).

At the same time, a growing body of evidence has emerged to show that firms that engage in more extensive use of data collection and analysis, target setting, and focus on the performance of human resource practices are more productive and have higher productivity growth rates than firms with fewer of these formal management practices. The evidence is particularly strong for the manufacturing industry, where most of these recent studies have found, but it is also expanding for the service industry.

However, most of the evidence collected is based on a sample of medium and large firms. It is clear from survey-based studies that small firms use less formal management practices (eg Forth et al, 2006), but it is less clear whether these practices actually benefit those who use them. One perspective sees practices such as target setting, training and performance management as universally applicable, so companies of all sizes should see positive results from

their implementation. Under this perspective, the less formal use of management practices among small firms may be associated with a lack of knowledge about their profitability or greater difficulty in adopting new methods. An alternative perspective argues that small firms have distinctive characteristics that may make use of formal practices inappropriate.

Greater use of this practice cannot be expected to provide any performance benefits and may even be harmful. This research draws on the study literature by examining the relationship between management practices and firm performance among MSMEs in the UK over the period 2011-2015, using a unique dataset linking high-quality survey data on management practices with longitudinal data on firm performance from the UK's official business register. . The research found that MSMEs were less likely to use formal management practices than large firms.

However, such practices appear to have tangible benefits for the MSMEs that use them, being positively related to enterprise survival, growth and productivity. Returns appear to be strongest for those who invest in human resource management practices, such as rigorous hiring and performance appraisals, and those who set formal performance targets. The first study (of which we are aware) to investigate the relationship between formal management practices and firm performance among UK SMEs use a representative sample that has longitudinal account-type data on performance outcomes. The results do not have a strict causal interpretation, but they do expand on the growing evidence on the benefits of formal management practices in large firms, suggesting that such practices also provide positive returns among MSMEs . As such, the findings add further weight to policy initiatives that seek to encourage MSMEs to improve their management skills and capabilities. This paper goes as follows. Part Two reviews the existing literature on the impact of management practices and discusses the potential for heterogeneity based on firm size. Section Three introduces our related data on management practices and firm performance, and outlines the methods used in quantitative analysis. Section Four presents the results of our analysis of the prevalence of formal management practices among MSMEs and their relationship to MSMEs performance, based on the linked dataset. Section Five concludes and discusses some of the implications of the analysis.

In recent years, there has been increasing interest in the potential benefits that may accrue from companies that use a lot of 'formal' management practices. Motivated in part by the substantial evidence documenting persistent heterogeneity in firm performance, even within narrowly defined industries, this literature focuses on the extent to which such heterogeneity can be explained by observable differences in operational use and human resource practices (see, for example, MacDuffie, 1995; Ichniowski et al, 1997; Lazear, 2000; Black and Lynch, 2001; Bloom et al, 2016a; Brynjolfsson and McElheran, 2016a). While the proposition that management issues are far from new, the development of data sets that link information about management practices with account-type data about firm performance has allowed this aspect of the firm to be subject to a greater degree of formal scrutiny.

Other studies have focused primarily on human resource management practices. Studies in this area have attempted to investigate the notion that human



resource practices can aid firm performance by: (a) helping a firm to acquire and develop its human capital; (b) structuring work in such a way as to encourage employee participation in the improvement process; and (c) motivating employees to direct their efforts in line with organizational goals (see Bailey, 1993; Appelbaum et al, 2000). Subsequent research focuses on the performance effects of practices such as: recruitment tests and structured employee training, teamwork and quality circles, and appraisal and incentive payments. Huselid (1995), for example, studied a cross-sectional sample of 1,000 US firms, finding that greater use of these human resource practices was associated with higher productivity (sales per employee) and better financial performance. Guest et al (2003) conducted a similar study of 366 firms with longitudinal data on firm performance, in their sample, the human resource practice index was positively related to profitability not productivity but the association was not significant after controlling for previous performance.

The Black and Lynch (2001) study, which analyzed a sample of 636 US manufacturing firms, again with longitudinal data on firm performance, found that regular work-focused meetings and the use of profit sharing schemes were positively related to productivity, but other practices such as work no team. The evidence from this strand of work on the performance benefits of human resource practice is thus somewhat equivocal. Another strand of research focuses primarily on operations management practices and performance incentives. The work of Bloom et al (2012, 2014, 2016a, 2016b) stands out in this field. Building on discussions with management consultants and previous academic research, their work focuses on the performance effects of 18 practices under three broad headings: (a) performance monitoring (ie information collection and analysis); (b) goal setting; and C) people management (ie performance-focused selection, development and reward). The proposition is that organizations that continuously monitor their processes, set comprehensive targets and pay attention to the performance of their workforce will perform better than those that do not monitor their operations, have few targets and do little to address underperforming employees.

Based on the study literature above, the researcher is interested in conducting research on the topic of Management Practice and Performance of MSMEs in North Sumatra Province . using a dataset that links survey data on management practices with longitudinal data on companies listed in Indonesian legal businesses. This study first examines the extent to which formal management practices are used among SMEs, and the factors associated with their greater use. then to look at the relationship between the use of management practices and firm survival, growth and productivity.

RESEARCH METHODS

The data analysis in this study is based on survey data on workplace relations and business structure. the database is obtained from the Central Statistics Agency which is presented with survey data that provides nationally representative data on the location of MSMEs in Indonesia. The strength of the survey lies in the wealth of data collected on workplace policies and practice. the data used from 2015-2021 This study links a part of the sample to the Business

Structure Databases. This research approaches through field observations and interviews in order to find the problems being faced. From the results of the survey, it was found that problems regarding the condition of MSMEs in the province of North Sumatra experienced stagnation and even recession. By reviewing the problems that occur in order to obtain the best solution to solve these problems. The researcher prepares all the needs needed to solve the existing problems by realizing the solutions that have been formulated previously, namely conducting a survey of MSME Management Practices and Performance in North Sumatra Province. then evaluate.

The evaluation was carried out in two stages, namely by distributing questionnaires and making observations again. The questionnaire is intended to determine the Management Practices and Performance of MSMEs. The indicators to be measured in this questionnaire are the understanding of MSME business actors in North Sumatra Province regarding; efficiency and effectiveness that can be carried out in production, methods for creating a quality assurance system, recording transactions carried out, making a SWOT analysis of the business owned, as well as an understanding of militancy and consistency in entrepreneurship. Observations were made to see directly the implementation of the knowledge and understanding that had been obtained.

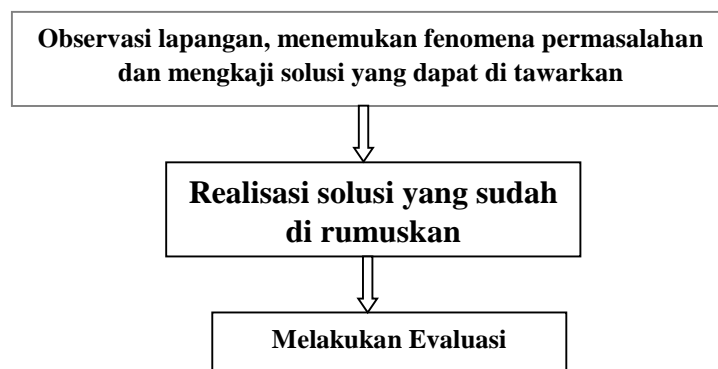


Figure 1: Research Activity Flow

RESULTS AND DISCUSSION

This research was conducted in North Sumatra Province . The realization of this research activity was carried out in several stages. The first stage is the preparation stage. At this stage, the researcher conducted a survey of several study literatures and then conducted field observations using secondary data sourced from the Central Statistics Agency of North Sumatra province. This is done in order to obtain authentic data related to the potential and problems that occur in MSMEs, then conduct non-formal interviews with several business actors to validate the data that has been obtained from observations as well as dig deeper and thoroughly about the problems that business actors have in the Province. North Sumatra. The results of observations and interviews show that the tourism potential in each district in North Sumatra Province has extraordinary potential that can attract local and foreign tourists. Simalungun Regency has a beautiful view of Lake Toba surrounded by hills and green trees.



The results of observations and interviews also show the limitations of MSME actors in managing their businesses well. MSME actors do not have good financial management and management in their business. This can be seen from the weak service provided to buyers, the occurrence of inconsistencies in opening businesses such as shop opening hours or holidays opening shops, this happens to businessmen who also do farming work, so they have to close their shops when they want to go to farming, and the absence of bookkeeping for transactions that have been carried out, some business actors do not calculate with certainty how much profit they get, so there is no cash flow control over the business.

The second stage is to discuss the problems that occur to find solutions that can be offered to the community. intensively the problems that occur in MSME business actors in North Sumatra Province, and concludes that it is necessary to conduct entrepreneurship training for MSME business actors in every Regency and City in North Sumatra Province. The training is considered to be able to strengthen financial governance and management for business actors in North Sumatra Province. In this study, of course, there is the involvement of lecturers with different scientific fields from various universities in North Sumatra Province to jointly carry out community service in order to maximize the positive impact that will be received by the community.

Evaluation of activities is done by comparing the knowledge and understanding of the community. At this stage the researcher distributes questionnaires to several predetermined samples and makes observations again to see business conditions. The results of the evaluation through the questionnaire show that the knowledge of MSME business actors in North Sumatra Province has experienced a significant increase regarding efficiency and effectiveness in production, quality assurance systems, accountability, conducting SWOT analysis, as well as understanding of militancy and consistency in trading. The increase in knowledge that has been experienced by business actors has not been implemented comprehensively in daily trading practices. Business actors still have low consistency in carrying out accountability and maintaining the quality of their business.

This can be seen from the findings when conducting surveys and post-research observations. The results of the research found several traders who did not record regularly. Some traders only record transactions only two days a week on Saturdays and Sundays, so transactions on other days are not recorded. The quality of the business that has not been fully maintained can be seen from the cleanliness and beauty of the place and the environment around the business. Business actors will usually arrange their place of business on Saturdays and Sundays only. MSME business actors reasoned that the transactions they carried out on Monday to Friday were not many because the number of buyers who came was only a few so there was no need for recording. Seeing this phenomenon, the researcher again gave directions about the importance of accountability and quality assurance carried out routinely in order to maintain business continuity.

CONCLUSION AND SUGGESTION

Research conducted in North Sumatra Province on Micro, Small and Medium Enterprises is running smoothly. Researchers assess that there has been an increase in governance and management practices in MSME businesses in North Sumatra Province. This can be seen from 1) the emergence of effectiveness and efficiency in business, 2) business actors have established a quality assurance system for their businesses, 3) business actors have been able to carry out swot analysis in preparing short and long term plans, 4) business actors have been able to manage their finances (Cash Flow) well, 5) the implementation of accountability has been very good, although there are still some business actors who only carry out accountability on Saturdays and Sundays, 6) increased motivation, militancy and consistency of business actors SMEs in running their business. Suggestions that can be given include the sustainability of activities needed to increase the knowledge and ability of the community in managing a business in accordance with the times, so that the business carried out can grow and develop.

Suggestions that can be given include the sustainability of activities needed to increase the knowledge and ability of the community in managing a micro, small and medium business in accordance with the times, so that the business carried out can grow, develop and be sustainable.

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