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IMPROVING FINANCIAL PERFORMANCE THROUGH EMPLOYEE PRODUCTIVITY IN SMALL AND MEDIUM ENTERPRISES

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Abstract

SME owners are expected to continue to improve the company's performance to sustain the survival of its business. SMEs only focus on short-term income, regardless of the profit or loss they earn. This condition is certainly a contradiction for the businessmen, because every craftsman wants maximum profit and the maximum financial performance. SMEs do not have good financial reports, so there is not much research on SME finance. This study aims to verify the influence of organizational culture, motivation, and product quality on employee productivity and employee productivity affecting the financial performance of SMEs. The population in this study were as many as SME owners in Central Java Province, Indonesia, and the number of samples used was 150 samples. The results showed that organizational culture, motivation, and product quality had a positive effect on employee productivity, and productivity of employees was positively influencing the financial performance of SMEs in Central Java Province, Indonesia.

Keywords: Financial Performance, Employee productivity, organizational culture, motivation, and product quality

Introduction

Small and Medium Enterprises (SMEs) are one of the pillars of the Indonesian economy. SMEs present in reducing unemployment, providing employment, reducing poverty, and improving welfare. SME owners are expected to continue to improve the performance of their companies to sustain their business (Mellett & O'Brien, 2014).

Business developments that are increasingly competitive require business owners to continue to improve their company performance, one of which is through the company's financial performance. Financial performance has an influence on many things, including company value, stock price, and also compensation that will be received by company management. Moreover, financial performance is a measuring tool for investors, especially shareholders in measuring the effectiveness of the performance of the management of the company which is their representation in the company (Olmedo-cifuentes & Martínez-león, 2011). Karpak & Topcu, (2010) identify five measures of company success as follows; 1) sales (income), 2) product cost advantages, 3) product quality, 4) cash flow (balance) and 5) endurance (long-term viability).

The success of the company displayed by improving financial performance. A company indeed considers several factors including productivity. The productivity of a company realized if the elements that support it work well, including organizational culture, motivation, and product quality. Organizational culture can affect the level of labor productivity, a good organizational

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culture will provide comfort in work and reduce the stress that disrupts company productivity (Mirela & Mădălina-Adriana, 2011). In strengthening the organizational culture, SMEs need to have organizational culture values shared by leaders and members of the organization, have formal and informal regulatory systems and have coordination and behavioral control.

Another factor that drives productivity is organizational culture. Van der Berg & Martins, (2013) shows that good organizations can improve the quality of employee work. Organizational culture can work well if there have trust. Organizational trust is essential for exploring the role of employee trust in the workplace and for gathering views on belief, personality, and managerial practices and overall behavior. Ahiabor, (2014) shows that organizational culture has a positive influence on productivity. Corporate culture encompasses a moral norm, social and organizational patterns based on the values, beliefs, attitudes, and priorities of their members. When leaders try to implement new strategies or strategic plans that lead to new visions, they will find that their approach will fail if they are not consistent with the organizational culture.

Robbins & Judge (2009) argues that motivation is a willingness to do a high level of effort to achieve organizational goals, which are conditioned by the ability of the business to satisfy the needs of some individuals. Employee motivation is one of the factors that can encourage employee productivity in SMEs because of most employee wage systems shaped in bulk. After implementing a good organizational culture, increasing motivation, then the quality of the product also has a role in improving the productivity of the company. Product quality will determine the company has been able and productive in satisfy consumer needs or not.

One of the keys to the success of business developers is maintaining the quality of products and services (Namin, Pilevary, & Namin, 2012). Maintaining product quality and customer service is a daunting task for SMEs, on the other hand, competition between SMEs can lead to the desire of the owner to take steps that are detrimental to his business by considering short-term profits and using low-quality raw materials to reduce production costs but can reduce the quality of its products.

Quality is the overall characteristics and nature of a product or service that affects the ability to satisfy the stated or implied needs (Kotler & Keller, 2012). Kotler & Keller (2012) argued that product quality is the ability of a product to demonstrate its function, including overall durability, reliability, accuracy, ease of operation and product repairs as well as other product attributes. Customers define quality in various ways through the fulfillment of customer expectations. Heizer & Render (2016) define quality as the ability of the products and services meet customer needs.

Financial performance found in several studies was carried out on companies that have excellent managerial skills, and have financial reports such as those conducted by Fourati & Affes (2013) which verify financial performance, intellectual capital, and company value on the Tunisian Stock Exchange. Gentry & Shen (2010) investigate the comparison between the measurement of profitability of financial statements using ROA, ROE, ROS, and ROI by measuring market performance through market-to-book value ratio (MTB) in companies listed on the American

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Stock Exchange. And there are still many other studies that examine financial performance in large companies such as Chang, (2011); Majdalany & Henderson, (2013); Mamogale, (2014); Nasserinia, Ariff, & Fan-Fah, (2014); Olmedo-cifuentes & Martínez-león, (2011). For this reason, researchers are interested in researching the Financial Performance Model in SMEs that currently do not have a good financial report. Researchers use organizational culture factors, motivation and product quality that can affect financial performance with intervening variables of employee productivity.

Review of Literature

Financial management relates to the creation and maintenance of economic value or wealth, as well as decisions to accumulate and increase business wealth (Salikin, Wahab, & Muhammad, 2014). Financial management includes decision making processes in several fields such as determining financial resources, dividend policy, investment decisions, and working capital management. There is no difference between managing large business finance or small and medium enterprises, but small and medium enterprises (SMEs) are only related to capital budgeting and working capital decisions, given that SMEs do not pay dividends (Agyei-mensah, 2011). Large business financial management is more stringent than small and medium-sized businesses, because of the low level of SMEs that implement financial management well (Azhar, Osman, & Hoe, 2010).

Paramasivan and Subramanian (2009)explain that all types of businesses depend on finance, both small businesses and large businesses to fulfill their business activities. All types of businesses have a purpose to gain business profits so that an increase in benefits or an increase in financial performance is the primary objective for entrepreneurs and investors. Large businesses and small businesses need good financial management. Azhar, Osman, and Hoe (2010) explain that financial management consists of six components; Financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management.

The financial performance of an analysis done to see the extent to which a company has been implementing and using the rules of financial performance is good and faithful (Chang, 2011). The financial performance is a result that has been achieved by the company's management in carrying out its functions in managing the assets of the company effectively during a specified period. Companies every year need to know the financial performance that is used to evaluate the company's success in utilizing the available resources (Baños-Caballero, García-Teruel, & Martínez-Solano, 2016).

Heizer & Render, (2016) argue productivity is the relationship between the outputs or results of the organization with the necessary inputs. Productivity can be calculated by the output generated by entering. Companies can increase productivity by increasing productivity ratios, where the rate compares the number of results or outputs with the resources used or input.

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Zamzam, Mohammadzadeh, & Rezaian, (2014) argue that work productivity can be interpreted as concrete results (products) produced by individuals or groups, for a particular time unit in a work process. Companies can measure high productivity if employees can create products that are high for a specific time and the opposite of the company can assess employee productivity is low if the resulting product is low in standard time. Lab or productivity is a comparison between the results obtained (output) with the number of resources used as inputs (input) (Heizer & Render, 2016).

Taiwo, (2010) argues that productivity in an organization can be influenced by several factors, including; 1) General factors; including climate, geographic distribution of raw materials, fiscal and credit policies, adequacy of public utilities and infrastructure facilities, 2) Organizational and Technical Factors; including the level of integration, percentage of capacity, size and stability of production; 3) Human factors; including labor-management relations, social and psychological conditions of work, wage incentives, physical exhaustion, trade union practices.

Robbins & Judge (2009) argues that organizational culture is a system of shared meanings held by members that distinguish an organization from other organizations. Kreitner & Kinicki (2011) argue that organizational culture is shared values and beliefs that underlie corporate identity. According to Wibowo (2007) culture is the adhesive that unites organizations with corporate performance management. The prevailing organizational culture influences philosophy and design. The component of organizational culture is the values, norms, and style of management in running its business. Culture is a human activity that is systematically passed down from generation to generation through various learning processes to create a particular way of life that is best suited to its environment. Culture is formed from a group of organized people who have the same goals, beliefs, and values, and can be measured through the influence of motivation (Wibowo, 2007).

Cultural organizations have important implications for long-term economic performance. Organizational culture is a more critical factor in determining the success or failure of an organization. Cultural organization grows easily in an organization full of people are rational and ingenious in advancing the company. Despite strong to change, organizational culture can be made to further improve the performance (Wibowo, 2007). Cultural organizations have a positive impact on the productivity of companies (Ahiabor, 2014).

Robbins & Judge (2009) argues that motivation is a willingness to do a high level of effort to achieve organizational goals and make business capabilities to satisfy personal needs. Robbins & Judge (2009) also stated motivation as a process that causes the intensity (intensity), the direction (direction), and a constant effort (persistence) of individual towards achieving objectives. High intensity may not lead to a good performance result unless committed in directions that benefit the organization. Therefore it must consider the consistency of business quality. Motivation has dimension continuously in maintaining their businesses. From the various opinions can be concluded that the motivation to have a great influence on the success of efforts in maintaining a person's attempt to continue running. Implement motivation with encouragement by entrepreneurs or companies to their employees.

Work motivation in employees affects their behavior in the organization. Motivated employees will develop all their abilities, carry out their duties and work well, and spend every effort and effort they have to be able to achieve goals or get what they want. This statement is following the opinion of Kreitner & Kinicki (2011) which explains work motivation is a psychological process that arouses (arousal), directs (direction), and perseverance (persistence) in carrying out voluntary actions directed at achieving organizational goals. Based on the description of the above theories, it can be concluded that work motivation is an impulse in employees that stimulates employee behavior, in this case, arouses enthusiasm, influences the direction, intensity, and perseverance of workers to do their work following the company's objectives. Work motivation comes from two dimensions, intrinsic motivation, and extrinsic motivation.

Quality is the overall characteristics and nature of a product or service that affects the ability to satisfy the stated or implied needs (Kotler & Keller, 2012). According to Kotler & Keller, (2012) product quality is the ability of a product to demonstrate its function, including overall durability, reliability, accuracy, ease of operation and product repair as well as other product attributes. Customers define quality in various ways. Quality is defined as exceeding customer expectations. Heizer & Render, (2016) defines quality as the ability of products and services to satisfy customer needs.

Methodology

The method used in this research is the descriptive quantitative method that uses primary data sourced from SME owners Central Java, Indonesia. The sample of this study was 183 SME owners from various types of small and medium enterprises in Central Java Indonesia. The instruments used in data collection are closed questionnaires. Data analysis techniques of this study were analyzed quantitatively using structural model equations. Hypothesis testing after data collection and verification. Following are the stages of testing empirical models based on Partial Least Square (PLS): 1) Make a path diagram between constructs; a) Inner model shows the relationship or strength of estimation between latent variables or constructs based on the substantive theory, b) Outer model shows the relationship between latent variables and indicators or their manifest variables. 2) Test Unidimensional; Unidimensional is a construct that is formed directly from a variable with the direction of the indicator can be either reflective or formative. To test the validity and reliability of constructs, it can be done through the first order construct by looking at convergent and discriminant validity, and composite reliability. 3) Test the Measurement Model (Outer Model); a) Convergent Validity. Convergent validity has the principle that the measurements of a construct should have a high correlation. The rule of thumb of assessing convergent validity is the value of the loading factor of more than 0.7 for confirmatory research and 0.6 - 0.7 for exploratory study and the amount of loading factor 0.5 to 0.6 is considered sufficient for stage research early development. b) Discriminatory Validity. Discriminant validity has the principle that different construct gauges should not have a high correlation. The method that can be used to assess discriminatory validity is to compare the average squares of the average variance extracted (AVE) of each construct with the correlation value between constructs in the model. Recommended AVE values must be more excellent than 0.5 which means 50 percent or more variants of the indicator can be explained. The formula can calculate AVE:

$$AVE = \frac{\Sigma \lambda \iota^2}{\Sigma \lambda \iota^2 + \Sigma \iota Var(c\iota)} \text{ ....(1)}$$

$\lambda\iota$ is the loading component to the indicator and Var (ci) = 1- $\lambda\iota^2$.

c) Composite Reliability. Composite reliability is used to prove the accuracy, consistency, and accuracy of instruments in measuring constructs. Good reliability can see the Reliability composite value must be greater than 0.7. The formula can calculate composite reliability:

$$pc = \frac{(\Sigma \lambda \iota^2)}{(\Sigma \lambda \iota^2) + \Sigma \iota Var(ci)} \text{ ....(2)}$$

$\lambda\iota$ is the loading component to the indicator and Var (ci) = 1- $\lambda\iota^2$.

Results

Testing the validity and reliability that represents each construct by looking at convergent validity, an indicator is stated to have good reliability if the value is greater than 0.7. While loading factors from 0.5 to 0.6 can still be maintained for models that are still under development. As well as Average Variance Extracted (AVE) where the AVE value must be greater than 0.5. Convergent validity of the indicator reflective measurement model is assessed based on the correlation between the item score/component score and the construct score. The reflexive size which has a high correlation if the value of the loading factor is more than 0.7 for research that is confirmatory, and 0.6 to 0.7 for exploratory research (Brown, 2006).

Table 1 Loadings Factor

	Organizational Culture	Financial Perfomance	Product Quality	Motivation	Productivity
OC2	0.695				
OC3	0.789				
OC4	0.766				
OC5	0.751				

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	Organizational Culture	Financial Perfomance	Product Quality	Motivation	Productivity
PQ1			0.734		
PQ2			0.659		
PQ4			0.722		
PQ5			0.798		
PQ6			0.797		
FP2		0.820			
FP3		0.677			
FP4		0.820			
FP5		0.829			
M2				0.825	
M3				0.632	
M4				0.671	
M5				0.801	
PD1					0.717
PD2					0.813
PD3					0.776
PD4					0.779

Testing the validity and reliability that represents each construct can be identified by convergent validity as measured by the value of Average Variance Extracted (AVE) where the AVE value must be greater than 0.5. The data used in the study shows that all constructs have an AVE value of more than 0.5 which indicates that the data has good convergent validity. Test of Discriminant Validity by comparing the square root of AVE to the correlation value between constructs. Calculation using smart PLS 3.0 shows that the square root value of AVE is higher than the correlation value between constructs, then the data is stated to fulfill the criteria of Discriminant validity.

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Table 2 Validity Test and Reliability Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Organizational Culture	0.743	0.748	0.838	0.564
Financial Perfomance	0.795	0.801	0.868	0.623
Product Quality	0.797	0.802	0.860	0.553
Motivation	0.718	0.753	0.824	0.543
Productivity	0.774	0.775	0.855	0.596

The results of Cronbach's Alpha calculation with the help of smartPLS 3.0 show that the construct that is considered sufficient reliability is customer satisfaction and product quality, while the construct of customer relations and financial performance has a high level of reliability. The results of the composite reliability show that all constructs have a value of more than 0.7, meaning that all construct instruments are declared reliable.

Table 3 Test Discriminant Validity

	Organizational Culture	Financial Perfomance	Product Quality	Motivation	Productivity
Organizational Culture	0.751				
Financial Perfomance	0.529	0.789			
Product Quality	0.640	0.665	0.744		
Motivation	0.697	0.583	0.689	0.737	
Productivity	0.631	0.547	0.706	0.663	0.772

This study aims the influence of organizational culture, motivation, and product quality with productivity and financial performance by showing at the results of the calculation of path coefficients that compare t-statistics with t-tables. Accept the research Hypothesis if the t-statistic value is greater than t-table (1.653) with a 95% confidence level or sig <0.05. Table 4 shows that t-statistics are greater than t-tables, testing partial hypotheses as a whole rejects Ho which means that each independent variable has a positive effect on the dependent variable.

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Table 4 *Total Effect*

	Original Sample	Sample Mean	SD	T Statistics	P Values
Org Culture -> Financial Perform	0.039	0.034	0.020	1.970	0.049
Org Culture -> Produktivity	0.201	0.195	0.093	2.146	0.032
Product Quality -> Financial Perform	0.080	0.084	0.046	1.736	0.083
Product Quality -> Produktivity	0.414	0.426	0.092	4.514	0.000
Motivasi -> Financial Perform	0.046	0.044	0.030	1.537	0.125
Motivasi -> Produktivity	0.238	0.231	0.106	2.248	0.025
Produktivity -> Financial Perform	0.192	0.189	0.084	2.294	0.022

Discussion

Organizational culture is the adhesive that unites organizations with company performance management. Cultural organization grows easily in an organization full of people are rational and ingenious in advancing the company. Despite strong to change, organizational culture can be made to improve the performance further. Cultural organizations have a positive impact on the productivity of companies (Ahiabor, 2014). The results showed that the organizational culture had a positive effect on productivity showing the number 2.146> 1.653 with a sig value of 0.032 <0.05, meaning that the relationship between organizational culture had a positive and significant effect on productivity.

The business owner provides information on business revenue targets, can learn from problems, members of the organization are involved in business development, and proper communication channels between SME owner and employees, so that employees can produce products as expected. The results of the study also support Mirela & Mădălina-Adriana (2011) mentioning work stress affects employee performance. Iskandar (2013) research shows that organizational culture has a positive effect on employee productivity. Vveinhardt & Kuklytė (2017) study shows that destructive behavior in organizations can have a negative impact on productivity, motivation, employee relations, thus disrupting the company's operational path.

A cultural creation that aligned in achieving business vision is significant for SMEs. SMEs can start creating culture through the owner as the leader. Leader culture will have an impact on worker culture, organizational commitment, and productivity (Loke, 2001). Conducive organizational culture can increase employee satisfaction with the company. Employee satisfaction can be a driving force to enhance creativity and productivity. Increased productivity correlates with increased corporate income.

Motivation in the opinion of Robbins & Judge (2009) is the willingness to do a high level of effort to achieve organizational goals, which are conditioned by the ability of the business to satisfy the needs of some individuals. The results show that motivation has a positive and significant effect on productivity. This study indicates that SMEs believe the responsibility in carrying out work can increase productivity. Employees who have more responsibility can work with more work hours, are faster at completing work, and always try to do their best in achieving task compared to employees who are less responsible. Also, employees who have the desire for achievement, develop themselves, and have an independent attitude can increase productivity.

The results show that motivation has a significant effect on employee productivity. Motivation can increase company productivity in achieving organizational goals. High employee motivation can increase a commitment to the company to increase productivity. Leader motivation is also able to boost innovation in developing its business so that it will encourage companies to increase productivity. Employee work motivation can improve employee empowerment, work motivation, achievement, and organizational performance (Dobre, 2013; Fang, Rasiah, & Klobas, 2016; Subramanian, Selvarani, Aktharshah, & Mohamed, 2015; Ude & Coker, 2012).

Consumers buy products hoping that product quality exceeds advertised expectations. A condition determined by the specifications offered. The specs are related to the accuracy, time, and quality of the product. Product quality shows how well the product reaches its intended purpose at the price the customer pays, how much the customer feels, style, durability, reliability, expertise, and product usability. Quality is the overall characteristics and nature of a product or service that affects the ability to satisfy the stated or implied needs (Kotler & Keller, 2012).

The results show that product quality affects productivity. Specific product quality will facilitate production in producing products. SMEs need to make sure that the quality standards of the production according to a predetermined schedule. The ability of a product to demonstrate its functionality, durability, reliability, accuracy, ease of operation and repair the other product attributes also must be delivered strictly by the entrepreneur.

The results showed that product quality affected productivity. Quality standards for the product set will make it easier to produce products. SMEs need to create quality standards so that the production department can work by the specified criteria. SME owners must be able to provide products that have functions, durability, reliability, accuracy, and are easy to operate. Quality improvement can improve welfare because of efficiency in the production process(Hallak & Sivadasan, 2013). Product quality improvement also needs to be followed by the use of technology so that that product quality will be well maintained and productivity can also be increased (Thatcher & Oliver, 2001).

Increased productivity shows the existence of tangible results (products) of SMEs. The rise in income will follow increased productivity because SMEs can sell more products. Increased productivity characterized by an increase in the speed of completing work can help marketers to provide more products. The results of the study show that productivity affects the financial performance of SMEs. SMEs need to pay attention to the speed of time and reduce the level of errors in completing work.

The results of the study indicate that the financial performance of SMEs can increase when employee productivity increases; this shows good marketing skills by SMEs. The dependence of SME sales in Central Java, Indonesia on its production capabilities makes the level of employee productivity has a significant effect on income. The income level of SMEs is one of the essential elements in measuring the financial performance of SMEs in Indonesia. The ability of SMEs in Indonesia to maintain finished goods inventory still needs to be improved. Most SMEs do not have decent warehouses to store new products, so SME owners must be able to sell all products produced.

Increased production needs to be supported by the ability to manage finished products so that SMEs do not always work beyond regular working hours. SMEs that have high productivity have more time to benefit from selling their products. The increase in the quantities produced an impact on efficiency and can reduce production costs. SMEs will be able to generate higher profits with increased income and efficiency.

Conclusion

This study aims to prove the influence of organizational culture, motivation, product quality on employee productivity, and the effect of employee productivity on SME financial performance. Organizational culture has a positive and significant impact on financial performance, both directly and through productivity. Product motivation and quality have a positive and significant effect on productivity but have no significant effect on direct financial performance. Productivity has a positive and significant influence on the financial performance of SMEs in Central Java, Indonesia.

The results of the study show that SMEs in Central Java, Indonesia has an awareness in efforts to improve financial performance, need to build a conducive organizational culture, always build good communication with employees, have clear goals, and foster a sense of ownership and business development throughout employees. Also, SMEs should encourage employees to have a high motivation to increase productivity. Financial performance can increase if productivity increases because high productivity can cause the availability of goods sold more and more, the impact of income increases. Increased income will affect the profits generated by SMEs. Profit increases, capital for business development increases.

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