

The Effect of Business Strategy on the Performance of MSMEs in Malang City

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Keywords: Business Strategy, MSME Performance, Malang City.

Abstract: The purpose of this study was to determine and analyze the effect of business strategy on the performance of MSMEs in Malang City. This research is a quantitative study with variables of business strategy and MSME performance. The research data were collected by interview, documentation, observation, and distributing questionnaires to 30 business scale respondents using a cluster random sampling technique. Data analysis used is multiple linear regression analysis and hypothesis testing. The results prove that business strategy has a positive influence on the performance of MSMEs in Malang City. This shows that business strategy can be used as a basis for consideration in improving the performance of MSMEs in Malang City. This is because the business strategy carried out can improve the performance of MSMEs

Introduction

Community-based economic development cannot be separated from efforts to develop Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. This is due to the important role of MSMEs, which account for around 99% of all business units in Indonesia, in driving the country's economic growth. Nonetheless, the performance of MSMEs in Indonesia is still unsatisfactory, as highlighted by Hendratmo in 2021, and relatively low when compared to countries in ASEAN. As a critical engine in the Indonesian economy, MSMEs drive the need for the government to design strategic policies to improve the sector's performance. One of the initiatives taken is the National Economic Recovery Program (PEN), which includes several special programs to support the development of MSMEs (<https://pip.kemenkeu.go.id>). Some of these include People's Business Credit (KUR) financing during the pandemic, Micro Business Productive Assistance (BPUM), non-KUR interest/margin subsidies, state fund placement, MSME credit guarantees, investment financing for cooperatives through the Small and Medium Revolving Fund Management Institution (LPDB KUMKM), MSME Final Income Tax

(PPh) borne by the government, as well as cash assistance for street vendors, stalls, and fishermen/BTPKLWN (<https://www.ekon.go.id>) and maximizing the use of social media as promotional media. However, the program cannot run optimally without a strong commitment from the MSME owners themselves to continue improving their businesses.

Business Strategy (Marketing)

According to Alma (2013), a marketing strategy is to select and analyze a market which is a group of people that the company wants to reach and create a suitable marketing mix that can satisfy the target market.

MSME Performance

According to Mutegi, Njeru, and Ongesa (2015), MSME performance is the result of work achieved by individuals who adjust to the role or duties of these individuals in a company within a certain period, which is associated with a certain measure of value or standard in the company the individual works for. MSME performance is one of the most important goals for financial management, namely by maximizing owner wealth in addition to maximizing company value.

Your Data on lending provided by commercial banks and BPRs according to business scale in Malang City is currently still running with the order of micro businesses occupying the lowest position and experiencing a decline, small business scale has increased, and medium scale has increased slightly (BPS Malang City, 2023).

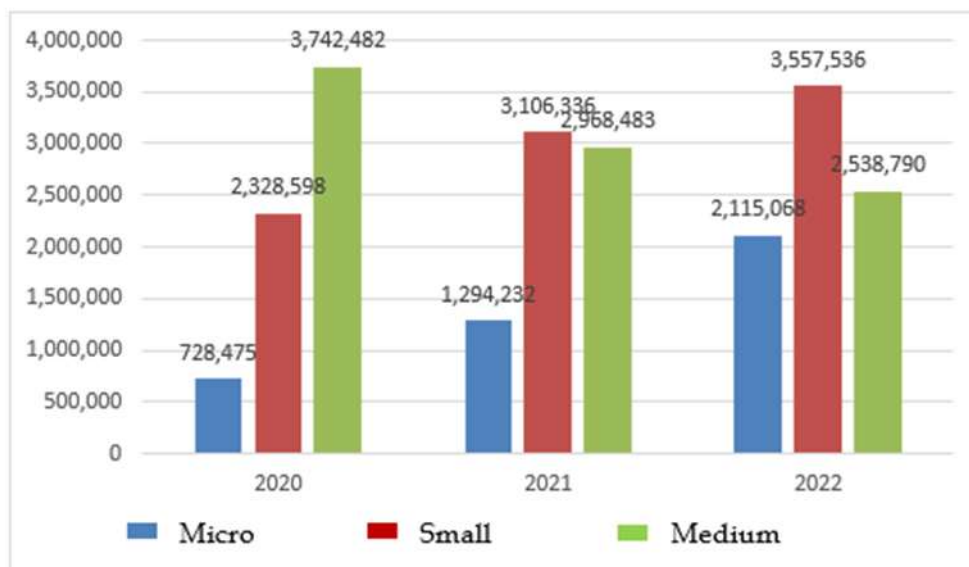


Figure 1. Loan Distribution Development Data Based on Business Scale in Malang City 2020 - 2022

Source: BPS Malang City, 2023 (Data processed)

In 2020, it appears that the medium-sized sector played a more dominant role in the growth of MSMEs, implying a structural change that warrants further investigation. Further analysis could reveal the reasons for the high growth of the medium-sized enterprises in that year, as well as why their growth was not matched by the micro and small enterprises.

However, in 2021, the medium-scale business decreased compared to the micro and small-scale businesses, and in 2022, small-scale businesses dominated the growth of MSMEs compared to the micro and medium-scale businesses. Based on this description, there is a problem with business scale lending, although there was a growth in the number of MSME business lending in Malang City at the micro and small business scale from 2020 to 2022, the medium business scale became a problem point because there was a decrease in lending from 2020-2022. MSMEs generally lack knowledge of the latest production technology and how to carry out quality control of products. The ability to read market needs is still not sharp, so they have not been able to carefully capture the needs that the market wants. A crucial factor that challenges MSMEs in terms of marketing is the weak access to product marketing, which still relies on simple mouth-to-mouth marketing. They have not used social media or the internet as a marketing tool. In terms of quantity, they have not been able to involve more labor due to the limited ability to hire employees who have special qualifications. A marketing strategy is needed so that market segments, target markets, and market positioning can be appropriately selected. The use of social media as a means of promotion has provided many opportunities for MSME players to be able to develop their market, especially in terms of promotion to attract their intended target market, another thing that makes MSME players market their products and services through social media is because of the low level of entry barriers so that they can easily market their products and services on these websites and social media (Oztamur and Karakadilar, 2014). The following media usage trends in 2023 can be a great opportunity for MSME players if utilized properly, namely as follows:

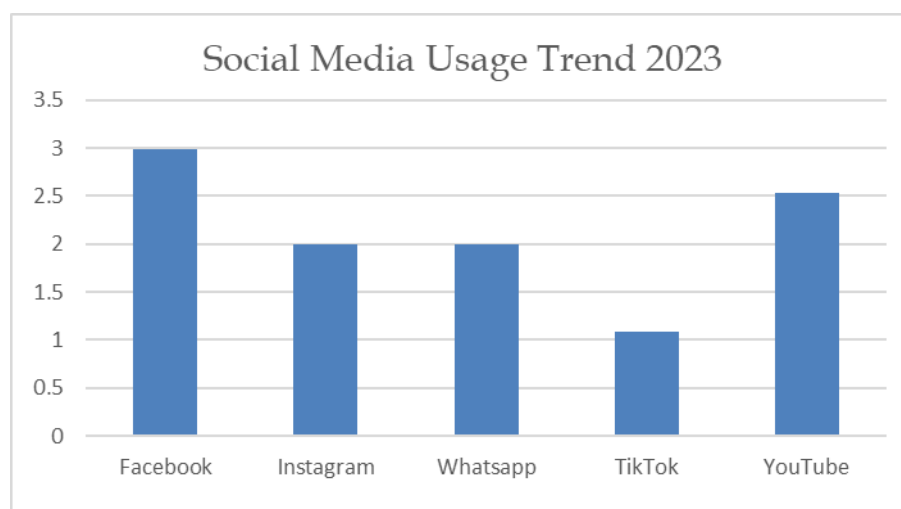


Figure 2. Trend Development Data of Social Media Usage 2023

Source: Databox, 2023

Based on Figure 2, according to We Are Social's latest data, Facebook has 2.98 billion active users as of July 2023. This number makes Mark Zuckerberg's platform even stronger at the top of the list of the world's most popular social media. Next, the second most popular social media platform is YouTube. The number of active users of the video application owned by Google's parent reached 2.52 billion users by July 2023. Then, WhatsApp and Instagram

are third and fourth. Both platforms have 2 billion active users. The next position is TikTok with 1.08 billion active users. However, this success must be matched with the right business strategy. Therefore, this research highlights the importance of business strategy to achieve sustainable growth for MSMEs. One of the researcher's objectives is to determine the effect of business strategy on the performance of MSMEs in Malang City.

Research Method

The population in this study are all business actors included in the scale of Micro, Small, and Medium Enterprises (MSMEs) whose population cannot be stated or calculated with certainty (unlimited) so that in determining the number of samples based on the opinions expressed by Cohen, et.al, (2007) and Baley in Mahmud (2011) and obtained a sample size of 30 respondents. Where each Micro business scale the sample taken is 10, the sample taken is 10 small businesses and the sample taken is 10 medium businesses.

In this study, the independent variable used is a business strategy, wherein each of these variables there are indicators used to measure it, namely the business strategy variable, there are 7 indicators that can measure product, price, promotion, place, people, physical evidence, and process. The dependent variable used is the performance of MSMEs, the indicators include profit, marketing area, labor, and capital. The data collection technique in this study was to distribute questionnaires and the data analysis technique used to answer the hypothesis was regression analysis and hypothesis testing.

Result and Discussion

In this study, data was obtained related to the answers of respondents who had filled out questionnaires that had been distributed directly to MSME actors in Malang City based on business scale (Micro, Small, and Medium). The distribution of questionnaires was carried out in February 2024. Based on research conducted by distributing questionnaires to 30 respondents who met the criteria, the following respondent data was obtained:

Characteristics of Respondents Based on Business Field

The characteristics of respondents based on the Business Field in this study are divided into the top 3 business fields in Malang City, namely Trade, Services, Industry, and Others. The following are the results of distributing questionnaires for the characteristics of respondents based on the Business Field as follows:

Table 1. Characteristics of Respondents-Based Online Business

No.	Business Field	Total	
		Frequency (Person)	Percentage (%)
1	Trade	21	70%
2	Services	4	13,33%
3	Industry	3	10%
4	Other	2	6,66%
Total		100	100

Source: Data Processed (2024)

Based on Table 1, it can be seen that of the 30 respondents who chose the trade business sector, there were 21 businesses or 70%, based on the service business sector there were 4 businesses or 13.33%, and based on the industrial business sector there were 3 businesses or 10%, Others 3 businesses or 6.66%. It can be concluded that most MSME actors who have a trade business sector have higher business prospect opportunities for MSME actors compared to other business fields. This is because people in Malang city are consumptive, and trade is one of the most widely practiced economic activities by the community. Especially in the growing digital age, this economic activity has become a very potential and promising form of business. Now trading is easier because it can be done online and reach a wider market.

Characteristics of Respondents Based on Length of Business

The characteristics of respondents based on the length of business in this study are divided into 3 groups, namely 1 year-5 years of business, 6 years-10 years, 11 years and over. The following are the results of distributing questionnaires for the characteristics of respondents based on length of business as follows:

Table 2: Characteristics of respondents based on length of business

No.	Length of business	Total	
		Frequency (Person)	Percentage (%)
1	11 years >	1	3,34%
2	6 years-10 years	11	36,66%
3	1 year to. 5 years	18	60%
Total		100	100

Source: Data Processed (2024)

Based on Table 2, it can be seen that of the 30 respondents who have a length of business of 1 year to. 5 years there are 18 people or 60%, 6 years to. 10 years a total of 11 people or 36.66% and 11 years and over a total of 1 person or 3.34%. It can be concluded that most MSME actors who have a length of business of 1 to. 5 years have a relatively stable business in developing a business. This is because the length of business can affect the stability of the business being run.

Characteristics of Respondents Based on the Type of Loan Taken

The characteristics of respondents based on the type of loan taken in this study are divided into 6 groups, namely KUR, Micro, Business Capital, Banking Loans, Cooperative Loans, and Other Loans. Based on Table 3, it can be seen that of the 30 respondents who had the types of loans taken, namely KUR, there was 1 person or 3.34%, Micro 5 people or 16.66%, Business Capital 3 people or 10%, and Banking Loans 21 people or 70%. It can be concluded that most MSME actors who take loans with the type of bank loan are more dominant than other types of loans due to the ease of loan application requirements compared to other types of loans. The following are the results of distributing questionnaires for the characteristics of respondents based on the type of loan taken as follows:

Table 3. Characteristics of Respondents Based on the type of loan taken

No.	Loan Type	Total	
		Frequency (Person)	Percentage (%)
1	KUR	1	3,34%
2	Mikro	5	16,66%
3	Modal Usaha	3	10%
4	Pinjaman Perbankan	21	70%
Total		100	100

Source: Data Processed (2024)

Validity Test

The validity test is a measuring tool used to determine whether or not the question/statement items in the questionnaire are valid. The instrument is said to be valid if the measuring instrument used to obtain the data is valid. Valid means that the instrument can be used to measure what should be measured. The results of the validity test of the items of all variables can be seen in the table below:

Table 4. Validity Test Results

Variables	Items	r-count	r-table	sig	α	Information
Strategy Business (X)	X2.1	0.487	0.3061	0.003	0.05	Valid
	X2.2	0.449	0.3061	0.006	0.05	Valid
	X2.3	0.643	0.3061	0.001	0.05	Valid
	X2.4	0.635	0.3061	0.001	0.05	Valid
	X2.5	0.480	0.3061	0.004	0.05	Valid
	X2.6	0.731	0.3061	0.001	0.05	Valid
	X2.7	0.616	0.3061	0.001	0.05	Valid
	X2.8	0.654	0.3061	0.001	0.05	Valid
	X2.9	0.563	0.3061	0.001	0.05	Valid
	X2.10	0.699	0.3061	0.001	0.05	Valid
MSME Performance (Y)	Y1	0.748	0.3061	0.001	0.05	Valid
	Y2	0.630	0.3061	0.001	0.05	Valid
	Y3	0.599	0.3061	0.001	0.05	Valid
	Y4	0.619	0.3061	0.001	0.05	Valid
	Y5	0.746	0.3061	0.001	0.05	Valid
	Y6	0.547	0.3061	0.001	0.05	Valid
	Y7	0.674	0.3061	0.001	0.05	Valid
	Y8	0.758	0.3061	0.001	0.05	Valid
	Y9	0.547	0.3061	0.001	0.05	Valid
	Y10	0.542	0.3061	0.001	0.05	Valid
	Y11	0.761	0.3061	0.001	0.05	Valid
	Y12	0.473	0.3061	0.004	0.05	Valid

Source: Data Processed (2024)

Based on Table 4, it can be seen that all statement items used as measuring instruments for business strategy variables (X) and MSME performance (Y) are declared valid. This is because all statement items in each variable have $r_{count} > r_{table}$ (0.3061) and significance < 0.05 . It can be concluded that all statement items from each variable can be used to measure the effect of business strategy on the performance of MSMEs in Malang City.

Reliability Test

In research to test all question items whether reliable or not, namely using Cronbach's Alpha (α) formula, which is considered reliable if the Cronbach's Alpha (α) value is > 0.6 . The results of the reliability test of each variable can be seen in the following table:

Table 5. Reliability Test Results

Variable	Cronbach's Alpha	Information
Business Strategy (X)	0,782	Reliable
MSME Performance (Y)	0,865	Reliable

Source: Data Processed (2024)

Based on table 5, shows that Cronbach's alpha value of the business strategy variable (X) is 0.782 and the performance of MSMEs (Y) is 0.865. The results of each variable Cronbach's alpha value have a coefficient > 0.6 so it can be concluded that all statement items in the variable are declared reliable.

Descriptive Analysis

The results of the descriptive analysis of business strategy variables in MSMEs in Malang City, the majority of respondents answered agree with an average value of 3.64. The value of the MSME performance variable with an average value of 3.54, the majority of respondents answered agree. In this case, it can be interpreted that the business strategy set by MSME actors in Malang City can improve their business performance.

Classical Assumption Test

The classic assumption test is a test that must be carried out before multiple regression analysis. The goal is that the regression equation is suitable for use, it must meet the classical assumption test, namely that the data must be normally distributed, free from heteroscedasticity problems, and free from multicollinearity problems.

a. Normality Test

The regression model can be said to be good if it has a normally distributed residual value. The normality test can be done by looking at the distribution of data on the diagonal source of the normal P-P Plot of the Regression Standardized Residual graph.

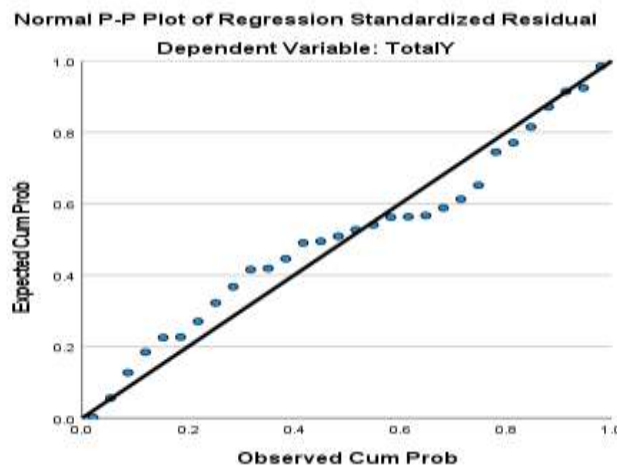


Figure 3. Normal P-P Plot Graph of Normality Test Results
 Source: Data Processed (2024)

Based on Figure 3, shows that the data points spread around the diagonal line and the distribution follows the diagonal line so it can be concluded that the data is normally distributed, so the assumption of normality is met..

b. Heteroscedasticity Test

A good regression model must be free from heteroscedasticity problems. The heteroscedasticity test can be done by looking at the pattern of dots on the Scatterplot graph.

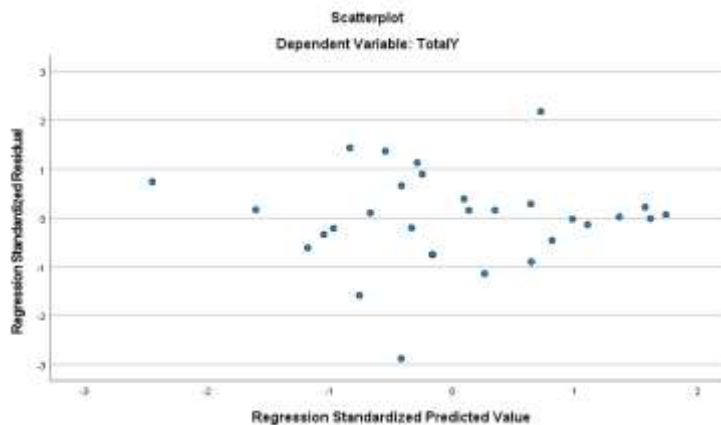


Figure 4. Scatterplot Graph of Heteroscedasticity Test Results
 Source: Data Processed (2024)

Based on Figure 4, it can be seen that the data points spread above and below the number 0 on the Y axis and do not form a certain pattern so that it can be concluded that the data is free from heteroscedasticity problems, so the assumption is fulfilled.

c. Multicollinearity Test

A good regression model should not have a perfect or near-perfect correlation between the independent variables. The multicollinearity test can be done by looking at the Tolerance and Variance Inflation Factor (VIF) values.

Table 6. Multicollinearity Test Results

Model	Collinearity Statistics		Information
	Tolerance	VIF	
<i>Constant</i>			
Business Strategy (X)	0,979	1,002	Free of multicollinearity

Source: Data Processed (2024)

Based on Table 6, it can be seen that the tolerance value meets the tolerance and VIF limits, the business strategy variable (X) is at a tolerance value of $0.979 > 0.1$ and a VIF value of $1.002 < 10$. It can be concluded that the data is free from multicollinearity problems, so the assumptions are met. This also shows that the X (independent) variables are not interdependent or independent.

Simple Regression Analysis

The results of the study resulted in a regression equation $Y = 0.583 + 0.784 + e$ so that it can be seen that the constant value of simple linear calculation is 0.583. This means that if the value of the business strategy variable is equal to zero, the value of the MSME performance variable is constant, namely 0.583.

The value of the business strategy regression coefficient is 0.784, which means that every one-unit increase in the business strategy variable will increase the value of the MSME performance variable by 0.784.

Coefficient of Determination

The results showed an Adjusted R Square value of 0.433. It can be concluded that the business strategy variable has a contribution of 43.3% to the performance of MSMEs, while the remaining 56.7% is influenced by other variables not examined in this study.

Hypothesis Test

The t-test results on the business strategy variable are accepted, as evidenced by the business strategy variable which has a t count of $4.317 > t$ table 1.70329 and a significance of $0.001 < 0.05$. Thus it can be concluded that the business strategy variable has a positive effect on the performance of MSMEs.

Discussion

The results of data analysis that have been carried out in this study involve MSMEs in Malang City on the scale of Micro, Small, and Medium Enterprises. It can be seen that the research results are related to the effect of business strategies on the performance of MSMEs in Malang City. The data analysis that has been carried out in this study has answered the formulation of problems and research hypotheses.

1. The Effect of Business Strategy on the Performance of MSMEs in Malang City

Based on the results of the descriptive analysis, the overall average value for the business strategy variable is obtained, which states that they agree that business strategy affects the performance of MSMEs. The highest average value of the business strategy variable is in the easy-to-access location item, so it can be concluded that the majority of respondents agree

with this statement, namely that respondents feel that the location is easy to access which affects the performance of MSMEs in Malang City. Other items that influence business strategies on the performance of MSMEs in Malang City such as dexterous or swift service so that it can facilitate MSME actors in providing services to their customers.

Based on the results of hypothesis testing, it can be concluded that business strategies have a positive effect on the performance of MSMEs in Malang City. The results of this study are following those proposed by Liza Zahara (2022) which states that marketing strategies have a positive effect on the development of MSMEs in Trienggadeng District, Pidie Jaya Regency.

2. The Effect of Business Strategy on the Performance of MSMEs in Malang City

Based on the results of simple regression analysis, it can be seen that the business strategy variable has a positive influence on the MSME performance variable, it can be concluded that MSMEs in Malang City are very concerned about marketing strategies for their business by choosing strategic business location so that it is easily accessible to customers.

Based on the results of hypothesis testing, it can be concluded that business strategy has a positive effect on the performance of MSMEs in Malang City. It can be concluded that MSMEs in Malang City pay attention to marketing strategies to maximize their business performance.

Conclusion

This research was conducted by distributing questionnaires to MSME players in Malang City who are included in the scale of micro, small, and medium enterprises in February 2024. This study uses simple regression analysis to determine the effect of = business strategy on the performance of MSMEs in Malang City. Based on the results of data analysis and hypothesis testing, the conclusions of this study are as follows: The results prove that business strategy has a positive influence on the performance of MSMEs in Malang City. This shows that business strategies can be used as a basis for consideration in improving the performance of MSMEs in Malang City. This is because the business strategy carried out can improve the performance of MSMEs.

The results prove that business strategies jointly have a positive influence on the performance of MSMEs in Malang City. This shows that business strategies can be used as a basis for consideration in building the performance of MSMEs in Malang City. This is supported by the right business strategy, and the performance of MSME players in Malang City will increase.

Suggestions that can be given to MSMEs in Malang City are as follows: MSME actors in Malang City should be cooperative in providing information and documents requested by banking staff. This is done so that the submission process runs quickly. MSME actors in Malang City should improve the quality of products offered to customers. This is done so that customers have a satisfying experience with product quality that suits customer needs and desires.

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