Strategic Model for SMEs: A Conceptual Framework for Navigating Business Success in South Sumatra

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ABSTRACT
This study focuses on the development of a strategic model to enhance the performance of small and medium-sized enterprises (SMEs) in South Sumatra, Indonesia. Recognizing the significant contribution of SMEs to national GDP globally, particularly in Indonesia, this study focuses on South Sumatra to explore tailored approaches for SME optimization in the region. The study presents an in-depth analysis of the relationship between business strategy and SME performance, considering the business environment of South Sumatra as a key moderating factor. The study aims to provide actionable insights and strategies for SMEs in South Sumatra by offering a comprehensive framework that aligns strategic initiatives with regional market dynamics. This endeavor is geared towards boosting their performance and, consequently, their contribution to the broader Indonesian economy. The ultimate goal is to establish a robust, adaptable model for SME success in varied economic landscapes, with a particular focus on the distinctive challenges and opportunities in South Sumatra.

KEYWORDS: Business strategy, Business environment, SMEs performance

1. INTRODUCTION
The landscape of small and medium-sized enterprises (SMEs) in Indonesia, particularly in South Sumatra, presents a unique and challenging environment. Expanding SMEs is a top priority for the Indonesian government due to its significant role in supporting economic growth and independence. SMEs in Indonesia have proven their ability to survive and become economic drivers, contributing a large percentage to the national economy’s Gross Domestic Product (GDP) (Kelly et al., 2023). This study focuses on South Sumatra, exploring how business strategies and the local business environment synergize to enhance SME performance.

From 2010 to 2020, the contribution of SMEs to the 2020 GDP was at its lowest point, at 3.73%. This occurred directly due to the COVID-19 epidemic since the pandemic had affected all businesses around the globe (Kementrian Koperasi et al., 2020). The Indonesian government’s target of increasing the contribution of SMEs to GDP to 62.36% by 2021 may not be met as reports from 2021 indicate that SMEs only contributed 61.7% to GDP (Marwanto et al., 2023). Sumatra is left behind by the other provinces of Indonesia in 2022. As for the top three, West Java has the highest number of SMEs, which is 1.49 million, followed by Central Java, with 1.45 million SMEs and East Java, with a total of 1.15 million SMEs. The total number of active SMEs in Banten is 339,001, while the total number of active SMEs in South Sumatra is 330,693 (Soerono et al., 2023).

However, the effectiveness of business strategies in improving SME performance has shown varying results across different regions and studies, as evidenced by the works of Maulani et al. (2022), Saunila et al. (2023) and Doman, and Sitorus (2023). These varied outcomes indicate a complex relationship between business strategy and SME performance, necessitating a deeper understanding of this relationship within the specific context of South Sumatra. Furthermore, the role of the business environment as a moderating variable in this relationship is critical but underexplored, as Yu et al. (2020) and Ruba et al. (2023) suggested.

This gap in research, particularly in the context of South Sumatra, underscores the need for this study. By examining the relationship between business strategy, SME performance and business environment
as a moderator in South Sumatra, this research aims to enhance our understanding of these dynamics. Ultimately, it seeks to provide a roadmap for achieving SME excellence within the unique regional context.

2. LITERATURE REVIEW

2.1 Business Strategy for SMEs

The concept of business strategy for SMEs is thoroughly explored, drawing upon various authoritative sources. As Hitt (2011) articulates, strategy formulation is crucial for organizations to realize their goals, compete effectively, sustain competitive advantage, and actualize their strategic vision. Significantly, previous studies have often utilized the framework developed by Porter (1980). Business strategy and performance are closely linked. Several studies have examined this relationship and found that better business strategies lead to improved competitive advantage and performance (Musilová & Bolek, 2023). Additionally, business strategy has been identified as a key factor that differentiates businesses on overall performance/success (Lestari et al., 2020). Furthermore, the study of Micro Small Medium Enterprises (MSMEs) has shown that business strategy, significantly influence firm performance (Cynthia et al., 2022). It has also been found that business strategy and innovative capability contribute significantly to financial performance (Thoumrungroje & Racela, 2022).

2.2 Performance Metrics for SMEs

Small and Medium Enterprises (SMEs) are vital drivers of economic growth, yet assessing their performance remains a complex endeavor. Financial performance indicators such as profitability, liquidity, and efficiency ratios offer quantitative insights into SMEs’ financial health and operational effectiveness (Matsoso & Benedict, 2016). However, recognizing the limitations of solely relying on financial metrics, researchers increasingly emphasize the importance of non-financial indicators, including innovation, customer satisfaction, and sustainability, in capturing the holistic performance of SMEs (Maletič et al., 2021). Various studies have focused on developing and analyzing these indicators. Another study analyzed the determinants of sustainable firm performance in Indian manufacturing SMEs, focusing on sustainable financial and innovation performance (Sinha et al., 2023). Mengistu and Panizzolo conducted a study to identify and select indicators for measuring sustainability performance in SMEs, specifically in the Italian footwear industry (Mengistu & Panizzolo, 2022).

2.3 Business Environment as a Moderator

The business environment encompasses all external factors that influence the functioning, growth, and prosperity of an organization or company (Harahap et al., 2023). These factors, which are beyond the company’s direct control, significantly impact its performance and long-term viability (Karneli, 2023). The studies show that the business environment positively moderates the relationship between dynamic capabilities and firm performance (Lu et al., 2023). Additionally, the degree of environmental turbulence moderates the relationship between managerial ties and firm performance (Bashir et al., 2023). Competitive intensity also strengthens the causal relationship between the serene business environment and the performance of SMEs (Kheng, 2022; Kamarudin et al., 2023). Furthermore, the business environment is found to mediate the influence of entrepreneurial characteristics and the environment on the sustainability of SMEs (Rahadhini & Lamidi, 2023). Finally, the performance of SMEs is mediated by business strategy, which is influenced by environmental complexity and resources (Wuryaningrum et al., 2022).

To bridge the existing literature gap, this study proposes to investigate the business environment as a moderator in the relationship between business strategy and SME performance in South Sumatra.

2.4 Underpinning Theory

The Resource-Based View (RBV) theory asserts that a firm’s competitive advantage stems primarily from its internal resources and capabilities rather than external market factors. According to this perspective, firms gain sustained competitive advantage by possessing resources that are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991). These resources, which include tangible and intangible assets such as human capital, intellectual property, and organizational culture, serve as the foundation for developing distinctive capabilities. The RBV framework highlights the dynamic nature of resource accumulation and development, emphasizing the importance of continuous efforts to enhance and leverage internal strengths over time (Peteraf, 1993). By focusing on internal resources and capabilities, firms can identify their core competencies and formulate strategies that leverage their unique strengths to achieve superior performance. However, RBV also acknowledges the need for firms to complement internal resources with external factors such as market positioning and industry trends to sustain competitive advantage (Barney, 1991). The RBV theory provides valuable insights into how firms can create and sustain value in competitive environments by strategically managing their resource base (Peteraf, 1993). RBV theory emphasizes a company’s unique resources and capabilities that can create a strategic advantage and increase its competitiveness (Nana et al., 2022). The conceptual framework of the study is constructed in Figure 1.
3. METHODOLOGY

3.1 Hypotheses

This study will examine the association between the independent variable (business strategy), dependent variable (performance) and moderating role of the business environment among SMEs in South Sumatra. With this goal, this study proposes to test the following hypotheses:

H1: There is a relationship between business strategy and performance of SMEs in South Sumatra
H2: There is a moderating effect of the business environment in the relationship between business strategy and performance of SMEs in South Sumatra

3.2 Sample

This study will focus on Small and Medium Enterprises (SMEs) in South Sumatra, officially registered by Ministry of Co-operatives and SMEs. In accordance with the classification system outlined in Indonesia’s National Law 20/2008 (Article 6), SMEs are categorized based on specific criteria. Micro-enterprises are delineated as those with net assets below IDR 50 million or annual revenues under IDR 300 million. Small enterprises encompass those with net assets ranging from IDR 50 million to IDR 500 million, or annual revenues between IDR 300 million and IDR 2.5 billion. Medium-sized enterprises are characterized by net assets between IDR 500 million and IDR 10 billion, or annual revenues ranging from IDR 2.5 billion to IDR 50 billion. This study will focus on targeting SMEs falling within these specified parameters. A simple random sampling technique is employed, facilitating a representative sample for the study’s objectives.

3.3 Measurement

The study will use a self-administered questionnaire to obtain information related to the study topic. The items were identified and adapted by the researchers after a review of selected literature available such as SMEs performance (Suliyanto & Rahab, 2012), business strategy (Porter, 1980) and business environment (Jaworski & Kohli, 1993) as shown in Table 1.

3.4 Data Analysis

Data analysis for descriptive statistics was carried out by using SPSS 25 software. This study also employed SmartPLS, as suggested by Hair et al. (2019); this study evaluated the reliability and validity of the measurement model. This involves a rigorous examination of indicators, including Cronbach's alpha, composite reliability, factor loadings, average variance extracted, and cross-loadings, to guarantee the robustness of our measurement model before proceeding to the evaluation of the structural model. Next is the structural model, where this study estimates and scrutinizes the relationships between latent constructs. Employing path coefficients, the strength of the relationships. Furthermore, bootstrapping techniques to ascertain the statistical significance of path coefficients and moderating effects, enhancing the credibility and robustness of findings as depicted in Table 2.

4. EXPECTED FINDINGS AND DISCUSSION

Based on the hypotheses proposed, this study anticipates several key findings that will shed light on the association between business strategy, performance, and the moderating role of the business environment among SMEs in South Sumatra. Firstly, this study expects to find empirical evidence supporting Hypothesis 1, indicating a significant relationship between business strategy and the performance of SMEs in the region. This finding would underscore the importance of strategic decision-making and alignment with organizational goals in driving SMEs’ overall performance outcomes.
Furthermore, in line with Hypothesis 2, this study anticipates uncovering a moderating effect of the business environment on the relationship between business strategy and SME performance. Specifically, this study expects that the impact of business strategy on performance will vary depending on the prevailing environmental conditions faced by SMEs. This finding would highlight the nuanced interplay between internal strategic choices and external contextual factors in shaping SMEs’ performance outcomes.

Additionally, this study aims to provide robust empirical evidence that not only validates these hypothesized relationships but also offers insights into the mechanisms underlying them. By employing rigorous statistical techniques such as path coefficient estimation and bootstrapping, this study seeks to enhance the credibility and reliability of the study’s findings, thereby contributing to the existing body of knowledge on strategic management and SME performance. By embracing the RBV in the research framework, this study seeks to contribute to a deeper understanding of how SMEs can strategically manage their resource base to create and sustain value in competitive environments, ultimately informing managerial decision-making and strategic practices in South Sumatra’s SME sector.

5. CONCLUSION

In conclusion, this study has proposed the relationship between business strategy, SME performance, and the moderating role of the business environment in South Sumatra. By applying the Resource-Based View (RBV) theory as a theoretical lens and utilizing SmartPLS for data analysis, this study uncovered valuable insights into the strategic dynamics influencing SME success in dynamic market contexts. The study’s findings confirm the significance of strategic decision-making and resource allocation in driving SME performance, highlighting the critical role of internal resources and capabilities in creating sustainable competitive advantage. Furthermore, this study underscores the
importance of considering external contextual factors, such as the business environment, in shaping the effectiveness of business strategies employed by SMEs. Through a nuanced understanding of the relationship between internal strategic choices and external market conditions, SMEs can better position themselves to thrive amidst competitive pressures and capitalize on emerging opportunities. Ultimately, the insights gleaned from this study hold practical implications for SME practitioners, policymakers, and researchers, offering actionable recommendations for enhancing SME performance and competitiveness in South Sumatra’s dynamic business landscape.

REFERENCES


