

Analysis of Bakery SMEs Performance in Magelang, Indonesia

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This study analyzed performance of SME bakeries in Magelang, Indonesia by testing entrepreneurial orientation and total quality management. The population in this study was 86 SMEs. The study used purposive sampling technique with the following criteria: (1) SMEs that had implemented TQM. (2) SMEs that are 3 years old or more. Based on these criteria, there are 66 SMEs that are sampled in this study. The data analysis technique used in this study is the Partial Least Square. The results of this study indicate that entrepreneurial orientation has a positive effect on Firm performance, TQM has a positive effect on Firm performance, entrepreneurial orientation has a positive effect on TQM, and TQM positively mediates the effect of entrepreneurial orientation on firm performance.

Keywords: Entrepreneurial Orientation, Firm Performance, SMEs, Total Quality Management

JEL Classification: M2, M00, M10

INTRODUCTION

In this era, trade and industry are growing. In Indonesia, SMEs is important because, with the existence of SMEs, the economy in Indonesia will increase and can absorb a lot of workers to reduce unemployment (Creativepreneurship, 2020). People in the current era have started to dare to open a business, one of the businesses that is starting to develop a lot is SMEs (Sujatmiko, 2020). Economic growth in Magelang City from year to year has increased. One of the factors that increase economic growth in Magelang City is SMEs. In an article written by Kumparan, the Mayor of Magelang stated that 60% of SMEs are the pillar of the economy in Magelang City. (Ari, Coil 2021). Magelang City is a small city but has a lot of SMEs in the food sector, one of which is cake or bread. There are many bakeries in Magelang City. With so many bakeries, each SME must have a way to survive in the competition. In maintaining competition, SMEs must do various ways, one of which plays a role in creating various ways to compete in the entrepreneurial orientation (Rinta, 2021).

When business competition is getting tougher, companies continue to look for strategies to improve Firm performance and gain profits. Entrepreneurial orientation is an organizational phenomenon that reflects managerial ability where companies initiate proactive and aggressive initiatives to turn competitive advantage to their advantage (Gima and Ko, 2001; Avlonitis and Salavou, 2007; Sahoo and Yadav 2017: 895).

TQM is a process of change and improvement in everything we do, namely the products we make, the services we provide to our customers, the office practices we use, the procurement procedures we use, and the marketing strategies we use (Gould 1992: 5). The definition of TQM according to Al-Dhaafri (2017:896) is a management philosophy to make continuous improvements to the organization so as to produce products and services that are in accordance with the needs and desires of consumers. With the implementation of entrepreneurial orientation and TQM, it is expected that the Firm's performance in SMEs will increase. Firm performance has meaning as a result of management activity in the Firm.

Based on the explanation above, the researcher will research SMEs bakery in Magelang City to determine the effect of implementing the existing entrepreneurial orientation in bakeries in Magelang City. Researchers chose a bakery as the subject of research because in SMEs bakery/bakery in Magelang City, management orientation and TQM are needed to maintain product quality and improve Firm performance. And the researchers chose Magelang City as the city to study because the bakery industry in Magelang City has started to appear and develop a lot.

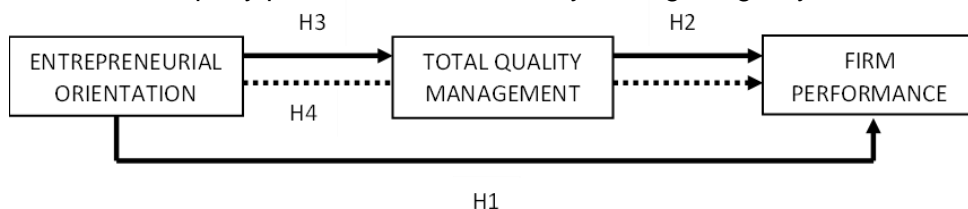
The hypotheses in this study are as follows:

H1: Entrepreneurial orientation has a positive effect on company performance at a bakery in Magelang City.

H2: Total quality management has a positive effect on company performance at a bakery in Magelang City.

H3: Entrepreneurial orientation has a positive effect on total quality management at a bakery in Magelang City.

H4: The practice of total quality management mediates the effect of entrepreneurial orientation on company performance at a bakery in Magelang City.



H1

LITERATURE REVIEW

A. Firm Performance

According to Sobirin (2014: 1.6) for an organization or company, performance is a benchmark for knowing the achievements of the organization, the extent to which these achievements are in line with, in particular, the wishes of the owners or investors and the wishes of other stakeholders.

In this study, the performance indicators used are indicators that adapt from previous research on Imran et al (2018), namely:

1. Financial, which is to find out whether there is an increase in the company's finances or not. The way to find out if the company's finances are increasing or not is to see whether the company's sales have increased or not and can also look at the profits made by the company.
2. Strategy, which is to find out whether there is a strategy to compete with its competitors or a strategy to improvise on the company and to find out whether or not the targets that have been planned for the company have been achieved.
3. Customer Satisfaction, which is to find out customer satisfaction with products and services at the company and also to find out whether it is by customer expectations.

B. Entrepreneurial Orientation

According to Amanda and Rafida (2016: entrepreneurship is the ability to create, seek, and take advantage of opportunities to achieve what is desired by what is idealized. According to Zimmerer and Scarborough (2008:4) entrepreneur is someone who creates a new business with risk and uncertainty and growth by identifying significant opportunities and combining the necessary resources so that those resources can be capitalized.

The entrepreneurial indicators used in this study were adapted from previous research on Sahoo and Yadav (2017), which are as follows:

1. Innovativeness, namely innovations made by managers or owners. Perform creative methods to be applied in the company's operations, seek and develop new ways to be applied in the company.
2. Risk-taking, ie owners or managers dare to take risks on new opportunities that exist to develop their company on these new opportunities.
3. Proactiveness, which is always active and there is an initiative in making new things. The owner or manager is active in introducing the company's products to customers. The owner or manager also takes the initiative to develop the process for making the product.

C. Total Quality Management

According to Gould (1992:5), TQM is a process of change and improvement in everything we do, namely the products we make, the services we provide to our customers, the office practices that we use, the procurement procedures we use, and the marketing strategies we use. According to Russell and Taylor (2011: 67), TQM is a philosophy for managing an organization that is centered on quality and customer satisfaction as a strategy to achieve long-term success. It requires the active involvement, participation, and cooperation of everyone in the organization, and includes almost all of its activities and processes. According to Ramasamy (2012:1.3), TQM is a philosophy and customer-oriented management strategy. It is the center of quality thus generating customers. According to Heizer and Render (2015: 248) TQM is managing the entire organization of a company in a prominent way in all aspects of products and services to our customers. TQM emphasizes quality throughout the organization, from suppliers to customers.

The TQM indicator used in this study adapts from previous research on Sahoo and Yadav (2017), namely

1. Product design is to design and plan a product before it is made.
2. Process quality management, namely controlling and maintaining product quality during the manufacturing process. Corrective action is taken immediately when there is a quality problem.
3. Organization-wide employee training (training employees within the organization), namely conducting training to employees to improve their quality, conducting employee training so that they can do more than one job, evaluating or assessing the company's employees.
4. Quality information usage, namely the information from the product is clear so that if there is a problem it can be identified immediately.

RESEARCH METHOD

The type of data used in this study is primary data obtained through the distribution of questionnaires. The sampling method in this study uses non-probability sampling using the purposive sampling technique with the consideration of SMEs that have been established for 3 years or more and SMEs that have implemented TQM. The data analysis technique used in this study is to use Partial Least Square analysis using the SmartPLS 3.0 application to calculate the data that has been collected. Tests in this study using the Partial Least Square Technique.

RESULTS

A. Outer Model

The first validity test is convergent validity which can be seen through the correlation between the indicator scores and the construct scores. The indicator is good if the correlation value is above 0.7 (Ghozali and Latan 2015:37)

Table 1. Outer Loading

	Firm Performance	Entrepreneurial Orientation	TQM	Status
CP1	0,756			Valid
CP2	0,765			Valid
CP3	0,733			Valid
CP4	0,719			Valid
CP5	0,811			Valid
CP6	0,709			Valid
CP7	0,705			Valid
EO1		0,741		Valid
EO2		0,726		Valid
EO3		0,761		Valid
EO4		0,824		Valid
EO5		0,712		Valid
TQM1			0,743	Valid
TQM2			0,807	Valid
TQM3			0,739	Valid
TQM4			0,762	Valid
TQM5			0,808	Valid
TQM6			0,708	Valid

From table 1 above, it can be seen that the results of each correlation between the indicator score and the construct score are above 0.7, which means that each indicator passes the outer loading test. Then it can be continued with the next test, namely AVE (Average Variance Extract) where the AVE value of each construct must be above 0.5 (Ghozali and Latan 2015:40)

Table 2. Average Variance Extract

	AVE
Firm Performance	0,552
Entrepreneurial Orientation	0,568
TQM	0,581

Based on the table above, each construct, namely Firm performance, entrepreneurial orientation, and total quality management, has an AVE value above 0.50 which means that each construct passes the AVE test, then we can continue the other test, namely discriminant validity. Discriminant validity is a test that can be seen from the correlation between the constructs and the indicators that are higher than the correlation between other constructs. Discriminant validity can be seen through the Fornell-Larcker table and the Cross Loading table (Ghozali and Latan 2015: 39).

Table 3. Fornell-Larcker

	Firm Performance	Entrepreneurial Orientation	TQM
Firm Performance	0,743		
Entrepreneurial Orientation	0,668	0,754	
TQM	0,727	0,720	0,762

Table 4. Cross Loading

	Firm Performance	Entrepreneurial Orientation	TQM
CP1	0,756	0,384	0,518
CP2	0,765	0,440	0,525
CP3	0,733	0,711	0,554
CP4	0,719	0,563	0,528
CP5	0,811	0,496	0,572
CP6	0,709	0,400	0,537
CP7	0,705	0,417	0,536
EO1	0,635	0,741	0,564
EO2	0,465	0,726	0,529
EO3	0,471	0,761	0,608
EO4	0,518	0,824	0,538
EO5	0,465	0,712	0,548
TQM1	0,520	0,691	0,743
TQM2	0,568	0,513	0,807
TQM3	0,538	0,482	0,739
TQM4	0,498	0,586	0,762
TQM5	0,594	0,589	0,808
TQM6	0,609	0,401	0,708

Based on table 3 and table 4 the correlation between constructs and indicators each has a higher value than the correlation between constructs and other indicators. For example, the correlation between the company's performance indicators and their constructs is higher than that of the company's performance indicators with other constructs (entrepreneurship orientation and TQM). Next is the Reliability Test. The construct will be declared reliable if the composite reliability and Cronbach's alpha have a value above 0.7 (Ghozali and Latan 2015: 41,75)

Table 5. Composite Reliability

	Composite Reliability
Firm Performance	0,896
Entrepreneurial Orientation	0,868
TQM	0,892

Table 6. Cronbach's Alpha

	Cronbach's Alpha
Firm Performance	0,865
Entrepreneurial Orientation	0,810
TQM	0,855

Based on table 5 and table 6, the composite reliability and Cronbach's alpha values for each construct have a value above 0.7, which means that each construct is reliable. So that each construct has passed the reliability test and can proceed to the structural model test (inner model).

B. Inner Model

Testing of the structural model or inner model can be done by looking at R square, path coefficients, and T-statistics in bootstrapping. R square is used to see the magnitude of the value of the affected construct (Ghozali and Latan 2015:78). The path coefficient is carried out to see the direction of the value relationship of the construct is positive or negative, and T-statistics in bootstrapping to see the significance of the relationship of a construct which if the t-statistic value is more than 1.96 then the relationship is declared significant (Ghozali and Latan 2015:42).

Table 7. R Square

	R square	R Square Adjusted
Firm Performance	0,572	0,558
TQM	0,519	0,512

Based on the R square table above, it can be seen that the R square value on the company's performance is 0.572 or 57.2%, it can be concluded that the value of the company's performance is influenced by the variables in the study, namely entrepreneurial orientation and TQM by 57.2% and the rest is influenced by other variables outside those in the study. Then the value of r square on TQM is 0.519 or 51.9% so it can be concluded that the value of TQM which is influenced by the variables in the research, namely entrepreneurial orientation is 51.9% and the rest is influenced by other variables outside the study.

Table 8. Path Coefficient

	Firm Performance	TQM
Entrepreneurial Orientation	0,301	0,720
TQM	0,509	

It can be seen that the direction of the relationship between entrepreneurial orientation on company performance, entrepreneurial orientation on TQM, and TQM on company performance all have a relationship direction above 0 or it can be said that the direction of the relationship is positive.

Table 9. T-Statistic and P-Values

	T-statistic	P-values
Entrepreneurial Orientation to Firm Performance	2,003	0,046
Entrepreneurial Orientation to TQM	11,709	0,000
TQM to Firm Performance	3,469	0,001

Table 10. T-statistic and P-Values Indirect Correlation

	T-statistic	P-values
Entrepreneurial Orientation → TQM → Firm Performance	3,167	0,002

To see the significance of the relationship between a construct, the T-statistics test and P-values can be said to be significant if the T-statistics results have a value of more than 1.96 and the results of P-values are less than 0.05. (Ghozali and Latan 2015:42)

DISCUSSION

The results of the analysis are a positive and significant influence of entrepreneurial orientation on company performance. The things that are included in the entrepreneurial orientation are being active in introducing their products, making new products, daring to explore to get new opportunities, having an influence on increasing sales and profits of these SMEs, consumers are satisfied, and the planned target is achieved at UKM Bakeries in Magelang City. So, from the results of the analysis above, the hypothesis is declared significant or influential, so **H1 is accepted**.

The second hypothesis is that TQM has a positive effect on company performance, it has a t-statistic value of 3.496 and p-values 0.001 which means that if the t-statistic value is above 1.96 and the p-value is below 0.05. From the results of the analysis above, it can be seen that TQM has a positive and significant effect on company performance. The TQM process in SMEs such as maintaining product quality, maintaining the manufacturing process, maintaining communication between employees can affect company performance such as increasing sales, increasing SME profits, planned targets, and customer satisfaction. So, TQM is something that must be considered and applied to improve company performance. So, from the results of the analysis, the hypothesis is declared significant or influential, so **H2 is accepted**.

The third hypothesis is that entrepreneurial orientation has a positive effect on TQM having a t-statistic value of 11.709 and a p-value of 0.000, which means that if the t-statistic value is above 1.96 and the p-value is below 0.05. From the results of the analysis above, it can be seen that entrepreneurial orientation has a positive and significant effect on TQM. The application of entrepreneurial orientation in SMEs such

as being active in introducing their products, making new products, daring to explore to get new opportunities, can affect TQM such as product quality in SMEs, the process of making their products, communication between employees and owners of SME bakery shops in Magelang City. So, from the results of the analysis, the hypothesis is declared significant or influential, so **H3 is accepted**.

The fourth hypothesis is that TQM mediates the effect of entrepreneurial orientation on company performance, which has a value of 3.167 and p-values of 0.002, which is significant. From the results of the analysis above, it can be seen that TQM mediates the effect of entrepreneurial orientation on company performance. TQM becomes an intermediary for the influence of the relationship between SME owners or managers on company performance. To improve company performance, such as increasing sales, increasing SME profits, increasing customer satisfaction, requires SME owners or managers who continue to be active to implement an entrepreneurial orientation such as actively promoting and introducing their products to customers. But not only the influence of the owner or manager of SMEs but also the influence of TQM such as maintaining the quality of the products made, maintaining the manufacturing process, smooth communication between employees can also improve company performance. If the company's orientation and TQM have the same effect on company performance, then in this case TQM is referred to as **partial mediation** which means that TQM has an effect but does not play a full role in mediating entrepreneurial orientation on a company performance. So, from the results of the analysis above, it can be said that the result is partial mediation or the mediation variable does not play a full role, so **H4 is accepted**.

CONCLUSION

Based on the results of the research above, some conclusions can be drawn as follows: (1) Entrepreneurial orientation has a positive effect on the performance of companies in SME bakeries in Magelang City. (2) TQM has a positive effect on company performance in SME bakery/bakery in Magelang City. (3) Entrepreneurial orientation has a positive effect on TQM in SME bakery/bakery in Magelang City. (4) TQM mediates the effect of entrepreneurial orientation on company performance in SME bakery/bakery shops in Magelang City.

Based on these conclusions, suggestions can then be proposed that are expected to be useful for SMEs, namely for SMEs bakery/bakery in Magelang City that has not implemented an entrepreneurial orientation and TQM such as making new flavors, then being active in introducing products, then maintaining the quality of the products made, for bakery/bakery SMEs that have not implemented it so that they can immediately implement it in these SMEs because it has been proven to have a positive effect on company performance.

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DECLARATION OF CONFLICTING INTERESTS

The author declares that there is no conflict of interest.

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