

The Development of Good Micro, Small and Medium Enterprises Governance Indicators

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Abstract

A systematic literature review method was used in this study to find good governance for micro, small, and medium-sized businesses (MSMEs). The SEM-PLS approach was utilized to assess the effect of MSMEs' owners' competencies on the level of governance model implementation and the performance of MSMEs. The test results suggest implementing the governance model's concept can improve business performance. To be effective, however, owners of MSMEs must be willing to invest in their professional growth. Thus, based on the research findings, the MSMEs governance model, which is unique to this study, can serve as a standard for MSMEs' performance and a reference for various stakeholders involved in MSMEs' development initiatives.

Keywords:

MSMEs management; performance; competency; the principles of MSMEs governance

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INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) account for between 58 and 61% of the Gross Domestic Product (GDP) (Tambunan, 2019). MSMEs are currently one of Indonesia's economic drivers. MSMEs have the potential to generate jobs for the community, particularly for those with limited education. Numerous studies from various countries also suggest that MSMEs are a significant factor in a country's economic success (Bouwman et al., 2018). According to Kongolo (2010), MSMEs in South Africa account for more than 60% of total employment, whereas MSMEs in Spain contribute significantly to economic growth (González-Loureiro & Castelo, 2012). MSMEs in Southeast Asian countries contribute significantly to economic success (Jaswadi et al., 2015).

In recent years, Indonesia has seen an increase in the number of MSMEs. According to data from the Ministry of Cooperatives and MSMEs, the number of MSMEs grew from 2010 to 2018. MSMEs totaled 52.7 million in 2010, continuously increasing over the preceding eight years. In 2018, Indonesia had 64.2 million MSMEs, a 21% growth from 2010. While the number of MSMEs continues to grow, many obstacles remain to overcome. According to the Central Statistics Agency statistics, up to 29% of MSMEs face financing constraints, 21.11 percent face marketing challenges, and 20.7 percent face raw material constraints. The MSMEs development program collaborates with various stakeholders, including the government, universities, private institutions, practitioners, communities, and the media, to foster the creation of strong, autonomous, knowledge-based, and technology-based MSMEs. Numerous micro, small, and medium-sized enterprises must prosper for an extended period. During the pandemic crisis, most MSMEs were forced to close their doors. Lutfi et al. (2020) assert that social distancing policies impacted MSMEs during the COVID-19 pandemic. As evidenced by the reduction in income and demand for MSMEs items, some people live in abject poverty. Effendi et al. (2020) found that MSMEs affected by COVID-19 must adapt their strategy to include social media to survive.

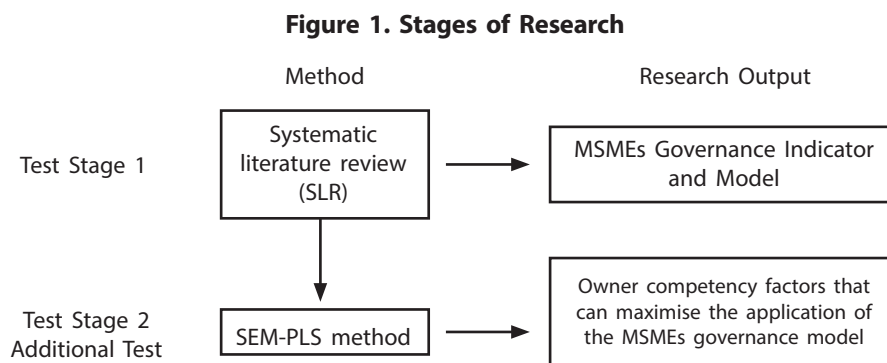
Observing the various problems faced by Indonesian MSMEs and the many MSMEs that went bankrupt at the beginning of the pandemic, according to a poll conducted by the Asian Development Bank (ADB) in 2020, more than half of all MSMEs had closed their doors temporarily. This condition is evidence of the weak governance of MSMEs in Indonesia, which is most likely the foundation of the MSMEs crisis. Furthermore, Rinaldo & Puspita (2018) found that MSMEs with weak governance did not develop and eventually failed. According to Jaswadi et al. (2015), the larger the MSMEs, the more governance they need. These two studies demonstrate the importance of solid governance for MSMEs. Good corporate governance consists of the following principles: transparency, accountability, responsibility, independence, and fairness. In general, large companies have adopted this concept. To be applied to MSMEs, modifications are needed to be useful and not burden MSMEs. MSMEs need to change how GCG is used so that it does not become an extra expense (Briozzo et al., 2019).

This research can be conducted with governance standards for Indonesian MSMEs, as multiple prior studies could not identify the GCG standards required for MSMEs.

In general, previous research has focused mainly on the impact of applying the idea of GCG on firm performance by employing GCG indicators that are more suited for large businesses (Jaswadi et al., 2015; Mahzan & Yan, 2014; Nasrallah & El Khoury, 2022; Umrani et al., 2015; Günay & Apak, 2014). Through a systematic literature review method, the research will contribute new indicators of good MSME governance that may be utilized by parties such as the government, academics, practitioners, the business community, and other stakeholders in Indonesia desiring to promote MSMEs. This study will also do additional testing of competency variables related to the implementation of MSME governance and their effects on performance to find the competencies that support the best use of MSMEs governance models to improve MSMEs performance (Stephen & Stemshorn, 2016; Koenigsfeld et al., 2012; Som, 2007; Barbazza et al., 2015).

METHODS

This study will take place in 2 stages. Stage 1 involves developing the MSMEs governance model using the SLR technique. The second stage will assess the influence of the competency level variable on the extent to which governance is applied and firm performance to establish whether the MSMEs model effectively increases MSMEs performance. The SEM-PLS method will be used in Phase 2. At this point, the ability of MSMEs owners is looked at because governance is thought to be dependent on their ability.



Source: Processed by Authors

Stage1. SLR method

This inquiry employs a systematic literature review (SLR) methodology. Fink (2012) describes the SLR approach as having seven phases. This study will be done between March 2020 and June 2021. The first step is to develop the research questions regarding the problem's phenomena and existing research. The second stage establishes the database from which the articles will be retrieved. This study uses various databases, with Scopus as the significant source and DOAJ, ResearchGate, and Google Scholar as secondary sources. The third stage involves setting the search parameters as words and phrases. The terms "good corporate governance" and "small and medium-sized firms" were used to

search for publications, books, and reports. Following that, practical and methodological screening criteria must be developed. The primary source is the Scopus journal in the business, management, and accounting fields, where the keywords "GCG" and "SMEs" are included. Then do a review and synthesize the findings.

Figure 2. Stages of Systematic Literature Review



Source: Processed by Authors

Stage 2. SEM-PLS Method

Additionally, after establishing the MSMEs governance model using the SLR technique, additional testing of HR competency variables on corporate governance and performance was conducted to provide an effective governance application model for MSMEs. The SEM-PLS approach will be used in Phase 2 (two). The phases are as follows. The first stage is the model specification. In this stage, specifying the variables to be assessed and the model to be tested create the model. Entrepreneurial competence (exogenous), accountability (intervening), fairness (intervening), independence (intervening), responsibility (intervening), transparency (intervening), and performance are all research variables in this study (endogenous). Using the method shown in Figure 1 above, we will determine each variable's MSMEs governance indicators.

The second stage is model identification. At this level, more specific indicators that can be used to quantify or explain the model are identified. Usually, this step is about solving the equation for each sign in a chosen model variable. The third stage is a model estimation. The appropriateness of various nested models is evaluated at this level. The Standardized Root Mean Square Residual (SRMR) is a measure used to determine the level of model fit; an SRMR value ≤ 0.08 indicates a good fit. The final stage is hypothesis testing and interpretation. This study tested the hypothesis using the student's t-statistic test. If the t statistic is greater than 1.96, then the hypothesis is accepted; otherwise, it is rejected.

Sampling Technique

This study used the sampling method known as purposive sampling, in which the sample is selected based on the researcher's preferences concerning specified criteria. Purposive sampling concentrates on individuals with specific characteristics who can effectively aid research (Etikan, 2016). This study's criteria were MSMEs located in the Greater Bandung area. Because this study employs one independent variable, five intervening variables, and two dependent variables, 137 observations (respondents) are required to detect an R2 value of at least 0.10 with a 5-percent error probability, implying that this study collects observational data (respondents) from 235 MSMEs. The data was gathered through a questionnaire that included questions about indicators of competence, MSMEs governance, and performance. The questionnaire was then used with direct observation and interviews with MSMEs owners. The distribution of responders is summarized in Table 1.

Table 1. Distribution of Respondents

No	Region	Frequency	Percentage
1	Bandung	96	41%
2	Bandung district	64	27%
3	Cimahi	50	21%
4	Regency. West Bandung	25	11%
Total		235	100%

Source: Processed by authors

RESULT AND DISCUSSIONS

Discussion of Research Findings (Research Phase 1: Systematic Literature Review)

References are gathered by an exhaustive search of the primary database "Scopus." Reference searches were conducted using the scope, title, abstract, and keywords filters. Initially, 1,872 articles about business management and entrepreneurship were collected. Then, using the phrases "governance" and "MSMEs," we discovered 243 relevant publications. There were 71 references extracted from 243 publications using terms associated with each governance indicator.

1. Definition of Governance

Good corporate governance is meant to protect shareholders' interests while ensuring that the business runs legally and ethically (Anand, 2012). Good corporate governance (GCG) is defined by the Organization for Economic Cooperation and Development (OECD) as justice, accountability, openness, and responsibility (Kholmi, 2020). The National Committee on Governance Policy develops General Guidelines for implementing transparency, accountability, responsibility, independence, justice, and equality in corporate governance. Meanwhile, the General Guidelines for Good Public Governance in Indonesia highlight the concepts of democracy, transparency, accountability, legal culture, justice, and equality.

Numerous studies have demonstrated that governance benefits MSMEs. Governance has the power to make MSMEs even better at what they do, allowing them to grow even more (Hussain & Hadi, 2018; Htay & Salman, 2013; Daw, 2020; Mariani & Panaro, 2012; Sakhdari et al., 2020; La Rosa & Bernini, 2018; Van Den Berghe et al., 2011; Usman et al., 2020; Sarah, 2017; Kurniawati et al., 2018). According to Van Essen et al. (2013), their research utilizing GCG indicators such as cash flow equality and voting rights, the rule of law, and creditor protection demonstrate that a high level of these indicators is highly beneficial for firms during times of crisis.

As previously noted, however, implementation of GCG is considered too expensive and demanding for MSMEs. Aldamen & Duncan (2012) state that governance in small enterprises is purely a burden. So, setting up the right processes and governance standards for small businesses is crucial to keep them from becoming a burden. According to Mahzan & Yan (2014), the current state of MSMEs governance needs to be improved. These problems result from a need for more understanding and high implementation costs. According to Chen et al. (2011), the governance concept has failed to reduce conflicts between majority and minority shareholders, even though the governance concept is intended to reduce conflicts between shareholders and management. Modifications to the GCG procedure are clearly required for MSMEs. It will look at how GCG principles and indicators have been changed to meet the needs of small businesses through a screening process.

2. Transparency

Transparency is critical for implementation, as stated in the GCG guidebook by the National Committee for Governance Policy. Companies must publish essential and relevant information in an easily accessible and understandable format to maintain objectivity in their operations. Companies need to show not only the facts that are required by law but also information that can help shareholders, creditors, and other people make decisions. The term "transparency" refers to the accessibility of information to stakeholders (Rinaldo & Puspita, 2018; Schnackenberg & Tomlinson, 2016; Zhu, 2004; Bushman et al., 2004; Ball, 2009). Transparency can benefit organizations by assisting employees in changing their behavior (Kaptein, 2008). Alternatively, *transparency* can be defined as the capacity of public members to (a) recognize or become aware of the existence of intellectual assets; and (b) comprehend essential intellectual assets. High-quality information can help people deal with the uncertainty of new situations (Venkatesh et al., 2016; Chen et al., 2016).

According to several definitions, transparency is information availability, clarity, and disclosure to stakeholders, simplifying their decision-making. The perplexing separation of corporate and private assets is one of the transparency challenges plaguing Indonesian MSMEs. MSMEs in Indonesia are unaware of or unconvinced of the importance of segregating personal and corporate assets (Hakiki et al., 2020; Risnaningsih, 2017; Sembiring & Elisabeth, 2018). On the transparency dimension, the governance indicators for MSMEs are shown in Table 2.

Table 2. Indicators of Transparency

No	MSMES Governance Indicators	Rationale
1	The presence of a contract of employment between the firm and the employee	A detailed employment contract between the employer and the employee will give both of them enough information.
2	The separation of personal and corporate assets	Separating personal and corporate assets enables stakeholders to make more informed business decisions.

Source: Processed by Author

3. Accountability

Accountability implies that people held accountable have a responsibility to act following established standards of behavior and that failing to do so will result in consequences (Breaux et al., 2009). Accountability is critical and has been shown to improve job satisfaction. In 2006, the National Committee for Governance Policy published Good Corporate Governance (GCG) standards, requiring that enterprises collect performance data at all company levels using metrics consistent with corporate values. According to Hilb (2005), accountability refers to the appropriateness of actions taken to complete a task, and third parties can quantify compliance. Mero et al. (2007) analyze accountability by applying performance standards such as ratios and job completion targets. Based on expert perspectives and previous study findings, it is feasible to deduce

that responsibility is linked to appropriate work performance and can be evaluated to ensure that all organizational functions operate successfully. The functions of the business include finance, marketing, human resources, and operations, and standards are established in each of these areas to ensure responsibility. These criteria are naturally tailored to the needs of MSMEs in order to avoid being a burden on the business.

a. Financial Function

Financial management refers to acquiring, allocating, and controlling financial resources (Grozdanovska et al., 2017). If the planning, implementation, and assessment stages are successful, the finance function may be tasked with accountability. Regarding financial functions, multiple studies on MSMEs demonstrate that they need more financial records, resulting in adequate financial control and evaluation activities, which is one of the factors contributing to MSMEs' failure to develop. Taking a cue from Yanto et al. (2017) research, financial accounting standards for entities without public accountability (SAK ETAP) have yet to be appropriately applied as accounting regulations for MSMEs. Hamundu et al. (2020) state that clouds accounting adoption could be much higher among Indonesian MSMEs. According to Ismail (2009), managers of MSMEs must acquire sufficient accounting competence to understand their organizations' information requirements better.

Along with insufficient recordkeeping and assessment, MSMEs have financial planning difficulties. According to a survey of entrepreneurial students conducted in 2020, the year the epidemic began in Indonesia, 93% of entrepreneurial students encountered financial difficulties. The issue is that they lack emergency funds for unforeseen events (emergency funds). Based on the research and the concept of accountability, MSMEs should look at these financial function indicators shown in Table 3.

Table 3. Indicators of Accountability (Financial Function)

No	Accountability Indicator (Financial Function)	Rationale
1	The Completeness of financial statements	Due to the fact that financial reports are a control tool, the availability of them has become a way to measure how well control and evaluation activities have worked.
2	The existence of a separate company emergency reserve from personal finances.	An emergency fund is a tool that businesses use to plan for unanticipated situations..
3	The existence of a financial planning system	The financial planning strategy for MSMEs is fundamental. MSMEs must divide money set aside for investment from money set aside for personal expenses, in addition to the emergency funds specified in Point 2.
4	The existence of financial performance appraisal standards	MSMEs can do performance evaluations, at least utilizing the financial information they generate. As a result, the financial function takes the form of assessment as the foundation for present decision making.

Source: Processed by Author

b. Marketing Function

Marketing management is the art and science of identifying target markets and acquiring, retaining and expanding consumers through the design, delivery, and communication of enhanced customer value. Segmentation, targeting, and positioning contribute to developing a marketing mix plan for product, promotion, place, and price. The marketing process comprises evaluating outcomes and progress against performance targets such as market share. Bocconcelli et al. (2018), through core advertising strategies, segmentation and value creation components, market information management, and marketing mix strategy. Based on these experts' definitions and previous research, it is reasonable to conclude that the following are indicators of the notion of accountability in the marketing function (see Table 4).

Table 4. Indicators of Accountability (Marketing Function)

No	Accountability Indicator (Marketing Function)	Rationale
1	The presence of a defined target market segment	The identification of target market segments will aid MSMEs in developing product, promotion, placement, and pricing strategies.
2	The existence of promotional planning suited to the segment's demands	The appropriate market segment marketing approach can assist MSMEs in gaining a greater market share.
3	The presence of a well-defined pricing strategy	Pricing is one of the most important aspects in determining the success of SMEs. Prices must be adjusted to the target market while taking into account competitive circumstances.
4	The presence of a well-defined and appropriate product distribution plan	Product distribution that ensures products are available at all times and in all places, in line with market needs and wants, is one of the keys to the company's competitive success.
5	Product strategy development programmes are available based on customer categories and demands.	Product quality is tailored to the target market's needs, wants, and purchasing power (segment).

Source: Processed by Author

c. Operation Function

Operational management is any activity involving converting inputs to outputs in producing goods and services. The process begins with product design and development and continues with raw material procurement, production planning, production, sales, and marketing (Mahendrawathi & Nurmadewi, 2021). A *process* is frequently defined as a collection of processes that convert the input to output (AlShathry, 2016). In 1985, Porter classified processes into two categories: core processes and support processes. The term "core processes" refers to those involved in creating value for an organization's products or services. The critical process components are as follows: incoming logistics, operations, outbound logistics, marketing and sales, and services.

Each MSMEs should have accurate data on equipment, suppliers, inventories, workers, and other business activities. According to Bauwman et al. (2018), big data

is critical for assisting businesses in improving their performance. Additionally, data management is critical for the operation of the business. According to several definitions of operations management, table 5 shows the indicators of the concept of accountability in the operations function

Table 5. Indicators of Accountability Operation Function

No	Accountability Indicator (Operation Function)	Rationale
1	The low level of reliance on certain suppliers	A low reliance on suppliers will help to ensure the company's operating procedures.
2	There are established procedures and standards in place for every type of work, from inbound to outbound.	The SOP on each task will make it simpler for employees to carry out their jobs and for management to evaluate performance, resulting in improved operational procedures.
3	The availability of appropriate technology	The availability of relevant technology to assist in making the operating process more effective and efficient.
4	Business data is managed in a methodical manner.	Good data management will be very good for MSMEs in supporting decision making
5	Establish standards for each inventory (Raw Materials, Work in Process and Finished Goods)	Every MSMEs must be aware of raw material, in-process, and final goods standards in order to ensure that product quality is effectively regulated.

Source: Processed by Author

d. Human Resource Function

Human resource management is crucial for every company, especially small businesses relying on people. Human capital is a critical component in helping MSMEs grow (González-Loureiro & Pita-Castelo, 2012). *Human assets* are defined as individuals who possess skills, talents, experience, and professional knowledge. These assets are the "glue" that holds all other assets together and guides their usage toward achieving objectives (Mathis & Jackson, 2017). The human resources department is responsible for developing skill-training materials. Coordinates career goals and staff development activities by organizing training efforts, conducting or arranging off-the-job training, and coordinating career goals and staff development programs. It contributes ideas and abilities to the development of organizations. Chawinga & Chipeta (2017) discovered that skill sets and competitive intelligence significantly impact the ability of MSMEs to generate profits. Kotey & Folker (2007) discovered that human resource training programs affect a business's growth. The leader's function in the company is also critical. Because most MSMEs owners also serve as managers, a MSMEs leader must enhance their capacity to manage the business continually (Miladi, 2014). Experience and training have an effect on the work culture of the organization, and readily available performance measuring instruments can have an effect on employee behavior and outcomes. It should not be disregarded (Wang et al., 2018). According to several of these experts, the following are the governance indicators for the human resource function (see Table 6).

Table 6. Indicators of Accountability (Human Resource Function)

No	Accountability Indicator (Human resource function)	Rationale
1	The existence of a formal recruitment and selection system	An effective recruiting and selecting process will ensure that the skills, knowledge, abilities, and attitudes of employees are aligned with the organization's requirements.
2	Employee training and development programs that are both continuous and formal are available.	The issue for MSMEs is how to compete, as the quality of human resources available to them is quite restricted. Training programs and continuous human resource development may be used to address these issues.
3	The firm depending on their competencies assigns employees.	It will be more effective and efficient if employees are placed based on their skills..
4	Official job descriptions and specifications are available.	Job descriptions and job specifications aid employees in carrying out routine operations.
5	The availability of a formal evaluation system	MSMEs must have a human resource evaluation system in place in order to select the optimum human resource program.

Source: Processed by Author

4. Responsibility

The National Committee on Governance defines and develops criteria for applying the responsibility principle. According to the National Committee for Governance, businesses must adhere to applicable rules and regulations and their societal and environmental responsibilities to secure long-term economic viability and be considered decent corporate citizens. *First*, the company must follow the precautionary principle and ensure it follows all applicable laws and regulations, its articles of incorporation, and its corporate policies (by-laws). *Second*, businesses must fulfill social responsibilities, such as community service and environmental sustainability, particularly near the firm, through effective planning and implementation. The following are the guidelines for implementation.

Baldo (2012) established a link between the spread of CSR and entrepreneurial ideas, as well as a link between enterprises and their local socioeconomic context. Superior MSMEs, he says, would include environmental considerations in their operations. Additionally, Khan & Badjie (2020) feel that businesses must be aware of environmental, social, and governance concerns and other global endeavors to achieve sustainability. Businesses can increase their short-and long-term profitability and competitiveness by adhering to corporate social responsibility (CSR) requirements (Luken & Stares, 2005). Additionally, Hienerth & Kessler (2006) conclude that MSMEs must pay attention to the environment to flourish. In light of this study's findings, the following are the significant indicators of responsibility in MSMES governance (see Table 7).

Table 7. Indicators of Responsibility

No	Responsibility Indicator	Rationale
1	MSMEs are already legal entities	Clear licensing and legal entities will benefit MSMEs in their development by making funding and market access easier to access.
2	MSMEs products have been certified.	MSMEs with certified products have reassuringly provided reassurance to their stakeholders. In other words, they were accountable to their stakeholders.
3	The regularity with which MSMEs pay taxes	MSMEs' tax compliance demonstrates their commitment to the government and society.
4	The attention of SMEs to the environment and society	Keep in mind the environment and social circumstances of the community around you while you run your business. This will help the business run more smoothly with the support of the community.

Source: Processed by Author

5. Independency

The National Committee for Governance developed the GCG guidelines. Companies must be treated independently to guarantee that no one organ of the firm dominates the others. By and large, Indonesian MSMEs are family-owned. The family exerts considerable influence over decision-making. In most family businesses, the whole family is involved in decision-making, frequently resulting in internal conflict (Cosier & Harvey, 1998). Mitter et al. (2014) discovered that family involvement negatively affects small businesses success. When family members are active in management, conflicts among family members emerge (Lee & Rogoff, 1996). Apart from family participation, many MSMEs rely substantially on government assistance, notably in the financial sector. Government involvement benefits MSMEs significantly in obtaining access to financial resources (Khattak & Shah, 2020). According to a survey conducted by the Indonesian government statistics office, capital concerns are the most prominent challenges faced by MSMEs, and they are the primary reason for their failure to develop. Al-Najjar (2017) asserts that a low level of debt reflects a solid MSMEs governance system. According to current research findings, enterprises will be more self-sufficient if family involvement is limited, financial management is superior, and debt levels are low. Thus, based on the principle of independence, the governance measures are shown in Table 8.

Table 8. Indicators of Independency

No	Independency Indicator	Rationale
1	The family's role in management is proportionate to its obligations and requirements, and it does not dominate.	The study's findings indicate that unstructured family interaction has a deleterious effect on MSMEs.
2	The extent to which financial management is autonomous	MSMEs must be financially self-sufficient in order to make business development decisions.
3	The corporation has a low degree of debt.	Financial independence will be assisted by the company's low debt level.

6. Fairness

The firm's activities must adhere to basic principles and constantly examine the interests of shareholders and other stakeholders in accordance with justice and equality ideals. According to the National Committee for Governance's Basic Guidelines for Good Corporate Governance Implementation, there are some guidelines as follows. First, businesses must provide opportunities for stakeholders to provide feedback and voice ideas that are in the company's best interests, as well as open access to information consistent with the transparency principle within the scope of their respective roles. Second, the firm's stakeholders must be treated equally and fairly in proportion to the benefits and contributions they provide to the organization. Third, regardless of ethnic origin, religion, race, class, gender, or physical condition, the company should give opportunities for hiring, career advancement, and performing duties.

Participation and equitable management practices boost employee productivity (Pérotin & Robinson, 2000). Armstrong et al. (2010) found that diversity and equality management systems improve company performance and decrease employee turnover. As a result, the indicator of fairness may be deduced as follows in Table 9.

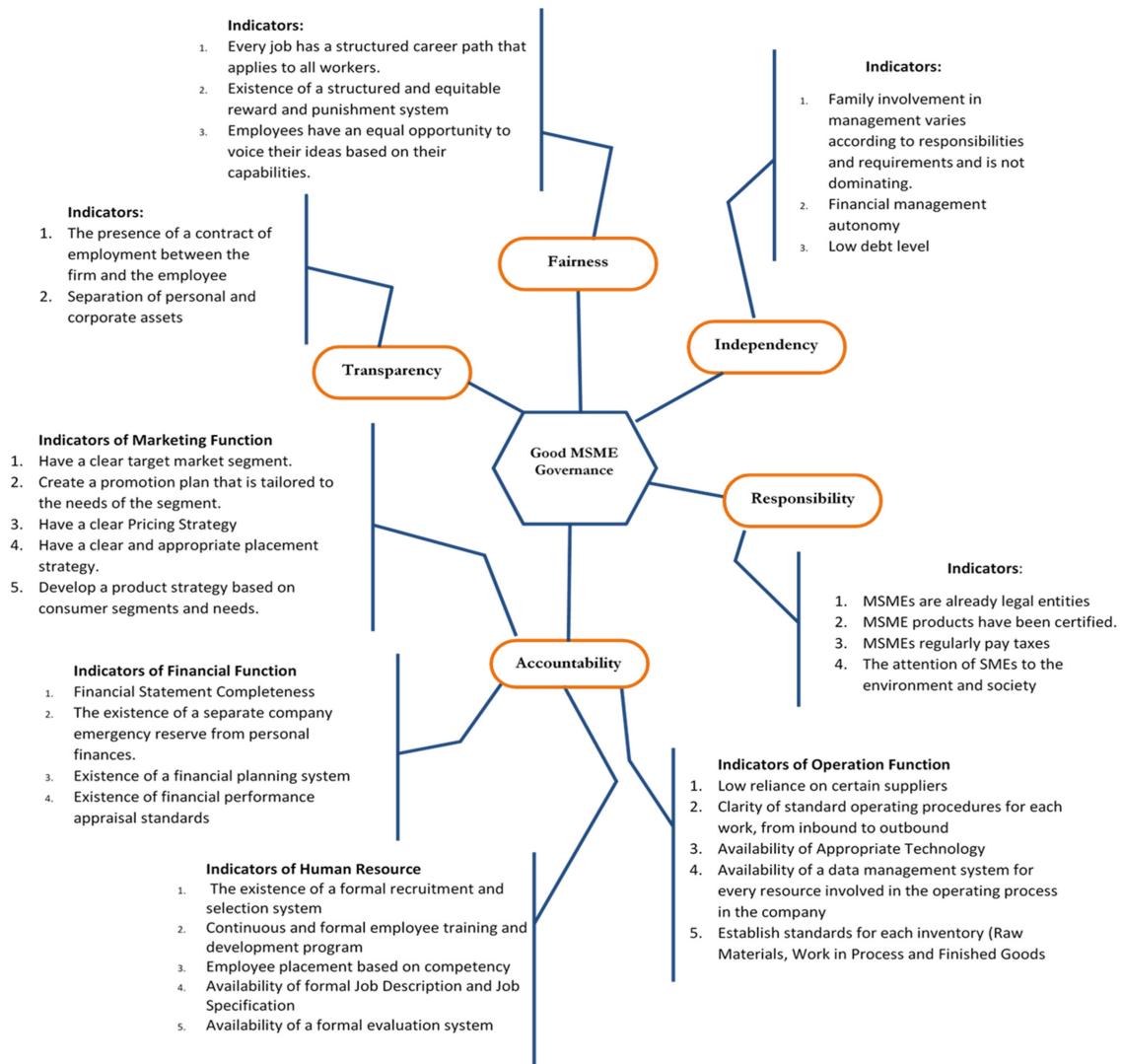
Table 9. Indicators of Fairness

No	Fairness Indicator	Rationale
1	Every job has a structured career path that applies to all workers.	Employees will be more likely to work if the career path is clear and is done the same for everyone.
2	Existence of a structured and equitable reward and punishment system	Employees are more likely to improve their work if the reward and punishment systems are clear.
3	Employees have an equal opportunity to voice their ideas based on their capabilities.	Similarly to principles 1 and 2, every employee, regardless of their position within the organization, has the right to express their thoughts. It is strongly recommended that MSMEs have a means of communication. This benefits the efficient flow of information for MSMEs as well.

Source: Processed by Author

Based on the thorough literature review analysis, it is possible to construct a model of good governance that includes governance indicators tailored to MSMEs. This model can help MSMEs run their businesses in a way that will help them become independent and grow their businesses long-term. Furthermore, additional testing will be conducted on the competency variables of MSME owners and their performance to ensure the effectiveness of the MSMEs governance model's application. As noted previously, the level of competency of MSME owners affects the quality of governance implementation. Figure 3 depicts the MSMEs' governance indicators, while Table 10 details the competency indicators.

Figure 3. Indicators of good MSMEs governance



Source: Processed by Author

The competence of human resources, in this case, owners and managers of MSMEs, is a factor that can contribute to the successful implementation of the governance concept in MSMEs. The HR abilities examined in this study include organizational skills, leadership, self-management, opportunity awareness, analytical and strategic thinking, and personal attributes. These indicators were chosen in response to statements made by numerous experts who have researched these indicators (Aramo-Immonen et al., 2011; Lans et al., 2014; Man et al., 2008; Nikitina et al., 2020). These competency indicators will be used in phase 2 (two) testing to determine which competency factor model is most effective for optimizing MSME governance use and improving company performance.

Table 10. Indicator of Human Resource

Organizational Skill	Leadership	Self Management	Opportunity Recognition	Analytical and Strategic Thinking	Personal Streight
Understanding the Notion of Business Organizational Structure	The Influence of a Leader's Role	Ability to manage confidence to achieve the target of the business plan that has been made	The ability to recognise potential business opportunities	The ability to assess a company's success and failure	Able to Face Failure
Understanding of organisational resource management	Directions-Giving Intensity	The ability to manage time effectively in order to complete business plans on time.		The ability to develop strategies for competing in the business industry in which they work	Self-Assurance
	Employee Development Intensity				Flexibility

Source: derived from multiple sources

Research Phase 2 (two). Competency Variable Test on Performance Through MSMEs Governance

The second step of this research examines the effect of competence on the efficacy of applying performance improvement governance frameworks. The second phase of research will involve a survey of 253 Indonesian MSMEs. The SEM-PLS will evaluate MSMEs' competency, governance, and financial performance.

The first stage in the SEM-PLS method is the measurement model test. It was used to ensure the model construct's validity, particularly concerning reflective and latent variables. The metrics employed were factor loading, composite reliability (CR), extracted mean-variance (AVE), and discriminant validity. It is recommended and trustworthy if the loading factor is more significant than 0.708. Numerous loading indicators can be omitted based on data processing findings, including T2 (separation of business and personal assets), which has a CR value of 0.452; I1 (family involvement in business management), which has a CR value of 0.586; I3 (independence in financial management), which has a CR value of -0.448; and P1 (profitability), which has a CR value of 0.571. This is done to strengthen the construction's reliability. Each construct with an AVE greater than 0.50 is acceptable because the concept of convergence may explain item variation. The composite dependability rating is greater than 0.70 in Table 11, with a range of 0.827 to 1,000, suggesting that it exceeds the standard.

Table 11. Loading Factor, Composite Reliability and AVE

Constructs	Item	Loading	CR	AVE
<i>Entrepreneurial Competencies</i>	AST	0.818	0.916	0.644
	L	0.811		
	OR	0.754		
	OS	0.866		
	SM	0.811		
	PS	0.750		
<i>Transparency</i>	T	1.000	1.000	1.000
<i>Accountability</i>	FA	0.627	0.867	0.622
	HA	0.879		
	MA	0.824		
	OA	0.802		
<i>Responsibility</i>	R1	0.754	0.827	0.548
	R2	0.790		
	R3	0.795		
	R4	0.605		
<i>Independency</i>	I	1.000	1.000	1.000
<i>Fairness</i>	F1	0.766	0.872	0.696
	F2	0.804		
	F3	0.925		
<i>Performance</i>	P2	0.920	0.932	0.872
	P3	0.948		

Source: Processed by authors

After deleting the indicators that do not meet the loading factor constraints, a partial test is run to see how the Entrepreneurial Competencies variable affects MSMEs' governance and performance. Table 12 summarizes the test findings.

Table 12. Hypothesis Test

Hypothesis Test	Coeff. Path	T Statistics	P-Values	Conclusion
Entrepreneurial Competency Transparency	0.206	2,649	0,008	Significant impact
Entrepreneurial Competency Accountability	0,170	1,628	0,104	Insignificant impact.
Entrepreneurial Competency Responsibility	0,357	3,619	0,000	Significant impact
Entrepreneurial Competency Independency	0,065	0,791	0,429	Insignificant impact
Entrepreneurial Competency Fairness	0,365	3,667	0,000	Significant impact
Transparency Performance	0,103	1,410	0,159	Insignificant impact
Accountability Performance	0,037	0,463	0,643	Insignificant impact
Responsibility Performance	0,324	4,742	0,000	Significant impact
Independency Performance	-0,038	0,795	0,427	Insignificant impact
Fairness Performance	0,084	0,869	0,385	Insignificant impact
Entrepreneurial Competency Performance	0,160	2,046	0,041	Significant impact

Source: Processed by Authors

The findings of simultaneous testing of entrepreneurial competency factors through the intervening variable of MSMEs governance, which substantially increases firm performance, also recommend the practicality of the governance model to be used. As a result, this model may be effective, or in other words, MSMEs can adopt the governance model to improve their performance.

Table 13. Simultaneous Testing Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Conclusion
Competence, MSMEs governance, Performance	0.172	0.174	0.055	3.097	0.002	Significant impact

Source: Processed by Authors

The partial test results indicate that while specific indicators have no significant effect, they all have a positive coefficient. The higher the competency, the more effective the governance implementation is in promoting MSMEs' performance improvement. This result is consistent with other research demonstrating the critical nature of excellent human resource competency in facilitating the commercialization of an invention (Stephen & Stemshorn, 2016; Koenigsfeld et al., 2012; Som, 2007; Barbazza et al., 2015).

There is just one variable with a negative coefficient, which is the independent variable on performance, implying that the less debt a corporation has, the better its performance. Substantial debt can result in significant interest expenditures, which eat away at earnings. If MSMEs cannot optimize the capital they obtain from debt, the risk of bankruptcy is reasonably high. According to Al-Najjar (2017), low debt helps the governance structure of MSMEs. Nonetheless, the competency characteristics of MSMEs owners have a beneficial effect on increasing the usage of loans in business operations. This result illustrates that those with better competence are more likely to utilize debt in company financing because they understand the debt financing process.

According to data, most small businesses have money problems because they need to learn how to get loans and become bankable (Tambunan, 2018; Purnamawati, 2017). In contrast, MSMEs actors with poor education do not use debt because they need to learn how to obtain it. They usually fail to qualify for loan funding due to a lack of awareness from corporate management.

Human resource competency has a significant and good effect on the indicator of transparency. Competent MSMEs owners would conduct business transparently and equitably, seeking to strengthen employee rights and responsibilities and treating employees relatively from the start, thus increasing job satisfaction and employee loyalty. Competent small business owners will be more accountable to their community, government, and the environment in which their business operates. Additionally, they will ensure that the

products they create are safe for consumers, which enhances the company's image and motivates them to perform better.

Table 14. MSME Governance Implementation Model for Improving Performance

Transparency	Accountability	Responsibility	Independency	Fairness
The presence of a contract of employment between the firm and the employee	Indicators of Financial Function 1. Financial Statement Completeness 2. The existence of a separate company emergency reserve from personal finances. 3. Existence of a financial planning system 4. Existence of financial performance appraisal standards	MSMEs are already legal entities	Low debt level	Every job has a structured career path that applies to all workers
	Indicators of Operation Function 1. Low reliance on certain suppliers 2. Clarity of standard operating procedures for each work, from inbound to outbound 3. Availability of Appropriate Technology 4. Availability of a data management system for every resource involved in the operating process in the company 5. Establish standards for each inventory (Raw Materials, Work in Process and Finished Goods)	MSME products have been certified.		Existence of a structured and equitable reward and punishment system
	Indicators of Human Resource 1. The existence of a formal recruitment and selection system 2. Continuous and formal employee training and development program 3. Employee placement based on competency 4. Availability of formal Job Description and Job Specification	MSMEs regularly pay taxes		Employees have an equal opportunity to voice their ideas based on their capabilities
	Indicators of Marketing Function 1. Have a clear target market segment. 2. Create a promotion plan that is tailored to the needs of the segment. 3. Have a clear Pricing Strategy 4. Have a clear and appropriate placement strategy.	The attention of SMEs to the environment and society		

Source: Processed by Authors

Meanwhile, the requirement that MSMEs offer is written, and formal explanations of employee rights and responsibilities benefit the transparency variable. If these rights and obligations were aligned, employee loyalty might have improved. These findings corroborate earlier research, which has consistently emphasized the critical nature of corporate transparency (Venkatesh et al., 2016; Chen et al., 2016; Hu et al., 2016). Because it is strongly advised that MSME actors give formal employment contracts to each of their employees, the existence of clarity regarding employees' rights and obligations

provides employees with certainty over their future. In addition, it can help employees do their jobs better by giving them the groundwork they need to do them.

The owner's level of competence benefits responsibility and performance, but it is insignificant. Although it does not significantly affect all financial, marketing, human resources, and operations indicators, it is acceptable for MSMEs to use it to improve accountability variable performance because these indicators deserve to be included in the model based on the results of the measurement model test. Additionally, a positive coefficient indicates that the presence of this indicator has the potential to improve MSMEs' performance; all that remains is to maximize the application of each of these indicators, which can be accomplished through MSMEs assistance programs that engage academics, government, private institutions, the media, communities, and stakeholders. Business people who have succeeded are welcome to share their knowledge and experiences. According to many studies, responsibility may contribute favorably to a business's success (Grozdanovska et al., 2017; Breaux et al., 2009; Hilb, 2005; Mero et al., 2007).

Each of the indicators in the responsibility variable is also applicable to MSMEs. By honoring MSME obligations to stakeholders, MSMEs' business continuity is enhanced, and expansion is sustained (Baldo, 2012; Khan & Badjie, 2020; Luken & Stares, 2005; Hienrth & Kessler, 2006). For the fairness variable, the model testing findings indicate that MSMEs can utilize any indicators as a starting point for governance implementation. Additionally, some studies have shown that applying fairness principles to the workplace may boost job satisfaction and decrease turnover (Pérotin & Robinson, 2000; Armstrong et al., 2010).

According to the test results, while MSMEs actors in the Greater Bandung area believe that the governance indicators listed in Table 13 are feasible to implement and have been shown to affect performance positively, several indicators, such as the separation of personal and business assets (transparency), family involvement, and the extent to which financial management is autonomous (independence), have not been considered. As a result, governance also needs to be improved, as evidenced by data on the average value of competence and governance. The overall competence component is low; only personal strength and self-management have a value greater than 3, indicating that they are adequate (scale of 1-5). Meanwhile, governance, in general, needs to be improved. Except for the independent variable, which reaches a value of 4.74 (excellent), and the accountability variable for the marketing function, which reaches a value of 3.51 (sufficient), the remainder is deficient (> 3). This result demonstrates the need for increasing MSMEs owners' competency and the importance of intensifying MSMEs assistance programs from various stakeholders, including the government, private institutions, academics, practitioners, communities, and the media. Historically, these parties have collaborated to assist MSMEs, such as academics collaborating with government or private institutions through community service programs, which is one of the academics' obligations but is frequently ineffective. Therefore, with the MSMEs governance standards generated by this research, it is hoped that they can serve as a reference for various parties in the implementation process.

Table 15. Average Grade for Governance and Competency

Variables in SME Governance	Average	Entrepreneurial Competence Variables	Average
Transparency	2,63	Personal Strength	3,12
Financial Accountability	2,75	Organizational Skill	2,78
Marketing Function Accountability	3,51	Leadership	2,92
Human Resources Accountability	2,87	Self-Management	3,25
Operational Function Accountability	2,95	Opportunity Recognition	2,67
Responsibility	3,1	Analytical and Strategic Thinking	2,53
Independency	4,74		
Fairness	2,99		

Source: Processed by Authors

CONCLUSION

The researchers identified indicators of good governance, particularly for MSMEs, using the systematic literature review (SLR) technique. The study's conclusions provide a straightforward solution to the problem of insufficient MSMEs business governance. Some indicators show how well MSMEs are run, which can be used as a guide for managing and growing them. Phase 2 testing, which evaluates the company's competency and performance, determines the model's viability. The results of this test show that the competence variable has a positive effect on business performance through the governance variable, which means that improving the performance of MSMEs requires the use of the concept of good corporate governance, which requires the owner to have enough competence to make it work.

As a result, we strongly encourage MSMEs and other stakeholders, including the government, universities, business practitioners, and private companies, as well as the media, to collaborate in order to assist in the development of MSMEs, particularly in light of research indicating the level of competency of MSME owners in business management is still low, which contributes to their lack of awareness about the critical nature of incorporating the notion of MSMEs governance into corporate management. Referring to the MSMEs governance principles, which are novel in this study, can do collaboration between stakeholders involved in the MSMEs development program.

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