
Improving Business Performance: A Proposed Model for SMEs

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Abstract:

Culinary revenues comprise some of the main sources contributing to an increase in the Global Tourism Competitiveness Index and Region Own Source Revenue (ROSR). The high number of Small Medium Entrepreneurship (SME) traditional restaurants should increase ROSR.

However, the revenue from this sector has not yet been optimised due to a lack of business performance. Traditional restaurants are losing their market to modern chain restaurants, some of which are franchises from outside Indonesia. How SME are coached viewed from the aspects of marketing capability and accountability accounting is the main issue of this paper. Both capabilities are expected to improve adaptability and, in turn, performance. This paper tries to trace the theoretical model of proposals regarding how both capabilities can affect performance directly or through adaptability.

This study is very rare; one like it has never been conducted concerning SMEs, especially models that explain the existing phenomenon in Indonesia. Hopefully, this study will provide advanced research guidance and convenience to the government for SME traditional restaurants' coaching approach in encouraging culinary tourism and economic development.

Key words: *Adaptability, Accounting Capability and Marketing Capability, Income, SMEs*

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1. Introduction

From year to year, business characteristics continue to change. The income of SMEs is one of the sources that meet income household which indirectly contributes to the increase of economic growth as a mirror of the capacity of goods and services' production flow (Barro, 1991) which has an impact on economic growth must also adjust to the circumstances of the times. Models (Carr and Pearson, 2002; Lewis and MacKenzie, 2000; Rungtusanatham, Salvador, Forza and Choi, 2003) state that few studies have applied resource-based views to focus areas to gain a competitive advantage through supply chain management. Furthermore, Wilk & Fensterseifer, (2003) and Miller, (2008) state that there is a lack of research focusing on resources for competitive advantages in industry group analysis.

Traditional culinary SME are growing businesses with the greatest contribution to gross domestic product i.e. Rp 182 trillion/US 13,788 million (28.3%) and crafts Rp 93 trillion/US 7,046 million (14.4%) (Indonesian Chamber of Commerce, 2016). Moreover, the Act of the Republic of Indonesia, (2009) conveys that strategic areas cover aspects of natural and cultural tourism resources with the potential to attract tourism, market potentials and strategic locations that also play a role in maintaining national unity and territorial integrity. Certain locations are protected which have strategic roles in maintaining the function and carrying capacity of the environment, including a strategic location with a role in the conservation and utilisation of cultural assets (including the culinary tour). Community preparedness and support related to the region's capability and specific rapidly adapting responses are referred to the Ministerial Regulation of Tourism (Ministry of Culture and Tourism, 2015).

Increasing SME through the incubation process of business regulation is established by the Ministry of Cooperatives and SME in the Regulation Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, 2015. This business advancement is highly dependent on the ability to adjust to the external environment with internal strength (De Clercq, Thongpapanl and Dimov, 2014) A common problem faced by Indonesian SME is the ability to understand market changes and create exact offers (Pramono, 2014). On the other hand, SME also lack an understanding of their business strengths that can be used to exploit markets where power is reflected from internal reports or records held through the accounting process. Efforts to understand the market and utilise it can be called the capability of the company in the field of marketing. In addition, efforts to understand internal conditions through preparing and analysing accounting reports can be said to be accounting capabilities. Both of these should be further studied regarding how they relate to adaptability and build SME business performance (Havlicek *et al.*, 2013; Breckova and Havlicel, 2013; Breckova, 2016; Kolchanova and Kolchanova, 2016; Helisek, 2016; Theriou, 2015; Dasanayaka and Sardana, 2015).

2. SMEs in Indonesia

Cuisine is one of the prominent cultural products in Indonesia, with much diversity. Each region in Indonesia has its own distinctive flavour based on the local culture; such flavours are still used by the local people. The number of traditional foods is big and follows the existing population of tribes and cultures. Various typical foods of particular areas are also consumed and sold in other areas. For instance, *padang*, a famous food for with meat cow simmered in spices & coco (rendang), originated from one of the tribes in the Sumatra region. In addition to 'gudeg' from Yogyakarta, it can be found in various regions in Indonesia, even neighbouring countries. The spread of traditional restaurants offering a variety of Indonesian cultural richness follows the population of origin's migration to various regions where these culinary products also spread.

Nevertheless, the traditional Indonesian restaurant business cannot grow bigger; it has a ceiling to its growth (Ministry of Culture and Tourism., 2012). This not only happens outside of its 'habitat', but also in its own cultural environment. In addition to competing against different traditional restaurants, they are also dealing with public and modern restaurants. The entry of global franchise restaurant companies also affects the growth of these traditional restaurants. Changes in the traditions and behaviours of the younger generation, the cultural stakeholders of food, as well as the number of food alternatives, force restaurants to adopt more approaches in the face of market changes. The previous business model, which relies solely on the eating habits and menu choices of consumers who tend to choose food according to their culture, can hardly be used anymore. All SME traditional restaurants need to adapt to these changes and modify and improve the way they market their products (Hu and Hassink, 2015). The change must be supported by the capability of resources, especially the utilisation of business funds in new investments to innovate in the restaurant business (Setyawan *et al.*, 2014; Suryanto, 2014).

Many traditional restaurants in Indonesia rely solely on the old ways of doing business, though some factors can be adjusted without having to eliminate the values and characteristics of the region. The use of the term tradition makes them continue to survive with the old ways and habits, as if changing would eliminate the original culture and its cultural identity. Yet the concept of hyperreality (Baudrillard, 1994) states that people will assess something to be culturally authentic according to the reality they often encounter. Customers are not concerned with the authenticity of a cultural product, and they will consume according to what they find in their daily lives. Thus, it is quite possible for traditional restaurants to adapt.

Understanding of the external and internal environment is the first step in adaptation (Hu and Hassink, 2015). The market is the main environment in the restaurant business consisting of consumers and competitors as well as other environments (Cravens, 2009). This understanding is also followed by the ability to find the right way to serve consumers and face competitors by providing are that is more economically effective and efficient as well as from other perspectives. For that, it

can be said that a marketing capability is very necessary for small- and medium-sized traditional Indonesian restaurants.

Another issue highlighted by observers of traditional small- and medium-sized restaurants in Indonesia is the financial recording of other traditional small and medium businesses (Indonesian Chamber of Commerce, 2016). The lack of a systemic financial reporting process in a complete and accurate accounting information system causes inefficient information decision-making. This issue means that managers are never aware of the detailed internal business conditions that can actually be seen from an accounting information system (AIS). The ability and skill to develop a system and use an accounting report needs to be developed in Indonesia's small and medium enterprises to increase business effectiveness so the company's revenue will increase from the relationship of the total cost incurred on investment capital (Bonnemeier, Burianek and Reichwald, 2010; Roegner, Seifert and Swinford, 2001) and increase profitability (Baker and Sinkula, 2009)

Marketing Capabilities and Accounting Capabilities

Marketing and accounting capabilities are components that create dynamic capabilities. Researchers (Ambrosini and Bowman, 2009; Griffith, Harve and Lusch, 2006; Teece, Pisano and Shuen, 1997) state that there is a significant relationship between dynamic capability and competitive advantage, one of which is marketing capability. Marketing capabilities are identical to capabilities and competencies but are not limited to just capabilities but a process designed for the business marketplace that implements the integration of SME collective knowledge, skills and resources, enabling the addition of competitively valued goods and services and meeting the demands of the business (Day, 1994). For example, in terms of food presentation (look, menu, taste, freshness and temperature) in the restaurant business, Namkung and Jang, (2007) predicted that customer satisfaction must meet expectations; the customer must express satisfaction even if there are still other gaps of dissatisfaction. (Oh, 2000). Therefore, companies need to develop this capability dynamically. It is important to do so by noticing the uncertainty of the business environment faced (Ambrosini, Bowman and Collier, 2009).

Accounting capability is important in the role of professional reporting (Kurniawati and Meilianaintani, 2016). However, some SME make extensive use of the services of external accountants for their business reports. In addition, considering the speed of technological change, the owners of SME traditional restaurants should have been paying attention to technological developments, thus understanding the accounting information system (AIS). This can improve the collection and processing of accounting data starting from the initial transaction to the final reporting to provide valuable information to decision makers. Quality information will result in quality decisions and optimise performance results (Prasad and Green, 2015). That is in line with Gooderham, Tobiassen, Døving and Nordhaug, (2004),

who state that quality, not longevity, in business relationships and accounting capabilities is an important antecedent to the extent that SME demonstrate that accounting capabilities are critical.

Business performance is a company's ability to adapt to the business environment, accompanied by changes in the market environment that include customers, competitors and other power forces that can alter the way business works. A good strategy depends on management's ability to create harmony between the environment and internal company (Zainudin, Sugiono and Sufian, 2016) so the ability to adapt is important.

The presence of various new modern culinary offers will change the market's tastes, alongside the presence of competitors from similar culinary traditions. Adaptability is important not only to keep up with changes but also to anticipate them; thus, the business person must be creative and innovative. SME should be innovative, proactive and courageous in performing strategic risk behaviours to generate sales growth performance and profitability (Baker and Sinkula, 2009), and this is also followed by non-financial performance (Marino, Strandholm, Steensma and Weaver, 2002).

For that reason, SME must develop their adaptability through marketing to grab accounting opportunities and capabilities to understand their internal business and capitalise on those opportunities. The ability to adapt and maximise business performance will obviously help improve the economic conditions of the region where the small business operates.

Business change causes every business actor to identify and prioritise strategies to overcome challenges that arise to become competent and remain relevant in business come increase in traditional SME restaurants in Indonesia.

3. Aim and Contribution of the Study

The purpose of the study of this proposed model is to find out how capabilities and adaptability relate to driving the business performance that will be used to view the important aspects of small business development. This model becomes the starting point for further discussions to develop a convincing model which can be further tested at the stage of empirical research (See Figure 1) followed by a discussion of the theoretical review that constructs it.

4. Discussion

4.1 Influence of Marketing Capabilities toward Business Performance

Marketing capabilities can specifically provide better market sensing, customer relationships, and the ability to strengthen the bonds between channels in the market

(Blesa and Ripollés, 2008). Therefore, an organization with marketing capabilities can gain more market and broaden its business activities. Increased business activity is certainly in line with the increase of business transactions that generate the source of income. Hatta, (2015) and Krasnikov and Jayachandran, (2008) show that marketing capabilities positively affects marketing performance. Similarly, the research conducted on SME concludes that marketing capability shows a significant effect on performance, in which income is one of the measurements of performance. In this case, proposition 1 is formulated: marketing capability influences business performance.

4.2 Influence of Accounting Capabilities toward Business Performance

Companies that have accounting capability will produce quality information and will have quality business decisions (Gooderham *et al.*, 2004) so accounting capabilities is also an important antecedent to what extent SMEs indicate that accounting capabilities determines performance. Decisions made concern how financial resources are used to run the business, generate revenue with the optimal amount for business sustainability (Nenonen & Storbacka, 2010) and improve performance results for sales growth (Covin, Green and Slevin, 2006).

Quality decisions be supported by accounting information system (Scapens and Jazayeri, 2003) that can be managed in an uncertain market (Louadi, 2009) to know the profitability of economics and finance ROI (Return on Investment), return on assets (ROA) and return on equity (ROE) in showing price movements, which can affect product quality (Aaker and Robert Jacobson, 1994). An accounting information system will increase business effectiveness, so corporate earnings will increase from relationships, total costs incurred by investment capital (Bonnemeier *et al.*, 2010; Roegner *et al.*, 2001) and increased profitability (Baker and Sinkula, 2009) and non-financial performance measurements (Marino *et al.*, 2002). In this case, proposition 2 is formulated: accounting capability influences business performance.

4.3 Business Adaptability, Marketing Capability and Accounting Capability

Developed SME certainly have a long-term orientation, which means a focus on the future. This implies that all business actions must change according to market and environmental developments. Delaying changes means taking business to a condition that may be difficult to sustain and survive (Vernon, 2014), as well as the organisational context to show a continuous process that tends to balance active agents and a dynamic environment (Magolda and Kegan, 1985). Although offers are products of local tradition, they require some adaptation to market conditions to gain good performance. Blesa and Ripollés, (2008) argue that marketing capabilities can specifically provide better market analysis, transform customer relationships (in this case, the business' adaptability to appeal to the cultures they inhabit) and the ability to strengthen the bonds between channels in the marketplace.

This change is still based on the value of the prevailing market area according to traditions offered by the restaurant. A long-term orientation should adapt to changing situations quickly, naturally, by respecting tradition and fulfilling the obligations of a conscientious citizen (Hofstede and Hofstede, 2001). In this case, proposition 3 is formulated: a company's adaptability will affect business performance.

Adaptability should be committed, because it arises from a commitment to shape objectives with capability, studying the final way to act in the long term and respecting the right environment (Hofstede and Hofstede, 2001) in shaping relationships and mastering a goal (Harvey, 2013). Therefore, the organisation will respond through an awareness of change (Polanyi, 2015). Furthermore, awareness will encourage the organisation to act in the market context. Many small businesses have no sensitivity in 'sniffing out' the market and its environment because of low marketing capabilities. In fact, high marketing capabilities provide confidence and encouragement to organisations to make changes (Blesa and Ripollés, 2008). For that reason, adaptability is needed.

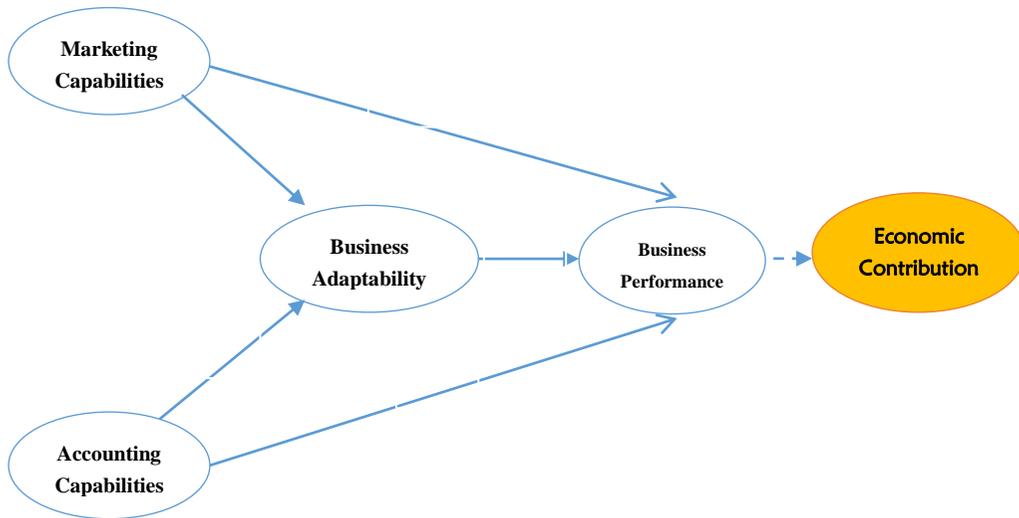
Therefore, awareness and an ability to make changes depend on understanding the internal capabilities of the organisation. An understanding of internal conditions is determined by the quality of the accounting information system, so an accounting capability is very important to determine the availability of right information, accurately and completely.

This information allows companies to use internal strength in adaptive decision making. In the ultimate sense, adaptability means the capacity to behave in a maximally with the attainment of an objective or goal. Adaptable behaviour thus is synonymous with appropriate behaviour, appropriately defined as the degree to which a particular act facilitates or runs counter to the attainment of expected results (Harvey, 2013). Accordingly, proposition 4 is formulated: marketing capability affects adaptability, and proposition 5 is formulated: accounting capability influences adaptability.

5. The Theoretical Model

The concept of this theoretical study examines marketing capabilities and business adaptability. The effect on business adaptability in business performance is presented by the following figure.

Figure 1: *The Theoretical Model*



6. Conclusion

The concept of this theoretical model will be empirically tested on real field applications. Then it can become an issue of government control studies in conducting coaching activities on innovative business in SME traditional restaurants to increase economic growth. Academically, this study can be tested in many developing countries that still require careful attention to the improvement of business performance in the measuring of successful economic improvement of innovative efforts, as well as the stimulation of new knowledge transfer from the research and knowledge development sector to innovative small business production in various aspects of its practical use. Therefore, the main objective of the concept of this scientific study and practical activities within the national framework is stimulating traditional SME restaurants in Indonesia and encouraging culinary tourism and economic development.

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