



An Explorative Survey in the Implementation of Good SMES Governance on Small Business Entity

Fazli Syam BZ

Syiah Kuala University, Banda Aceh, Indonesia

fazlisyambz@unsyiah.ac.id

Abstract

Objective – This study aims to explain and predict about the implementation of good governance on small business entities as a key performance indicator. Implementation of good governance is needed and becomes important for small business entities to be able to develop and still exist in business environments.

Design/methodology – This study was designed with field study research approach oriented explorative study with a combination of primary and secondary data. This research proposed two precision, namely: First, an understanding of small business entities on the principles of SMEs governance is positively associated with perceptions of small business entities about the importance of implementing good governance in business activities. Second, the perception on the implementation of good governance is positively associated with the performance of small business entities.

Results – The results showed that the understanding of small business entities are positively related to perceptions of the importance of implementing good governance, but not positively related to the performance of small business entities. This means that the constraints and obstacles faced by small business entities in the application and implementation of good governance is more due to the principles of SMEs governance do not have a positive and significant relationship with the performance of small business entities.

Research limitations/implications – For further research is needed to add more small business entities as respondents, particularly small business entity that has the legality (listed in the government and/or have a business license.) Necessary to reexamine the instrument that has been used to make some adjustments such as set back a list of questions compiled by Credit Lyonnais Securities Asia (CLSA) to make some adjustments in accordance with the needs of small business entities. Further research is recommended to use the same method or using other research methods in the test results, such as using Discriminate Analysis.

Keywords Good SMEs Governance, Key Performance Indicators, CG Indicators, Small Business Entity.

1. Introduction

Recognition of the existence of small business entities (Micro, Small and Medium Enterprises - SMEs) in Indonesia have been tested since the economic crisis that began a multi in 1997/1998. The existence of small business entities is evidenced by its ability to survive in the midst of crisis and even a very large contribution to the economic sustainability of the Indonesian nation. But unfortunately, the recognition of the existence of these entities have not fully made the small business as a business major who had received coaching and a strong and consistent protection against its existence.

There are a lot of research and scientific articles relating to the existence of these small business entities. Piper (1997), states that 63.2 percent of the total workforce in the United States to work in the 350,000 companies that belong to the small business entities. Even in the Netherlands, the number of small business entities

reached 95% of the total number of existing firms (Bijmolt and Zwatt, 1994). There is also mentioned that 99% of the total business unit for all categories of small business entities contained in it (Aharoni, 1994). In industrialized countries who are members of other advanced OECD, such as Japan, Germany, France, and Canada, a small business entity is an important motor of economic growth, innovation and technological progress in the country concerned (Thornburg, 1993).

In Indonesia, as a developing country, small business entities is very important especially from the perspective of job opportunities and sources of income for the poor, income distribution and poverty reduction and rural economic development. However, if seen from its contribution to GDP and non-oil exports, particularly manufactured products and innovation and technology development, the role of small business entities are still relatively low, and this is actually a big difference to small business entities in developed countries (Tambunan, 2009). Therefore, to realize how important small business entity (at least potentially), so many development programs mainly subsidized credit schemes as an important component to support the development and growth of small business entities. Not only that, the international institutions, such as the World Bank, Asian Development Bank (ADB) and The United Nations Industry and Development Organization (UNIDO), and many donor countries, through cooperation-cooperation bilateral, very active in assisting efforts to development (capacity building) of small business entities in Indonesia.

Aware of the role of importance, then the small business entity must be able to reform internally to increase strength and durability in the constellation of existing business. Zimmerman et al (2008) stated that there were ten fatal mistakes made by small business entities that cause it are not able to survive more than 3 years after entry into the market. Only about 40% of the total small business entity that is able to survive more than 10 years, and for all survive or even be greater. The 10 fatal error is related to the managerial skills of small business entities in managing its business. These errors can be formulated into three major errors, namely (1) failure in the development of strategic planning, (2) the poor financial controls, and (3) failure to respond positively to conditions (environment), external companies. The three main focus is a key indicator of success (keys performance indicators) that would make the small business entity can survive and thrive.

Sound management is the key to SMEs success, and effective managers recognize that all business success requires the proper financial controls. Sound management is a characteristic of the application of SMEs governance in small business entities. Business success also requires a sufficient amount of capital at the beginning. Lack of capital is a common cause of business failure because companies lack the capital before they are able to generate positive cash flow. Many owners of small business entities to make mistakes at the beginning of their business by misjudging the money required to go into business. Another aspect of adequate financial control is by applying the techniques of proper cash management. Many small business entities who believe that profit is the cornerstone of a new business, but the inability to manage finances, particularly with respect to accounting methods (including the choice of accounting) make such profits is meaningless because the profit is accounting information that might be misleading them. Accounting practices healthy (governance) should be a key performance indicator if the small business entities to be successful in business.

Small business entities in Indonesia also have similar problems when faced with a fatal error described by Zemmerer (2008). Even in some studies say that 60% of small business entities in Indonesia cannot afford to pass more than 5 years of age, so many small business entities changed its operations in the 4th and 5th not being able to survive (Tambunan, 2009). The main factor that causes it is a failure in implementing the principles of good governance.

Based on the description above, then the formulation of the problem and research objective in this research are to explain and predict about: (1) Are the princi-

Good SMES Governance

ples of good SMEs governance has been implemented by small business entities?; (2) Does the implementation of good SMEs governance has been well perceived by small business entities?; and (3) Does the perception of the application of good SMEs governance affects the performance of small business entities?

The result is expected to be useful in explaining and predicting the adoption and implementation of good SMEs governance in small business entities, especially for: (1) Policy makers (government) in measuring performance and coaching for small business entities; (2) Small business entity to survive and thrive in a business environment by understanding and implementation of the principles of good SMEs governance; (3) Development of science in order to find the key indicators the principles of good SMEs governance can be implemented on small business entities; and (4) Subsequent researchers who have research interests within the scope of performance measurement of small business entities associated with the implementation of the principles of good SMEs governance.

2. Literature Review and Precision Development

2.1 Characteristics of Small Business Entities

Research on small business entities is increasingly becoming an attractive offer from year to year, is seen from the amount of research in this field are increasing. The Committee for Economic Development (1978) suggested a small business entity has the following characteristics: First, the management company is characterized by familiarity, mostly members of the management board, is also owner of the company or the family of the owner; Second: the company's capital Owner and company managed and owned by individuals or small groups of people; Third: a small company doing business in a host where the owners and workers lived in one community the same, although the market may be beyond the host, and the Fourth: the size of companies within the industry category must be small compared with large companies. This size is usually seen from the number of sales, total employment, and others.

The findings of research found that most countries in Asia have a small business entity located outside the city (rural) (Tambunan, 1994). Most of the developing countries where the export of small business entities just under five percent of total expenditure. Exports of handicrafts, ready-made clothes and electronics, and many crafts issued by micro-enterprises. This is because small firms are more oriented on the domestic market (CBS, 1993; Hooley and Ahmad, 1990; Tambunan, 1994).

In the problems of labor, wage levels of small business entities in rural areas are lower than the small business entities in the big city. In general, the attempted capital comes from private companies, saving the owner company or financial resources obtained by excluding financial institutions (Liedholm and Mead, 1987; Suhartono, 1988; Tambunan, 1994; Zainudin, Nasution and Bahri, 1990). Because of the small business entities are the property of individuals and managers mostly dominated by the relatives, the owners make important decisions, such as on spending, marketing, finance, personnel, and strategies. Therefore, managers of small business entities still require practice, technical analysis, project design, marketing supplies, and strategic planning (Hooley and Ahmad, 1990; Tambunan, 1994). Tambunan (2009) summarizes the characteristics of small business entities as depicted in table 1 below:

Indonesia generally defines small business entities based on a fixed quantitative criteria such as the number of employees, amount of capital traded, total assets and total sales. Central Statistics Indonesia (PDSI) defines a small business entity based on the number of permanent workers, ie 1 to 4 workers are classified to micro firms, 5 to 19 workers were classified as small companies, 20 to 99 company employees were classified as medium company, and large companies have labored more than 100 workers.

With so many definitions of small and medium firms in Indonesia, it have led to errors in helping small business entities, so Urata (2001) proposes a definition of a small business entity that is a small firm that uses labor as 10 to 50 workers and with the acquisition amounted to USD. 3 billion, the company that has a simple labor 51 to 250 people working with the acquisition amounted to Rp. 15 billion. In addition, Indonesian Institute of Certified Public Accountants (Certified, 2008) in his book "Audit Guide for Small Business Entities" small business entity has been characterized as follows: (a) Total assets of the company <Rp25 billion, (b) Total income <USD \$ 50 billion; (c) Number of employees <50 people, (d) The number of audit hours <300 hours.

No	Aspect	Micro	Small Business	Medium Business
1	Formality	Informal sector; not taxpayers	Some formal sector; some taxpayers	Formal sector; listed and taxpayers
2	Management and Organization	Runs by owner	Runs by owner and have a simple organizational structure	Runs by the manager and have an organizational structure
3	Workers Opportunities	Used family members	Some used employee	Used formal employee
4	Production Process Pattern	Low mechanistic (manual)	Medium mechanistic (used simple machine)	High mechanistic (access to technology)
5	Market Orientation	Generally sales to the local market	Some sales to the domestic market (some sales to export)	Sales to domestic and export market.
6	Owners Profile	Low Education. Motivation: Survival	Well Education Motivation: Profit Oriented	Well Education. Motivation: Prosperity
7	Capital and Materials Resource	Own Capital and Local Resource	Some used import raw materials and have access to Bank	Some used import raw materials and have formal credit from Bank
8	External Relationship	No Access to Governance Program (No Business Unit)	Have Access to Governance Program and Link Foreign Investment	Have Access to Governance Program and Link Foreign Investment
9	Women Entrepreneur	The ratio of women to men as entrepreneurs is very high	The ratio of women to men as entrepreneurs is high enough	The ratio of women to men as an entrepreneur is very low.

Table 1
Main Characteristics of Small Business Entities

Source: Tambunan, 2009

There are also additional criteria in determining the audit for small business entities based on considerations of public accountants with respect to such factors as: (a) Concentration of the owner and/or senior management, (b) a limited source of income, (c) The recording is not too complicated, and/or (d) Controlling the level of entities that are not complicated.

2.2 Good SMEs Governance for Small Business Entities

SMEs governance has dominated the agenda of market economic policies that have been developed over a decade and gradually has become a top policy agenda around the world. The economic crisis and the relatively poor performance in the SMEs sector have made SMEs governance became a hot debate in its development (Berglof and von Thadden, 1999). Developing countries today are now increasingly adopting the concept of good SMEs governance because of its ability to provide a posi-

Good SMES Governance

tive impact on sustainable growth. It is believed will increase the goodwill of government and investor confidence in every company that applies the principles of SMEs governance. Good SMEs governance is seen as a structured process that is used to direct and manage the business affairs of the company to enhance business prosperity and SMEs accountability with the main purpose of realizing long-term shareholder value, while also considering the interests of other stakeholders. Claessens et al. (2002) state that SMEs framework that will better benefit the company through greater access to financing, lower capital costs, better performance and more favorable treatment of all stakeholders.

There are several definitions of SMEs governance, but the definition is more relevant to small business entities is a "set of rules, regulations, and structures that aim to achieve optimal performance by applying appropriate effective methods to achieve company goals" (Abor & Adjasi, 2007 .) In other words, SMEs governance refers to the internal state of the company and system that regulates the relationship between the elements in the organization. In addition, SMEs governance in small business entities also supports the sustainability of the organization for the long-term (going concern) with implementing responsibility, accountability, fairness, and transparent.

Issues of SMEs governance has become a growing area of research management, especially between large companies and listed on the stock market. Research in the area of small business entities (Small and Medium Enterprises) have also been developed, especially in developed countries (Eisenberg et al., 1998; Bennett & Robson, 2004). It is important to examine SMEs governance in the sector of small business entities from the context of developing economies. This is important because small business entities have been recorded accounts for about 85 percent of employment (Steel and Webster, 1991) and reached about 92 percent of businesses in developing countries. Small business entities have an important role in promoting economic growth that represents the majority of SMEs networks in the economy. Flawed SMEs governance mechanisms employed by small business entities cause of failure of small business entities in maintaining its presence in the business arena. Many phenomena encountered in the implementation of SMEs governance in small business entities, especially the weak understanding of small business entities on SMEs governance principles.

There are at least three reasons for small business entities in applying and implementing SMEs governance in its business activities, namely: First, the practice of good SMEs governance, paving the way for small business entities to grow and thrive by attracting investors to invest in companies these, including raising capital through bank loans. Second, Good SMEs governance practices to give effect to small business entities renewing and improving the system of internal controls that affect the improvement of accountability and high profitability, which includes minimizing the emergence of losses and fraud in SMEs activity. Third, SMEs governance framework ensures that the owners (shareholders) are free from executive duties and administration. As a result, conflicts between the owners who play a management role within the organization (owner as manager) will be further reduced by the application of this principle of SMEs governance.

Traditionally, SMEs governance is associated with large SMEs agency problem, it arises as a result of the relationship between shareholders and managers as a result of the separation between ownership and control of the company (Abor & Adjasi, 2007). In many cases, a small business entity consisting of only owners who are sole owners and managers, agency problem does not arise (Hart, 1995). Basically, small business entities tend to be less evident in the separation of ownership and management than of large companies.

Apart from the arguments above, there are global concerns in CG applications for small business entities, it is often stated that similar SMEs governance guidelines

applicable to companies listed on stock markets should also apply to small business entities. Jensen (1993) provide examples of what should be done by small business entities to improve the governance structure of the efficiency of the implementation of the CG system itself.

SMEs governance is a topic that has received extensive and growing attention in recent years as part of policy-making and provides a better contribution to the stability of financial markets and economic growth. SMEs governance is all related to how to control the relevant business, and indeed essential, to all organizations, regardless of size or structure. The core of any good SMEs governance is to allow small business entities to run their activities more effectively. Figure 1 below illustrates the basic principles of SMEs governance for small business entities, as designed by the PWC (2005).



Figure 1
Basic Principles of Good
SMEs Governance for
Small Business Entities

Source: CG Toolkit for SMEs, PWC, 2005

SMEs Governance Toolkit Price Water House Coopers (2005) identified seven key characteristics of good SMEs governance, namely:

- Discipline - senior management commitment to a broad organization to perform the correct behavior and correct the appropriate standard.
- Transparency - easy for outsiders to be able to analyze the actions and organizational performance.
- Independence - the extent to which conflicts of interest must be avoided, such as that organization's best interests always manage better all the time.
- Accountability - guarantee the rights of business owners and provide enough information related to wealth management and organizational performance.
- Responsibility - acceptance of all the consequences of the behavior and actions of the organization, including a commitment to performance improvement is required.
- Equality and Fairness - recognition, respect, and balance between the rights and interests of various parties who assume the interests of the organization.

Social Awareness - a real commitment to the organization for ethical standards and respect the social, environmental and economic activities in the communities in which the entity operates a small business.

2.3 Relations Between Good SMEs Governance and Performance of Small Business Entities

CG structure is considered as a whole series of structures and processes used to direct and control the firm (OECD, 1999). His influence is made explicit in the reciprocal influences between management systems and SMEs governance structure (Miller and Toulouse, 1986). CG approach is applied in different studies on the company's CG. Most of the research paper uses agency theory as the main theoretical

Good SMES Governance

background (Zahra and Pearce, 1989). Two dimensions are often used to analyze CG: (1) the composition of the board of directors and (2) role. The organizational structure of small business entities play a key role, in the presence of these companies directors in family-owned businesses are very common and is a key factor in the decision making process. To study the structure of SMEs governance in a small business entity has two key dimensions that should be considered: the role of the board of directors and the influence of ownership on SMEs governance. By using two-dimensional, the proposed framework and typology of a small business entity which is a traditional family company, then focus on business profitability is essential and strategic.

The empirical results emphasize that when the composition of SMEs managers to move from family-owned business into a company that is managed by a group of managers and external shareholders, the role of the board of directors to move from service to a strategic role. The owner does not manage the company and they do not have the effect of SMEs governance. In this case, the importance of strategy as a tool to support decision-making will increase. When the owners manage the company, then the strategy is not used or used in the wrong way will reduce the company's performance.

2.4 Theoretical Framework

The theoretical framework that the authors also proposed the development of the hypothesis is as follows:

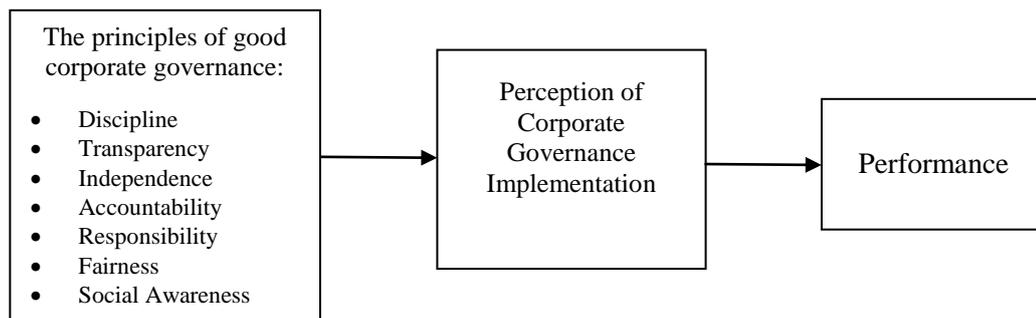


Figure 2
Theoretical Framework

Question (Precision) Research

Based on the description in the literature review and theoretical framework above, it can be arranged in the form of precise research questions as follows:

Precision-1: Understanding the small business entity on the principles of SMEs governance is positively associated with perceptions of small business entities about the importance of the application and implementation of SMEs governance in business activities.

Precision-2: Perceptions of the application and implementation of SMEs governance is positively related to the performance of small business entities.

3. Research Method

3.1 Research Method Framework

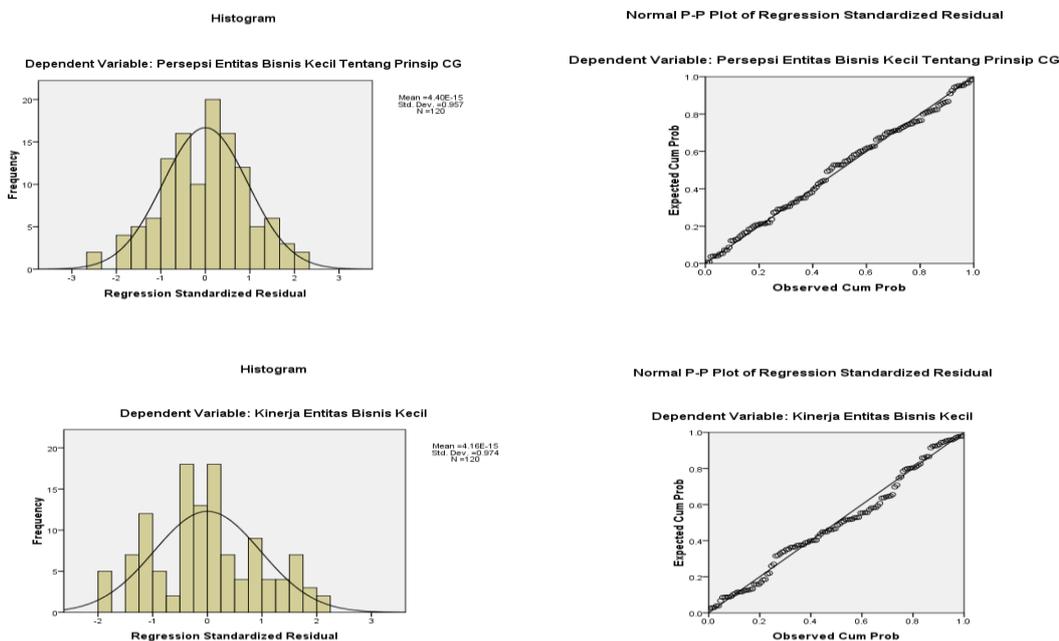
The study was designed with field study research approach (in the form explorative), which combines primary data with secondary data. The primary data obtained through questionnaires to the employers of small business entities (as respondents) and secondary data obtained from financial and nonfinancial information from business entities. Secondary data was also obtained from a database of small business entities that exist in the Ministry of Cooperatives and SMEs of the Republic of Indonesia.

Here is a design research method developed in this research:

3.1.1 Data Quality Test

Before conducting the test precision and regression testing is done first so that the assumption of classical regression model can produce an unbiased estimator (valid). Classic assumption test conducted in this research is normality test, reliability test, and test validity.

Normality test is performed to determine the normality of confounding variables (residual). Classical normal linear regression assumes that each \pm (residual) normally distributed. For two normally distributed variables, μ and μ not only do not correlate but also distributed independently (Gujarati, 1999:166). Residuals are normally distributed variable will lie around the horizontal line (not scattered far from the diagonal line). The results of data processing results obtained Histogram and Normal PP Plot of which can explain the normality of data to be tested. The following figure explains the normality of the data for the variable of SMEs Governance Principles, Perception for Small Business Entities on SMEs governance, and Performance of Small Business Entities.



Source: Processed Data, 2015

Figure 3
Normality Test

From the picture above can be said that the data were normally distributed superbly so it can be done more testing. Reliability test intended to determine the reliability of the data has been collected. This test is useful to see the level of consistency of respondents in completing the questionnaire. Reliability test can be measured by looking at the value of alpha Cronbach output data processing. According to Nunally (2001), a questionnaire instrument is said to reliable (reliable) if it has Cronbach's alpha value greater than or equal to 60%. While Malhotra (1996: 305) states reliability can be declared reliable with Cronbach's alpha value less than or equal to 50% reliability test results contained in table 2.

Validity testing is done to see the ability of an instrument to measure what it should be measured. Tests validity is done by calculating correlations between scores each of the items by a score total of all the questions by using Pearson Product Moment Tests Coefficient of Correlation. Instruments will be declared invalid if it has a 95% confidence level (significant at level 0.05). The Reliability test results contained in table 2.

Good SMES Governance

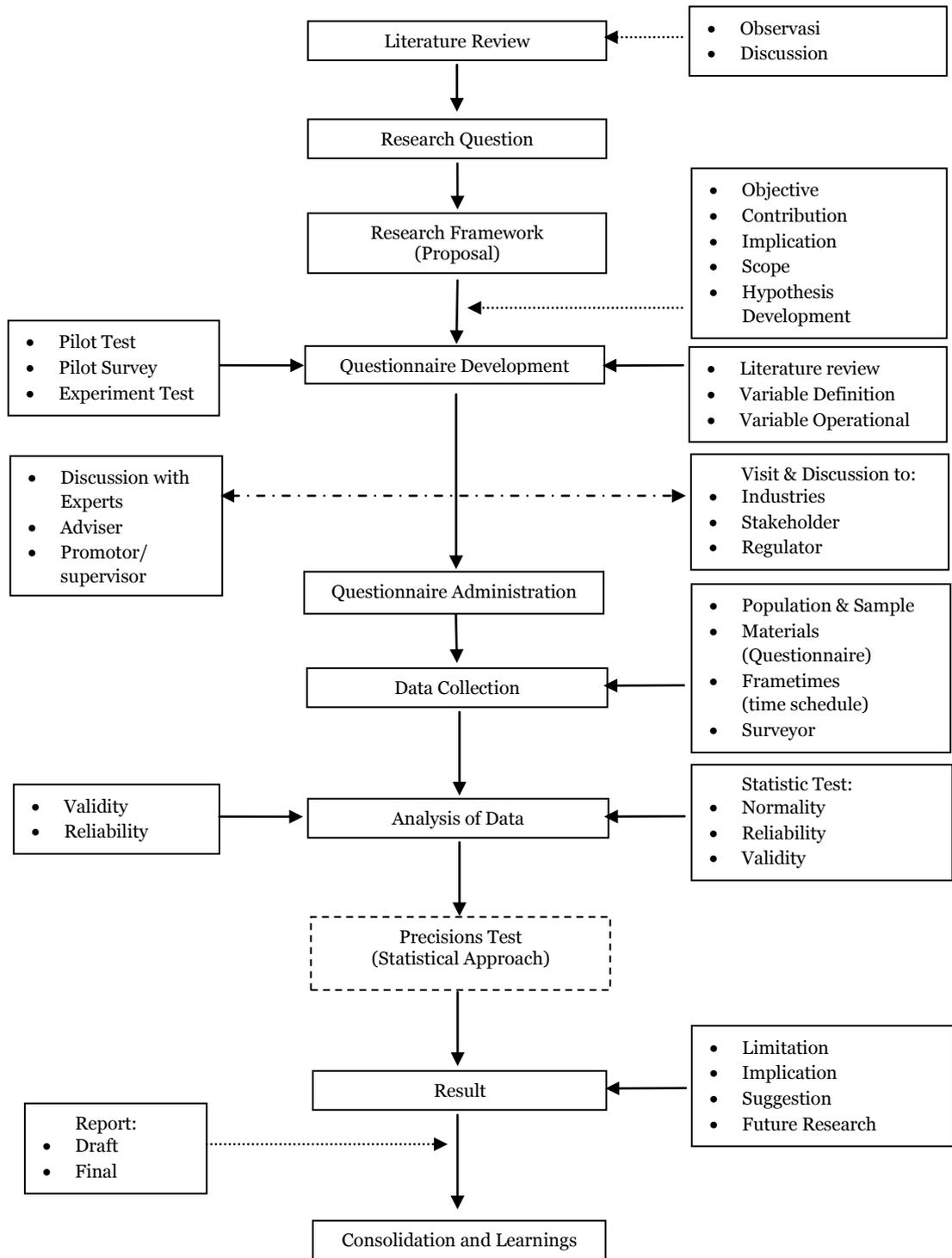


Figure 4
Research Design

No	Variable	Item	Grand Mean	Cronbach's Alpha	CA -Based on SI	Pearson Correlation	Result
1	Performance of Small Business Entities (Y)	6	3,63	0,517	0,551	18,735 ***	Reliable and Valid
2	Perception of Small Business Entities About GCG Principles	7	3,50	0,636	0,638	13,421 ***	Reliable and Valid
3	CG principles	21	3,52	0,638	0,643	7,405 ***	Reliable and Valid

Table 2
Reliability dan Validity Test

*** significant 1%
Source: Processed Data, 2015

From the table above it can be concluded that the research instrument in this study can be deemed reliable and valid so that further testing can be done.

3.1.2 Descriptive Statistics

The result of data processing that has tested the quality, the next will be analyzing descriptive statistics that begins with an explanation of the characteristics of respondents. As mentioned previously, who were respondents in this study is small business entities registered at the Ministry of SMEs. However, due to limitations of time and effort, then the selected respondents are small entrepreneurs who do their business activities are in SMEs in the Union of Entrepreneurs of Small Gelora Sports (GOR) in Bekasi. These small entrepreneurs are on a regular basis each week doing the buying and selling activity around GOR Bekasi. From the information obtained from the manager GOR Bekasi, there are more than 800 small entrepreneurs to conduct its activities around the GOR Bekasi.

The survey has been conducted for 3 consecutive weeks on the 16, 23, and 30 January 2011 to the 200 respondents, of which only 120 eligible respondents who processed the data. Table 3 the following are the characteristics of respondents in this study. From the table 3 can be explained that the respondent is dominated by women (71%), this can be understood that women tend to have the willingness and ability to become an entrepreneur. If in terms of age, then 83% of respondents are in the productive age (25-40 years). 85% of respondents are married and 81% having a non-scholar. Status of the respondents in the company by 65% is as owner cum manager, while the remainder (46%) only existed as manager only. 62% of respondents had run their business within 3-6 years, this case illustrates that a relatively small business entity having a young business. All respondents (100%) did not register their business at the Ministry of SMEs. Most SMEs assets in the range of 100-200 million dollars (52%), the value of these assets are included in the criteria for small and medium enterprises. While the sales turnover per month ranges from 5-10 million rupiahs by 57% of respondents. Furthermore, the amount of labor is still relatively low even as many as less than five workers (58%) and no company has a workforce of more than 10 people. 61% of respondents do not prepare regular financial statements, while the elements of financial statements prepared in which most of the Statements of Income (53%) and 47% of respondents prepare Income Statement and Consolidated Balance Sheet. Finally, from the table above, note that none of the Financial Report prepared by the respondent has ever been audited by independent accountants.

**Good SMES
Governance**

No	Description	Frequency	%	
1	Gender	Men	35	29
		Women	85	71
2	Marital Status	Single	15	12
		Married	102	85
		Widow/Widower	3	3
3	Status in Company:	Owner	0	0
		Manager	55	46
		Owner cum Manager	65	54
4	Registered at the Ministry of SMEs	Yes	0	0
		No	120	100
5	Company turnover per month:	<= 5 millions	43	36
		5-10 millions	69	57
		10-25 millions	8	7
		25-50 millions	0	0
		>= 50 millions	0	0
6	Age of Respondent:	<= 25 years		
		25-30 years	14	12
		30-40 years	53	44
		40-50 years	47	39
		>= 50 years	6	5
7	Number of Workers:	<= 5		
		5-10	70	58
		10-20	50	48
		20-30	0	0
		>= 30	0	0
8	Education:	Degree	23	19
		Non Degree	97	81
9	Asset:	<= 100 millions	44	37
		100-200 millions	63	52
		200-400 millions	13	11
		>= 400 millions	0	0
10	Company Age	<= 3 years	32	27
		3-6 years	75	62
		6-10 years	13	11
		>= 10 years	0	0
11	Preparing Financial Statements on a regular basis	Yes	47	39
		No	73	61
12	Audited Financial Statements Independent Accountants:	Yes	0	0
		No	120	120
13	Audited Financial Statements Independent Accountants:	Income Statement	64	53
		Income Statement and Balance Sheet		
		Income Statement, Balance Sheet, and Statement of Cash Flows	56	47
		Income Statement, Balance Sheet, Statement of Cash Flows, and Statement of Changes in Capital	0	0
		Income Statement, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and Notes to Financial Statements	0	0

Source: Processed Data, 2015

Table 3
Respondent
Characteristics

Table 4 illustrates the descriptive statistics of main variables in this study

	N	Mini- mum	Maxi- mum	Mean	Std. Deviation	Skewness	
	Sta- tistic	Statistic	Statistic	Statis- tic	Statistic	Statis- tic	Std. Error
Discipline	120	3	4	3.49	.280	-.050	.221
Transparency	120	3	4	3.48	.301	.020	.221
Independence	120	3	4	3.51	.270	-.040	.221
Accountability	120	3	4	3.51	.270	-.040	.221
Responsibility	120	3	4	3.53	.268	-.080	.221
Fairness	120	3	4	3.54	.267	-.117	.221
Social Awareness	120	3	4	3.56	.362	-.401	.221
Perception of Small Business Entity in GG principles	120	3	4	3.63	.313	-.041	.221
Performance of Small Business entities	120	3	4	3.50	.289	.168	.221
Valid N (listwise)	120						

Table 4
Descriptive
Statistics

Source: Processed Data, 2015

The table above shows the distribution of each variable, namely the principles of SMEs governance criteria consisting of Discipline, Transparency, Independence, Accountability, Responsibility, Fairness, and Social Awareness. The seven criteria showed that the mean values ranged from 3.48 to 3.56 which means that the criteria are understood by small business entities (respondents) can be implemented in their business activities. Perceptions of Small Business Entities on Principles of SMEs Governance have a mean value of 3.63 which means a small business entity has perceived the principle of good SMEs governance. Furthermore, the mean value of 3.50 for the Performance of Small Business Entities describe the performance measures can be explained by the perception of the implementation of the principles of SMEs governance in small business entities. This means that the implementation of the principles of SMEs governance by a small business entity can affect performance positively.

Table 5 below describes in more detail on the statistics from the perception of small business entities in implementing the seven principles of SMEs governance.

	Discipline	Trans- Parancy	Inde- pendence	Ac- count- Ability	Respo- n- sibility	Fairness	Social Aware ness
Mean	3.49	3.48	3.51	3.51	3.53	3.54	3.56
Std. Error of Mean	.026	.028	.025	.025	.025	.024	.033
Median	3.50	3.33	3.67	3.67	3.67	3.67	3.67
Mode	4	3 ^a	4	4	4	4	4
Std. Deviation	.280	.301	.270	.270	.268	.267	.362
Variance	.078	.091	.073	.073	.072	.071	.131
Skewness	-.050	.020	-.040	-.040	-.080	-.117	-.401
Std. Error of Skewness	.221	.221	.221	.221	.221	.221	.221
Minimum	3	3	3	3	3	3	3
Maximum	4	4	4	4	4	4	4
Sum	419	417	422	422	423	425	427
Percentiles							
25	3.33	3.33	3.33	3.33	3.33	3.33	3.33
50	3.50	3.33	3.67	3.67	3.67	3.67	3.67
75	3.67	3.67	3.67	3.67	3.67	3.67	3.92
N=120							

Table 5
Statistics Perceptions
of Small Business
Entities in
Implementing
the Principles of SMEs
Governance

Source: Processed Data, 2015

From the above table, it can be concluded that the small business entities perceive the implementation of the principles of SMEs governance as a "high" in their

Good SMES Governance

business activities that impact on performance improvement. This is evidenced by the mean value of the total value above 3.50. This means that SMEs governance principles applicable to small business entities.

4. Discussion

4.1 First Precision

In the Library Reviews and the Development of Precision has been explained that there is a positive relationship between small business entities of understanding about the principles of SMEs governance with the perception of small business entities about the importance of implementing SMEs governance in their business activities. Table 6 below presents the results of tests of the first precision.

Table 6
Relation Between Small Business Entity Knowledge About Principle of SMEs Governance With Small Business Entities Perceptions About the Importance of Implementation of SMEs Governance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	(Constant)	3.334	.591		
Discipline	-.067	.094	-.060	-.712	.478
Transparency	.069	.088	.067	.786	.433
Accountability	.370	.131	.319	2.823	.006
Responsibility	-.633	.126	-.543	-5.028	.000
Fairness	.523	.188	.446	2.787	.006
Social Awareness	-.038	.131	-.044	-.289	.773
Firm Aged	-.059	.042	-.112	-1.394	.166
Firm Asset	-.068	.040	-.139	-1.714	.089
Labor	-.088	.052	-.139	-1.687	.094
Education	-.082	.064	-.104	-1.280	.203

F=5.170; R=.567^a; R Square= .322; Sig=.000

Source: Processed data, 2015

From the table above can be explained that in general, the relationship between small business entities of understanding about the principles of SMEs governance with the perception of small business entities about the importance of implementing SMEs governance in its business activity is significantly positive. This is evidenced by the F-value of 5.170 with a significance value of 0.000 (alpha 1%). Medium partial understanding of the relationship between small business entities of the principles of SMEs governance with the perception of small business entities about the importance of implementing SMEs governance in its variations of business activities on each element of SMEs governance principles. Of the seven principles of SMEs governance, accountability and fairness which only showed a significant positive relationship with value t-value amounted to 2.832 and 2.787. Meanwhile, the value of t-value for the principle of responsibility significant negative value of -5.028. It's hard to explain why negative principally concerned but can be explained by the logic that all respondents are owners as a manager in his efforts so that the principle of responsibility (accountability) to be not so relevant. However, further analysis will be done in the next section. In this precision, testing found that the variable Independence issued in testing due to these variables indicated collinearity occurs so that these variables were not included in further testing.

Furthermore, by including control variables in the form of Age of Company, Company Size, Number of Employment, Education Owner/Manager, and Financial Report small business entity, then based on the above table is obtained R² value of 0.322 or 32.2%, which means that the perception of small business entities on the implementation of SMEs governance can be explained by the principles of SMEs governance while the rest of 67.8% explained by other factors. This means that not all the

principles of SMEs governance as perceived by small business entities can be applied in the implementation of SMEs governance in their business activities.

4.2 Second Precision

In the second precision is mentioned that the perception of the application and implementation of the principles of SMEs governance is positively associated with the performance of small business entities.

From the table can be explained that the relationship between perceptions of small business entities regarding the implementation of the principles of SMEs governance to the performance of small business entities are not significant. This means that the performance of small business entities are not related to their perception of the implementation of the principles of SMEs governance. This is contrary to the basic theory that the implementation of the principles of SMEs governance can improve the performance of small business entities, primarily in SMEs governance well. Therefore, further study is needed to reexamine this relationship.

4.2 Analysis

Further analysis was done by testing precision research has been done previously. Table 7 The following is a summary of the question.

No	Variable	Scale	Prediction	t-value	Sig	Precision
1	Independent Variable: • Principles of SMEs Governance:					
	• Discipline	Ordinal	(+)	-0,712	0,478	Not Support
	• Transparency	Ordinal	(+)	0,786	0,433	Not Support
	• Independence	Ordinal	(+)	Excluded	--	--
	• Accountability	Ordinal	(+)	2,823	0,006	Support
	• Responsibility	Ordinal	(+)	-5,028	0,000	Not Support
	• Fairness	Ordinal	(+)	2,787	0,006	Support
	• Social Awareness	Ordinal	(+)	-0,289	0,773	Not Support
2	Intervening Variable: Perception of SMEs Governance Implemen- tation	Ordinal	(+)	5,170	0,000	Support
3	Dependent Variable: Performance of Small Business Entities	Ordinal	(+)	1,526	0,176	Not Support
3	Controls Variable					
	• Age	Nominal	(+)	-1,394	0,166	--
	• Size	Ratio	(+)	-1,714	0,089	--
	• Number of Labor	Nominal	(+)	-1,687	0,094	--
	• Education	Dummy	(+)	-1,280	0,203	--
	• Financial Statement	Dummy	(+)	--	--	--

Table 7
Summary of Research Precision Testing

Source: Processed Data, 2015

From the table above can be explained that the only criteria for Accountability and Fairness, which is part of the perceived SMEs governance principles relating to the implementation of SMEs governance by small business entities. This indicates that the criteria (principles), SMEs governance has not been fully considered important by small business entities in carrying out its business activities. Is needed further study and analysis to find criteria and other principles relating to good SMEs governance for small business entities.

5. Conclusion, Limitation, and Suggestion

The conclusion of this study aimed at answering the research objectives previously set. From the results of the precision test and analysis results, it can be taken several conclusions as follows:

- a. Precision is the first study that has been established previously been able to be answered in this study, but the application of good SMEs governance not fully carried out by small business entities, this is evidenced by the just principles of Accountability and Fairness perceived positively related to the implementation of SMEs governance principles in the governance of business entities small. While the precision of the second study failed to be supported in this study, this means implementation of SMEs governance principles in small business entities are not positively related to the performance of small business entities.
- b. Not entirely the principles of good SMEs governance implemented by small business entities, therefore, required further study and research to discover the principles of SMEs governance in accordance with the small business entities.
- c. Obstacles and barriers experienced by small business entities in the application and implementation of good SMEs governance over due to the principle of SMEs governance do not have a positive and significant relationship with the performance of small business entities. This ends the performance of small business entities do not have anything to do with the implementation of the principles (criteria) SMEs governance.

This study has limitations, especially in terms of research methods, including the threat of external validity, so that the results of this study cannot be generalized. As for some of the limitations of this study can be detailed as follows:

- a. The number of respondents who are limited and only focused on small business entities, non-formal (not legally registered or not registered at the Ministry of SMEs).
- b. Research that is "exploratory study" which is more focused on testing the research instruments that have not found the research methods that "fit" with this study.
- c. Time is limited research that led to the identification of respondents is limited and does not include small business entities widely.

Based on the limitations of the study above, it can be given some suggestions as for the implications for subsequent research. The suggestions that may be recommended are as follows:

- a. Conduct further research to include more small business entities, especially small businesses that have entities legality (listed in the government and/or have a business license).
- b. Reexamine instrument that has been used to make some adjustments such as set back a list of questions compiled by Credit Lyonnais Securities Asia (CLSA) to make some adjustments in accordance with the needs of small business entities. Testing can also be done by conducting a pilot test first.

Using the same research methods or using other research methods in the test results, such as using Discriminant Analysis.

References

- Abor. Joshua & Adjasi. Charles. K.D., (2007). SMEs governance and the small and medium enterprises sector: theory and implications. *Journal SMEs Governance*, Vol. 7, No. 2, pp. 111-122.
- APEC, 1999. *The APEC survey on small and medium enterprise*, Singapore: APEC Secretariat.
- Carrier, C. (1994). Intrapreneurship in large firms and SMEs: A comparative study. *International Small Business Journal*, 12(3), 54-61.

- Carson, D. (1990). Some exploratory model for assessing small firm's marketing performance (a qualitative approach). *European Journal of Marketing* 24(11), 1-51.
- Cross, M. (1983). Small Firms in the United Kingdom in D. J. Storey (eds) *The Small Firm: an international survey*, Croon-Helm, London.
- Davis, C.D., Hills, G.E., & Laforge. R.W. (1985). The marketing/small enterprise paradox: a Research Agenda. *International small business journal*, 3(3), 31-41.
- Hari Wijanto. Setyo. (2008)., *Struktural Equation Modeling Dengan Lisrel 8.8., Graha Ilmu*.
- Hodgetts, R. M., Kuratko, D. F., & Hornsby, J. S. (1999). Quality implementation in small business: Perfectives from the Baldrige award winners. *SAM Advanced Management Journal*, 64(1), 37-47.
- Holmes, S. (2001). *Definition of Small Business, final report for the small business coalition*, Australia.
- Hooley, R., & Ahmad, M. (1990). *Small-medium size enterprise and the development process in four Asian countries*, Manila: Asian Development Bank, 5-63.
- Institut Akuntan Publik Indonesia – IAPI, (2008), *Panduan Audit Entitas Bisnis Kecil*, Penerbit Salemba Empat.
- Jones, J. P. (1995), *The effect of market orientation on small business performance*. Nova Southeastern University, Ft. Lauderdale.
- Kwon, Y.C., & Hu, Y. (2000). Market orientation among small Korean exporters. *International Business Reviews*, 9(1), 61-75.
- Kusyik., Sophia Maria. & Lozano Josep.A., (2007). SMEs responsibility in small and medium-sized enterprises SME social performance: a four typology of key drivers and barriers on social issues and their implications for stakeholder theory, *Journal SMEs Governance*, Vol. 7, No., 4, pp. 502-515.
- Little, I. M. D. (1988). Small manufacturing enterprise and employment in developing countries. *Asian Development Review*, 1-9.
- Lu, J. W., & Beamis, B. W. (2001). The internationalization and performance of SMEs. *Strategic Management Journal*, 22, 565-586.
- Matsuno, K., & Mentzer, J. T. (2000). The effect of strategy type on the market orientation-performance relationship. *Journal of Marketing*, October, 1-16.
- Matsuno, K., Mentzer, J. T., & Ozsomer, A. (2002). The effect of entrepreneurial proclivity and Market Orientation on Business Performance. *Journal of Marketing*, 66, July, pp. 18-32.
- Mazzarol, T., & Ramaseshan, B. (1996). Small business marketing: A comparative study of high and low success firms. *Small Enterprise Research*, 4(3), 50-64.
- Murphy, G.B., Trailer, J.W., & Hill, R.C. (1996). Measuring Performance in Entrepreneurship Research. *Journal of Business Research*, 36, 15-23.
- Price Water House Coopers (2005), *SMEs Governance Toolkit for small and medium enterprises*, 2nd Edition, CPA Australia.
- Satao, Y. (1996). *Work organization and job quality of SME in Japan*. Paper presented at SMEs development, innovation, and growth, the Washington workshop, OECD.
- Singh, Rajesh Kr., Suresh Kr Garg., S G Deshmukh. (2007), Comparative Study on Strategies of Indian Small, Medium and Large Scale Organizations, *South Asian Journal of Management*, Jul-Sep, 14,3, pp. 44-65.
- Strikwerda., j. (2003), An entrepreneurial model of SMEs governance: devolving powers to subsidiary boards., *Journal SMEs Governance*, Vol. 3, No. 2, pp. 38-57.
- Swierczek, F. W., & Ha, T. T. (2003) Entrepreneurial orientation, uncertainty avoidance and firm performance: an analysis of Thai and Vietnamese SMEs. *International Journal of Entrepreneurship and Innovation*, 4(1), 46-58.
- Tabachnick, B. G., & Fidell, L. S. (1996). *Using multivariate statistics*. 3rd (eds). New York: Harper Collins.

Good SMES Governance

- Tambunan, T. (1994). *The role of small-scale industries in rural economic development: A case study in Ciomas sub-district, Bogor, West Java, Indonesia*. Ph.D. Dissertation, Data Koninklijke Bibliotheek, Den Haag.
- Tambunan, T. (2009). *UMKM Di Indonesia*, Penerbit Ghalia Indonesia.
- Tate, C. E., Megginson, L. C., Scott, C. R., & Trueblood, I. R. (1975). *Successful Small Business Management*, Business Publication Inc., 3-14.
- Torgler. Benno., (2006). The Importance of Faith: Tax Morale and Religiosity. *Journal of Economic Behavior & Organization*. Vol. 61, pp. 81-109.
- Tzokas, N., Carter, S., & Kyriazopoulos, P. (2001). Marketing and entrepreneurial orientation in small firms. *Enterprise and Innovation Studies*, 2(1), 19-33
- Urata, (2001, Desember 14), Pembiayaan Usaha Kecil Menengah, bermasalah sejak definisi, *Kompas*, 39.
- Van Bruggen, G., & Smidts, A. (1995). The measurement of market orientation: a promising tool for management?. Proceeding CEMS Academic Conference, April, Vienna.
- Van Der Post, W. Z., DeConing, T.J. et al (1997). An Instrument to measure Organization culture. *South African Journal of Business Management*, 28(4).
- Van Dierman, P. (1995). *Systems of Enterprises: A Study of Small-Scale Garment and Wood Furniture Enterprises in Jakart.*, Ph.D. Dissertation, The Australian National University.
- Venkatesan, V., & Soutar, G.(2000). The applicability of some market orientation models to Australian SMEs: An empirical study. Pages 1314-1318, Queensland, Australia. ANZMAC (Griffith University, Queensland).
- Zainudin, D., Nasution, M., & Bain, I. (1990). *The role of small and medium scale industries in industrial development*. Asian Development Bank, 257-312.
- Zemmerer, Thomas W., Norman M. Scarborough, Doug Wilson, (2008), *Essential of Entrepreneurship and Small Business Management* (Terjemahan), Ed. 5, Bk. 1, Penerbit Salemba Empat.