MSME BUSINESS PERFORMANCE: AFFECTING FACTORS OF NETWORKING, WORK CULTURE AND REPUTATION

Zainal Abidin1*, Jamaluddin Majid2, Nuraisiah Hamid3
1Institut Teknologi dan Bisnis Nobel Indonesia, Indonesia
2Universitas Islam Negeri Alauddin Makassar, Indonesia
3Universitas Muslim Maros, Indonesia

ABSTRACT: Micro, Small and Medium Enterprises (MSMEs) are crucial in increasing Indonesia's GDP, as indicated by the number of MSMEs in Indonesia, estimated at around 50 million businesses. This study assesses the importance of networking, work culture, and reputation in developing MSMEs so that MSMEs can absorb a broad local workforce. The total population is 260 MSME actors in South Sulawesi. The data is then regressed using SmartPLS to get the findings. The results of the study show that networking and work culture has a positive and significant effect on business performance and reputation. Reputation has a positive but not significant impact on business performance. Indirectly, network and work culture positively but not significantly affect business performance through reputation.

Keywords: MSMEs; Networking; Work Culture; Reputation

*Corresponding Author: zainalabidin@nobel.ac.id
DOI: 10.24252/minds.v10i1.34973
ISSN-E: 2597-6990
ISSN-P: 2442-4951
http://journal.uin-alauddin.ac.id/index.php/minds
Publisher: Program Studi Manajemen, Universitas Islam Negeri Alauddin Makassar
INTRODUCTION

The economic development of a nation must be fostered to increase the well-being of its citizens. Economic growth is the process of expanding the size of a nation's economy, particularly its GDP per capita, which has a beneficial impact on the economic and social sectors (Haller, 2012). The level of economic growth that a country can achieve can improve the community's welfare and economy, which will impact development in various economic sectors and increase income to spend, thereby encouraging the circulation of money in a country (Teguh & Bashir, 2019). In an ideal world, economic development is a "symbol" of a country's success. It should alleviate social issues such as unemployment and destitution, offer business opportunities, and assimilate labour (Kurniawan A. et al., 2021). Development's primary objective is poverty alleviation, which may be accomplished by economic growth or income distribution (Son, 2004). Economic expansion correlates with a rise in gross domestic product (GDP).

The GDP growth rate is the primary metric used to evaluate the performance of any economy (Mihaela et al., 2017). As a critical indicator of economic progress, the Gross Domestic Product gauges the level of life of a state or nation's residents (Misini, 2017). Indonesia is primarily regarded as a potential economic superpower. Consistently robust economic development has prompted some observers to assert that it might become the world's fifth-largest economy by 2030 and the fourth-largest economy shortly afterwards (McKinsey Global Institute, 2012; Rajah, 2022). Indonesia has reduced poverty by more than half, to 9.8% in 2018 (World Bank, 2022).

MSME is a crucial industry for boosting Indonesia's GDP. The contributions that micro, small, and medium-sized enterprises (MSMEs) provide to employment, the generation of gross domestic product (GDP), exports, and investment opportunities are significant, as indicated by the fact that MSMEs make up the essential segment of the business community in Indonesia (Abbas, 2018). It is estimated that there are 50 million MSMEs in Indonesia, which employ a considerable proportion of the local labour force to decrease unemployment (Imaduddin & Jufriadi, 2022). No longer is the existence of MSMEs in Indonesia under question. MSMEs play significant social, economic, and political roles. On a social level, MSMEs make it possible for people to have a pleasant living (Nurwaesari et al., 2021). MSMEs are integral to the economy of several nations, allowing them to prosper and survive the global financial crisis. Typically, MSMEs are considered the economic engine and lifeblood of emerging and industrialized countries. MSMEs are a significant source of business expertise, innovation, and employment, and they play a crucial part in the economic development of several nations (Abidin, 2022).

As the backbone of the national economy, the growth of MSMEs must be a top focus. Age is one of the variables that makes it possible for SMEs to grow. Businesses are at a critical stage, having accumulated a wealth of experience, resources, and a network to sustain operations over time. However, such companies can stagnate or even withdraw if not adequately managed. Approximately 50% of new businesses in Europe cease operations after the third...
year, and there is an extraordinary age-related effect in years five through seven (Mallinguh et al., 2020). Human resources also play a crucial influence in the operation of MSME businesses. MSME HR requires knowledge as intellectual capital for entrepreneurs to fulfil their company objectives; a culture of sharing information may build new general abilities and sharpen current talents in individuals (Kadarusman & Siti Rosyafah, 2022; Laily et al., 2022). Firms with a better reputation can charge higher prices for their goods and services, a positive reputation also influences customer preferences and purchasing behaviour, and a solid reputation may eliminate or reduce the amount of competitive rivalry that exists within an industry, as well as raise the social standing of the organization (Hall Jr. & Lee, 2014).

This study aims to analyze how networking and work culture plays an essential role in improving business performance and business reputation and how business reputation plays a role in mediating networks and work culture in improving MSME business performance in South Sulawesi. The difference between this study and previous studies is that this research uses reputation as an intervention that can mediate networks and work culture. Reputation is often interpreted as the image or good name of a business. A good reputation also encourages one's confidence to decide which product to choose to improve the performance of MSMEs in South Sulawesi.

THEORETICAL REVIEW

The Resource-Based View (RBV) Theory

The resource-based view (RBV) has become a crucial framework for understanding performance in recent decades. Applying various resources with attractive characteristics will result in high performance (Wernerfelt, 1984). Human resources, among other forms of resources, are recognized as an essential element of company success (Inmyxai & Takahashi, 2009). Resources that cannot be transferred or acquired, which involve a lengthy learning curve or significant changes in organizational climate and culture, tend to be unique to the business and, as a result, are more challenging for rivals to copy. The RBV has proven helpful in establishing the foundations upon which a company's resources and competencies provide a sustained competitive advantage (Madhani, 2010).

Numerous organizations have cultures that enable them to operate and compete similarly; none of these companies will have a competitive edge based on culture, above and above their usual economic performance. Every organization has more resources than culture, and even though culture may promote value creation, there are other factors, such as leadership, efficient routines, and frugality, that can support or degrade value development; resources such as culture are not separated from the resources of other businesses (Salazar & Armando, 2017). RBV attributes the better financial performance to the resources and capabilities of organizations with varying resources and capabilities, some of which are significantly correlated with better performance (Kamboj et al., 2015).
Business Performance

The two perspectives on business performance are performance as a process and performance as a consequence. Small businesses can employ resource-based strategy theory to confront more tough competition and internal issues (Fitriany & Abidin, 2018). The efficacy of any organization is highly dependent on strategic decisions. Solo entrepreneurs decide the majority of strategic choices made by MSMEs due to the low level of the decision hierarchy. As a result, entrepreneurial personality, learning, and skill substantially influence the success of MSMEs firms. A good reputation may reduce or eliminate competitive competition within an industry or increase the company's social standing (Ernestivita et al., 2020).

Work Culture

Embedded in the corporate culture, resources and their interrelationships are defined from the perspective of their significance. Even if two organizations have the same culture, slight adjustments might result in drastically different outcomes: the butterfly effect. In addition, these businesses may not have the same suppliers or clients, and their performance may vary (Salazar & Armando, 2017). In addition to group members’ learning experiences, organizational culture resources include the new beliefs and assumptions of new members and supervisors. Founders have the opportunity to communicate the organization's strategy and direction in its early stages. Employees of an organization who reside in a community can influence the organization's culture with their culture. Because organization members are members of society, society can impose its culture on the organization through its members (Pathiranage, 2019).

Hypothesis

Networking, Work Culture, and Reputation

Network has played a crucial role in the expansion of the business. Through networking, fruitful relationships are developed for the benefit of the business proprietor. Through network relations, entrepreneurs can creatively address company-related issues (Udimal et al., 2021). Networking is a crucial competitive instrument for business success (Peemanee & Wongsahai, 2022). Work culture becomes significant when it is recognized that a solid work culture can serve as a solid foundation for an organization to achieve its vision and mission. The high or maximal performance will result from implementing a work culture and encouraging the production of maximum work results (Firtria, 2019). Reputation has value and is capable of generating corporate value. But due to its delicate nature, it can be obliterated instantly, even if it takes years to create. Numerous research papers affirm that reputation is among the most significant business hazards (Vig et al., 2017).

Hypothesis 1. There is a networking influence on the business performance of South Sulawesi MSMEs.

Hypothesis 2. There is an influence of work culture on the business performance of South Sulawesi MSMEs.
Networking, Work Culture, and Business Performance

By leveraging their knowledge and resources, networks are generally regarded as an essential mechanism for SMEs to overcome their relative disadvantages (Aladejebi, 2020). Organizations can identify opportunities, leverage resources, gain a competitive advantage, and enhance their overall performance through networking (Ojotu et al., 2019). Work culture is a philosophy founded on a view of life as values that become characteristics, habits, and motivators in a group reflected in Business performance is the outcome or result of an organization, including productivity, profitability, and growth, that can be measured against its intended goals and objectives.

**Hypothesis 3.** There is the influence of networking on the business performance of MSMEs in South Sulawesi.

**Hypothesis 4.** There is an influence of work culture on the business performance of MSMEs in South Sulawesi.

Reputation and Business Performance

Managers must maintain their competitive advantage; hence, reputation is one of the most essential factors. Companies with a more substantial corporate reputation will have a better chance of successfully adjusting to changing conditions and creating new skills, both of which will benefit their competitors (Xiaoman et al., 2018). Given the many instances in which a positive association between a good reputation and better performance has been proven in business, it seems to reason.

**Hypothesis 5.** There is an influence of reputation on the business performance of South Sulawesi MSMEs.

Networking, Work Culture, Reputation and Business Performance

The relationship between firm performance and the owner’s network utilization has not been empirically established (Van Binh, 2016). The intensity of the company’s guiding cultural principles is used to assess cultural fortitude. The amount of absolute differences in the cultural views of organizational members across the four archetypes (adhocracy, clan, hierarchy, and market) is used to quantify cultural disparity (Polychroniou & Trivellas, 2018). In addition to individual factors, implementing a positive culture is crucial for the successful operation of an institution (Wati et al., 2021). In an increasingly competitive environment, the importance of reputation is rising. Reputational advantages are long-lasting and entail corporate value (Jao et al., 2020). Business performance is influenced by several factors, such as networking, work culture, and reputation, therefore:

**Hypothesis 6.** There is the influence of networking on the business performance of MSMEs in South Sulawesi.

**Hypothesis 7.** There is an influence of work culture on the business performance of MSMEs in South Sulawesi.
Contextual Framework

The conceptual framework in this study includes the variables of business performance, networking, work culture and reputation, which will affect the performance of MSME businesses in South Sulawesi described in Figure 1.

![Conceptual Framework Diagram](image)

Figure 1. Conceptual Framework

METHODOLOGY

Research Design

Explanatory research employing quantitative methods is employed, begins with data acquisition, continues with data interpretation, and concludes with the presentation of findings. The purpose of explanation-based research is to test hypotheses concerning the relationships between variables. The purpose of an explanatory design is to explain the generalization of a sample to the population or the ties, distinctions, or influence between two variables. The explanatory design has the credibility to measure and test the causal relationship between two or more variables using inferential (inductive) statistical analysis, and it can also be used to develop and refine theories, even if it weakens or even disproves the theory (Mulyadi, 2011).

Location and Sample

This study focuses on MSMEs functioning in South Sulawesi Province, Indonesia. The sample for this research consisted of 260 MSMEs. Hair et al. (2014) state that the minimum sample size must be 100. The minimum sample size should be at least five times the number of items to be analyzed, and a sample size ratio of 10:1 is more acceptable. Since there were 21 question items in this study, the minimum sample size required was 21 \( \times 10 = 210 \) samples. This study's sample size of 260 exceeds the minimum sample size requirement.

Data Collection and Data Analysis

This study focuses on MSMEs functioning in South Sulawesi Province, Indonesia. The sample for this research consisted of 260 MSMEs. Hair et al. (2014) state that the minimum sample size must be 100. The minimum sample size should be at least five times the number of items to be analyzed, and a sample
size ratio of 10:1 is more acceptable. Since there were 21 question items in this study, the minimum sample size required was $21 \times 10 = 210$ samples. This study’s sample size of 260 exceeds the minimum sample size requirement (Ghozali, 2014).

RESULTS

Designing a Structural Model

In this study, the researcher identified five problem formulations with four variables: two independent construct variables (X), one intervening construct variable (Y), and one dependent construct variable (X). To facilitate comprehension of the flow of data testing, the researcher created a structural model beforehand. The structural presentation of the significance results is in Figure 2.

The Quality Measurement

The variance-based partial least-square article must satisfy the quality requirements (Mahmud, 2022) as of the convergent validity tests, the loading factor, the discriminant validity, and the collinearity tests (Hair et al., 2010).

<table>
<thead>
<tr>
<th>Table 1. The Outer Model Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constructs</td>
</tr>
<tr>
<td>Networking</td>
</tr>
<tr>
<td>Network1</td>
</tr>
<tr>
<td>Network2</td>
</tr>
<tr>
<td>Network3</td>
</tr>
<tr>
<td>Network4</td>
</tr>
<tr>
<td>Network5</td>
</tr>
<tr>
<td>Network6</td>
</tr>
<tr>
<td>WorkCul1</td>
</tr>
<tr>
<td>WorkCul2</td>
</tr>
<tr>
<td>WorkCul3</td>
</tr>
<tr>
<td>WorkCul4</td>
</tr>
<tr>
<td>WorkCul5</td>
</tr>
<tr>
<td>WorkCul6</td>
</tr>
<tr>
<td>Reputat1</td>
</tr>
<tr>
<td>Reputat2</td>
</tr>
<tr>
<td>Reputat3</td>
</tr>
<tr>
<td>Reputat4</td>
</tr>
<tr>
<td>Reputat5</td>
</tr>
<tr>
<td>Reputat6</td>
</tr>
<tr>
<td>BusiPerf1</td>
</tr>
<tr>
<td>BusiPerf2</td>
</tr>
<tr>
<td>BusiPerf3</td>
</tr>
<tr>
<td>BusiPerf4</td>
</tr>
</tbody>
</table>

Source: Adapted SmartPls 3 Output (2023)
Utilizing PLS-SEM permits the presentation of all experiments, as shown in Table 1. Hair et al. (2014) recommended that, based on the outer loading value, all used items have values greater than 0.70. This maximum value indicates that all indicators can measure the latent variables associated with the item. An AVE value greater than 0.5 can reinforce the validity value, thereby supporting the validity of this research. This study reports that the constructs' composite reliability (CR) and Cronbach’s alpha greater than 0.70, so that the discriminant validity test can be conducted. The validity test was conducted using the measurement (outer) evaluation model, specifically convergent validity for the amount of the loading factor for each > 0.50 of the target variable. To assess composite reliability, a combined reliability value of > 0.7 indicates that the model has high reliability or is dependable, while a value of > 0.6 indicates that the construct is relatively reliable. Based on Table 2, all latent variables have a composite reliability value of greater than 0.80, indicating that all independent latent variables may be utilized to examine their influence on the latent dependent variable. Table 3. and Figure 2. summarize statistical findings for hypothesis formulation.

Table 3. Direct Relationship between Variables

<table>
<thead>
<tr>
<th>Relationship Hypothesis</th>
<th>Effect size</th>
<th>t-value</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Networking (X1) -&gt; Business Performance (Y)</td>
<td>0.313</td>
<td>5.408</td>
<td>0.000</td>
</tr>
<tr>
<td>Networking (X1) -&gt; Reputation (Z)</td>
<td>0.419</td>
<td>5.525</td>
<td>0.000</td>
</tr>
<tr>
<td>Reputation (Z) -&gt; Business Performance (Y)</td>
<td>0.053</td>
<td>0.680</td>
<td>0.497</td>
</tr>
<tr>
<td>Work Culture (X2) -&gt; Business Performance (Y)</td>
<td>0.546</td>
<td>7.824</td>
<td>0.000</td>
</tr>
<tr>
<td>Work Culture (X2) -&gt; Reputation (Z)</td>
<td>0.502</td>
<td>7.507</td>
<td>0.000</td>
</tr>
<tr>
<td>Networking (X1) -&gt; Reputation (Z) -&gt; Business Performance (Y)</td>
<td>0.022</td>
<td>0.682</td>
<td>0.496</td>
</tr>
<tr>
<td>Work Culture (X2) -&gt; Reputation (Z) -&gt; Business Performance (Y)</td>
<td>0.027</td>
<td>0.652</td>
<td>0.515</td>
</tr>
</tbody>
</table>

Source: Adapted SmartPLS 3 Output (2023)

Figure 2. The Bootstrap Model Presentation
Table 3 reveals that all direct relationship proposals are accepted aside from the work culture and business performance. All indirect relationships are presenting non-significant effect. This result is predictable as one insignificant relationship in the direct investigation can lead to significant changes in the indirect model calculation. The findings are then discussed.

**DISCUSSION**

Since networking has a positive and significant influence on business performance, networking owned by MSME actors, both with customers and the government, will considerably enhance their business performance. Because this will indirectly affect their business performance, credibility, trustworthiness, dependability, and accountability must be considered when preserving and enhancing a company's image. This research is consistent with analysis performed by Nuryakin (2018). According to the findings of this study, relational capital has a substantial negative impact on company performance and a positive effect on network excellence (Nuryakin et al., 2018).

The reputation of South Sulawesi MSMEs is positively and significantly impacted by networking. This suggests that the commercial importance of SMBs who engage in extensive networking would substantially improve. In South Sulawesi, networking is also an essential factor contributing to MSMEs' success. SMBs can continue to better their networking in the era of highly advanced computer and information technology. Utilizing social media is one of the most common practices in this era. Social media use can expand networking across limitless territorial boundaries. This study is consistent with Moric et al.’s (2020) research results based on unidimensional analysis revealing the positive influence of strategic networks on business performance. However, when a multidimensional analysis is applied, only reputation among other strategic network antecedents demonstrates a significant positive effect. Therefore, it may be stated that this study's findings are inconclusive, regardless of the observed association's existence, intensity, or direcon, and that more research is required (Milovanovic et al., 2020; Freire et al., 2018; Hu et al., 2010; Tong & Su, 2018; Zakiah & Al-Aidaros, 2016).

Reputation has a beneficial but not statistically significant effect on firm performance, indicating that reputation does not significantly improve business performance. The importance of MSMEs in South Sulawesi can encourage MSME performance even though the influence is still very minimal on MSME performance. This shows that the importance of MSMEs still needs to be improved so that customers have confidence in MSME products in South Sulawesi. This research is in line with study conducted by Lee (2014). A positive connection was found between firm performance and company reputation, underscoring the significance of firms’ reputation as a crucial strategic asset that needs to be managed, and the findings of this study confirmed this association.

The Work Culture of MSMEs in South Sulawesi has positively and substantially impacted their reputation and commercial success. An well-managed organisational culture as a management tool will influence and encourage
employees to be positive, dedicated, and productive. Even though these cultural values are not visible, their strength can drive behaviour to produce more effective organizational performance. The importance of the leader’s role in the formation and management of corporate culture is to create an appropriate workplace culture and can lead to improving the performance of MSME businesses in South Sulawesi. This research is in line with research conducted by Pathilanage (2019), study has shown that the culture of an organization has a significant influence on the many processes of an organization, as well as the personnel and the performance of those individuals.

Networking and Work Culture have a positive but insignificant effect on the business performance of MSMEs in South Sulawesi. This shows that the influence of networking and work culture through reputation will not increase the business performance of MSMEs in South Sulawesi. This research is not in line with study conducted by Moric et al. (2020). According to research findings based on unidimensional analysis, strategic networks have a positive effect on business performance. However, when the multidimensional analysis is used, only reputation among other strategic network antecedents has a significant positive impact. Therefore, it can be concluded that the results of this study are inconclusive in terms of the existence, intensity, and direction of the observed relationship and that additional research is required.

FURTHER STUDY

This study still has deficiencies in taking research variables. Social media and business venture fundings can be essential in improving the reputation and performance of MSMEs in South Sulawesi. They can increase the presentation of MSMEs and make it readily accessible throughout the net. Thus, this construct can be potentially beneficial for further investigation. Fundings have been a long problem for the small business. Venture capital is a more fresh approach to small business and requires further approach regarding the desired scalability for investigation.

ACKNOWLEDGMENT

We want to thank the Institute of Technology and Business of Nobel Indonesia for supporting the author through financial or administrative assistance so that the author can complete the research.

REFERENCES


Moric Milovanovic, B., Primorac, D., & Kozina, G. (2020). The impact of strategic networking on business performance of manufacturing SMEs operating in a
predominantly service based economy. *Interdisciplinary Description of Complex Systems, 18*(2-B), 194–207. [https://doi.org/10.7906/indecs.18.2.9](https://doi.org/10.7906/indecs.18.2.9)


