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Financial Inclusion of Business Players in Mediating the Success of Small and Medium Enterprises in Indonesia

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ABSTRACT

The aim of this research is to analyse the success of small and medium enterprises (SME) that are mediated by financial inclusion of business players and the role of financial inclusion in increasing the success of SME. The unit analysis of this research is the small and medium business players, the stone craftsmen in Magelang Regency, Central Java, Indonesia. The data used in this research are primary data obtained from questionnaires distribution to 76 stone craftsmen. Partial least square program is used as data processing tool. Internal and external factors a significant positive effect on the success of SME of stone craftsmen in Magelang Regency, Indonesia. Financial inclusion of business players is able to mediate the determinants of the success of SME.

Keywords: Financial Inclusion, Internal and External Factors, Success of Small and Medium Enterprises
JEL Classifications: G40, L26

1. INTRODUCTION

The development of small and medium enterprises (SMEs) in Indonesia is one of the priorities in national economic development. This is because the business is the backbone of a populist economic system, which is aimed not only to reduce poverty but also to employment absorption. The development of SMEs is able to expand the economic base and contribute significantly in accelerating the structural changes, namely the improvement of the regional economy and the resilience of the national economy (Munizu, 2010).

These conditions and facts are in line with empirical research conducted by Kristiningsih and Trimarjono (2014), which states that the success of SME has a direct impact on economic development in both developed and developing countries. SMEs have the ability to create jobs at minimum cost. They are pioneers in the innovation world that has high flexibility to enable the business to meet customer needs (Munizu, 2010).

With government and related parties having a clear reference to the factors that influence the improvement of business performance, the role played by the SME sector is expected to continue. According to Hudson et al. (2001), the success of SMEs is influenced by two main factors namely external factors and internal factors. Internal factors include aspects of HR (owners, managers, and employees); financial aspects, technical aspects of production; and marketing aspects while external factors consist of government policy, socio-cultural and economic aspects, as well as the role of related institutions such as government, universities, and private companies.

Salman et al. (2015) examines the effects of financial inclusion dimensions (mobile banking, banking services, and banking penetration) on SME growth and economic development in Nigeria. The results show that financial inclusion with dimensions (mobile banking, banking services, and banking penetration) has a significant positive effect on the growth and development of SMEs. This study recommends that there should be efforts to increase the capacity and supports for SME that can lead to SMEs being well managed, sustainable, and credit guarantees from banks.

According to Irmawati et al. (2013), financial inclusion is an effort to encourage the financial system to be accessible to all levels of society, thereby promoting quality to economic growth while addressing poverty. Financial inclusion aims to eliminate all forms of public access barriers in utilizing financial services supported by existing infrastructure. On larger scale, this program is expected to support more inclusive and sustainable economic growth, and can provide welfare benefits for the people. The results show that financial institutions such as conventional banks enter and play a role in the process of transfer and deposit.

This research is done because until now financial literacy for SMEs has not been achieved optimally. The problem of using banking facilities can hinder the success of SMEs to compete in the global economy. This study is conducted to examine the ability of financial inclusion in mediating the influence of internal and external factors on the success of the stone craftsmen's SMEs in Magelang Regency, Indonesia, and their impact on the growth and development of Indonesian economy.

2. LITERATURE REVIEW

The success of SMEs is a condition that shows the growth of business. Business growth can be measured by: Sales growth, capital, labour, market and profit growth (Hudson et al., 2001; Munizu, 2010; Subhan et al., 2014; Folorunso et al., 2015; Ndesaulwa, 2016). The main factors that influence the success of SMEs consist of 2 factors, namely internal and external factors of SMEs. Purwaningsih and Kusuma (2015) consider that every stage of company growth including SMEs is the result of two environments in which a company conducts its business, namely the internal and external environment.

2.1. Factors Affecting the Success of SME

The development of small industries is influenced by variables or factors that come from within and outside a business unit. Internal factors include: (1) Managerial skills, (2) owner and or manager's track record, (3) ability to access output and input markets, production technology and sources to gain capital, (4) the amount of capital owned. Factors that come from outside, among others: (1) Technical and financial assistance from the government/private sector, (2) economic conditions reflected in both domestic and global market demand, and (3) technological advances. One of the factors to see the development of small industries is by looking at business growth. Own business growth can be seen from production growth, sales growth, revenue growth and profit growth (Purwidianti and Rahayu, 2015).

According to Hudson et al. (2001); Munizu (2010) the success of SMEs is influenced by two main factors namely external factors and internal factors. Internal factors include aspects of human resources/human resources (owners, managers, and employees), financial aspects, technical aspects of production; and marketing aspects. Each aspect possesses the dimensions of variables coming from within and outside the company (Folorunso et al., 2015). The dimensions of each aspect, by Folorunso et al. (2015), as follows: (1) Of human resources include: The level of formal education, leadership, experience/duration and motivation, and skills, (2) Financial aspects: Own capital, loan, profit rate and capital accumulation, differentiating personal/family expenses, (3) Technical aspects, Production and operations: Available raw materials, production capacity, available machinery/equipment, modern technology and quality control, (4) Market and Marketing Aspects: Market demand, competitive pricing, promotional activities, distribution channels and marketing areas. External factors consist of government policy, socio-economic and cultural conditions, and the role of related institutions.

2.2. Financial Inclusion

Financial inclusion is one of the programs for financial literacy, especially in order to improve the community's ability to use financial services to obtain direct impact from financial institutions (Terzi, 2015). The results of Terzi's research, 2015 show that the more increase of financial inclusion by SMEs can contribute positively to the success of SMEs and ultimately can improve the financial stability of a state.

Financial inclusion is a change in the mindset of economic agents on how to see money and profit. In the old mindset, when people see money, the thing that is in their minds is how to get bigger profits. This makes the gap between the poor and the rich become wider. With the mindset of financial inclusion what is expected to change is that economic actors become more responsive that profit is when the economic actors around become prosperous and the poverty gap narrows.

2.3. Previous Research

Purwidianti and Rahayu (2015) revealed that each stage of company growth is the result of two environments where a company does its business, namely internal and external environment. Important external factors affecting company growth are: Industry and markets, competing companies, and economic climate. While the critical development factors for the growth of the company are: Small entrepreneurs as managers, firms as organizations, ownership or ownership structure.

The study conducted by Ndesaulwa (2016) shows: (1) Individual characteristics of manager/owner, corporate characteristics, external environment of business, and the impact of economic and social policies have a direct, positive, and significant impact on business strategy and business growth, (2) the corporate characteristic, and the impact of social and economic policies have a direct negative impact on business strategy, and (3) business strategy has a direct, positive, and significant impact on a company's growth.

Irmawati et al. (2013); Terzi (2015); Onaolapo (2015) undertook research on the impact of financial inclusion on small and medium-sized businesses in Nigeria as follows: (1) Having access, (2) easy access to distance and cost, and (3) the types of services that can be accessed. The results of Terzi's research, 2015 show that increasing financial inclusion by SMEs can positively contribute to the success of SMEs and ultimately can improve the financial stability of a State.

Salman et al. (2015); Ene and Inemesit (2015) examines the effect of financial inclusion dimensions (mobile banking, banking services and banking penetration) on SMEs growth and economic development in Nigeria. The results showed that financial inclusion with dimensions (mobile banking, banking services and banking penetration) had a significant positive effect on the growth and development of SMEs.

2.4. Research Framework

The framework of the research concepts proposed in this study is illustrated in Figure 1.

2.5. Hypothesis Formulation

The results of Munizu (2010) found that external factors, government policy, socio-cultural and economic aspects, and aspects of the role of related institutions have a significant and positive influence on internal factors. Internal factors consisting human resource aspect, financial aspect, production technique/operational aspects, and market and marketing aspects have a significant and positive influence on the performance of micro and small enterprises. Bouazza et al. (2015); Purwidianti and Rahayu (2015) internal factors, external factors, entrepreneur skill factor and partial factor strategy have a significant positive effect on SME competitiveness. Simultaneously, independent variables have a positive effect on the competitiveness of SMEs.

H_1: Improved internal factors can improve the success of SMEs.

Bouazza et al. (2015); Purwidianti and Rahayu (2015) stated that the development of small industries is influenced by variables or factors that come from within the small business unit or outside the business unit. Internal factors include (1) managerial ability, (2) experience of the owner or manager, (3) ability to access output markets and inputs, production technology and capital sources, (4) the amount of capital owned. While external factors are (1) support in the form of technical and financial assistance from the government/private sector, (2) economic condition reflected from domestic and world market demand and (3) technological advancement.

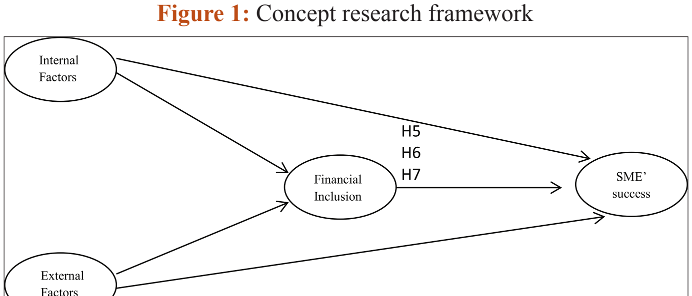
H_2: Improved external factors can improve the success of SMEs.

Salman et al. (2015); Simiyu and Oloko (2015) the higher awareness of business actors towards the dimensions of mobile banking, banking services and banking penetration. The more success of SMEs will be. The results showed that financial inclusion with dimensions (mobile banking, banking services and banking penetration) had a significant positive effect on the growth and development of SMEs.

H_3: Improved internal factors can improve financial inclusion of business actors.

Onaolapo (2015); Eniola and Entebang (2016) argue that SMEs financial inclusion in Nigeria can be influenced by public saving behaviour, poverty rates and economic growth. The obtained results show that the savings have a significant positive effect on SME loans. Poverty rates have a significant negative effect on financial inclusion. Economic growth has a significant positive effect on money supply as a proxy for financial inclusion.

Figure 1: Concept research framework



H_4: Improved external factors can increase financial inclusion of business actors.

The success of development is characterized by the creation of a stable financial system that benefits all levels of society. In this case, financial institutions play an important role through their intermediary function to promote economic growth, income distribution, poverty alleviation and the achievement of financial system stability. The burgeoning financial industry is not necessarily accompanied by access to adequate finance (Migap et al., 2015). In fact, access to financial services is an important requirement of public involvement in the economic system.

The World Bank Survey (2010) shows that only 49% of Indonesian households have access to formal financial institutions. Similar findings from Bank Indonesia in the Household Balance Survey (2011) show that the percentage of households saving in formal and non-financial institutions is 48%. Thus, people who have no savings at all in the bank or non-bank financial institutions are still relatively high at 52% Both surveys reinforce each other and support the financial access of Indonesians to formal and non-formal financial institutions is still relatively low so that Indonesians with limited access to financial services systems still need to be improved.

H_5: Improved financial inclusion of SME actors can improve SME success.

Irmawati et al. (2013), financial inclusion is an effort to encourage the financial system to be accessible to all levels of society, thereby promoting the quality of economic growth while addressing poverty. Financial inclusion aims to eliminate all forms of public access barriers in utilizing financial services supported by existing infrastructure. In macroeconomic, this program is expected to support more inclusive and sustainable economic growth, and can provide welfare benefits for the people. The results show that financial institutions such as new conventional banks enter and play a role in the process of transfer and storage payments.

Ene and Inemesit (2015) found that the deposit amount has a positive and significant relationship with austerity. Access to microfinance in account opening by rural inhabitants has a significant effect on the amount of deposits. Microfinance interest rates have a negative and insignificant relationship with loan in rural areas and small business progress.

H_6: Financial inclusion of SME is able to mediate the influence of internal factors on the success of SMEs.

Financial inclusion is one of the programs for financial literacy, especially in order to improve the community's ability to use financial services to obtain direct impact from financial institutions

(Terzi, 2015). The results of Terzi (2015) study indicate that the increased inclusion of finance by SMEs can contribute positively to the success of SMEs and ultimately can improve the financial stability of a state.

Salman et al. (2015); Terzi (2015); Eniola and Entebang (2016) examines the effect of financial inclusion dimensions (mobile banking, banking services and banking penetration) on SME growth and economic development in Nigeria. The results showed that financial inclusion with dimensions (mobile banking, banking services and banking penetration) had a significant positive effect on the growth and development of SMEs. This study recommends that there is a need for capacity building and SME support that can lead to SMEs being well managed, sustainable and credit guarantees from banks.

H_7: The financial inclusion of SMEs is able to mediate the influence of external factors on the success of SMEs.

3. RESEARCH METHODOLOGY

The sample in this study is a manufacturing company that has gone public in the Indonesian stock market. This study uses primary data obtained from questionnaires. The objects of this research are investors and financial managers of selected companies. For the category of investors, the questionnaires are directed to the shareholders who have assets over 2-5 billion rupiah. And for financial managers, the questionnaires are directed to investment managers who have experienced for 5-10 years. This research collected 90 respondents in between 76 respondents as the normal data. The respondents are all experts, managers, decision makers and owners. They are performers in corporate governance. According to the objectives of this research, data analysis was processed using partial least square.

4. RESULTS AND DISCUSSION

4.1. Structural Models with Mediation Variables after Modification

After modifying the structural model of this research, there are models of factors that influence the success of SMEs that are mediated by the variable of financial inclusion. By entering a number of critical indicators, the preparation of a table can be done as follows Table 1.

The result of structural model testing shows that there are indexes that have met the criteria for over all fit. This is indicated by CMIN/DF = 1.625 <2 is a fit measure. In addition the CFI criterion of 0.924 showed good results that is ≥ 0.90 and the value of RMSEA = 0.079 ≤ 0.08 also showed good results. This criterion has shown that the model that is formed has been in accordance with the data. Furthermore, for the value of GFI = 0.739, AGFI = 0.624 and NFI = 0.830 for the suitability of the model including the medium category.

Furthermore, for the incremental fit criteria, it appears that the model has a good suitability this is indicated by the value of NNFI/TLI = 0.896 which is almost close to the value of cut of value 0.90. From the index of goodness of fit, it can be seen that the proposed model is good because the model can explain the real data about the pattern of relationships between researches constructs.

4.2. Results of Data Processing

The result of data processing with modified model obtained result as follows Table 2.

Internal factors affect the business success can be seen from the value of C.R = −2.653 and $P < 0.05$. External factors of SMEs affect business success with the value of C.R = 2.708 and $P < 0.05$. Internal factor of SME influenced to financial inclusion with value of C.R = −3.533 and $P < 0.05$. External factors affect the financial inclusion with the value of C.R = 2.961 and $P < 0.05$. Value of C.R variable of financial inclusion of SME perpetrator is 4.088 and $P < 0.05$, hence financial inclusion is declared to have an effect business success. The result of causality test shows that the critical ratio value (CR) is not equal to zero (all >2), and $P < 0.05$ so it can be stated that there is a real relationship between internal factor variables, external factors and financial inclusion to business success.

Based on Table 3 it can be explained that the direct influence of internal factors on business success variables is −0.773. The indirect effect of internal factors on business success through financial inclusion is obtained from ($\beta 1 \times \beta 7$) i.e., −0.204. So the effect of total internal factors on business success is (−0.773 + −0.204) = −0.977. The direct influence of external factors on business success is 2.949, the indirect effect of external factors on business success through financial inclusion is obtained from ($\beta 2 \times \beta 7$) that is 0.944. So the effect of total external factors on business success is (2.949 + 0.944) = 3.893. The direct influence of internal factor variables on financial inclusion is −0.083. There is no indirect influence between the variables, so the total effect remains at −0.083. The direct influence of external factors on financial inclusion is 0.383 and its total influence is 0.383. The immediate effect of financial inclusion on business success is 2.464. There is no indirect influence between the variables, so the total effect remains at 2.464.

The success of SMEs, gem stone artisans in Magelang Regency, Indonesia is influenced by various factors both internal factors and external factors. In this study, the success of SMEs, gem stone artisans in Magelang Regency, Indonesia is also influenced by financial inclusion SME actors. Internal factor dimension which is used to analyze the influence of SMEs success of stone craftsmen consist of: Human resources aspect, financial aspect, technical

Table 1: Goodness of fit index structural model with mediation variables after modification

Goodness of fit statistics	Cut of value	Model results	Criteria
CMIN/DF	<2.0	1.625	Good
GFI	≥0.90	0.739	Moderate
RMSEA	≤0.08	0.079	Good
CFI	≥0.90	0.924	Good
AGFI	≥0.90	0.624	Moderate
NFI	≥0.90	0.830	Moderate
TLI	≥0.90	0.896	Moderate

Source: PLS print out (2017)

Table 2: Estimation of regression weight full model parameters

Endogenous variables → exogenous variables	Estimate	S.E	C.R	P	Remarks
Internal factors → business success	0.773	0.219	3.533	0.000	Significant
External factors → business success	2.949	0.996	2.961	0.003	Significant
Internal factors → financial inclusion	0.083	0.031	2.653	0.008	Significant
External factors → financial inclusion	0.383	0.142	2.708	0.007	Significant
Financial inclusion → business success	2.464	0.603	4.088	0.000	Significant

Source: Processed data (2017)

Table 3: Coefficients value of direct, indirect and total relationships between exogenous and endogenous variables

Variables	Total effect	Indirect effect	Direct effect
Internal factors → business success	0.977	0.204	0.773
External factors → business success	3.893	0.944	2.949
Internal factors → financial inclusion	0.083	0.000	0.083
External factors → financial inclusion	0.383	0.000	0.383
Financial inclusion → business success	2.464	0.000	2.464

Source: Processed data (2017)

aspect, production and operational, and market and marketing aspect. While external factors that are used to analyze the influence of the success of SMEs consist of: Aspects of government policy, socio-cultural & economic aspects and the role of related institutions. Internal factors can affect the success of SMEs directly or indirectly. The indirect effect will be mediated by the financial inclusion variable of SME actors consisting of availability/access to financial services, the use of financial products and services, quality of financial products and services, and the welfare of users of financial products and services. The success of SMEs is measured by several indicators as follows: Sales growth, capital growth, employment growth, market growth and profit growth.

5. CONCLUSION

The results of this study show that internal and external factors have a direct significant positive effect on the success of SMEs gem stone artisans in Magelang Regency, Indonesia. The SME's financial inclusion is directly influenced by internal factors. Direct financial inclusion is also significantly and positively influenced by external factors. This study also obtains the result that financial inclusion of business actors is able to mediate the influence of internal factors and external factors on the success of SMEs, gem stone artisans in Magelang Regency, Indonesia.

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