

# Innovation and Financial Performance: Study of Tourism SMEs

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**Abstract.** The purpose of this study is to determine how innovation affects four independent variables packaging, diversification, creation, and digitalization and one dependent variable the financial performance of MSMEs in Tanjungpinang City's tourism sector, which includes food and handicrafts as well as travel and tourism. 964 people made up the study's population, and 283 SMEs were selected as a sample using the slovin formula and a tolerance threshold of 5%. The findings of this study show that all variables have a positive association and influence all other variables either partially or simultaneously. With an overall effect of 40.8%, t count exceeds t table and f count exceeds f table, and the remaining 59.2% is influenced by other variables outside of this study, such as networking, leadership, and others.

**Keywords :** Innovation, Financial Performance, SMEs

## 1 Introduction

According to research [4], the existence of micro, small and medium enterprises (MSMEs) can further develop in an effort to increase community economic growth to achieve prosperity, The presence of MSMEs has a positive impact because business people are able to produce a variety of products that are acceptable to the market with the quality and product innovation they have to generate income (Minna & Saunila, 2014) Tanjungpinang City is no exception. MSMEs themselves include the most economic activities carried out by Indonesian people. The existence and growth of MSMEs have a major role in the improvement and sustainable growth of the Indonesian economy. It can be seen that MSMEs are able to contribute to efforts to empower the community, reduce poverty, reduce unemployment, and distribute people's income [5], We can see this in the following image:

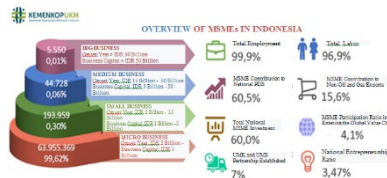


Fig 1. Overview of Indonesian MSMEs

Table 1. Development of MSMEs and Large Enterprises Period 2018 – 2019

No	Indicators	Year 2018			Year 2019	
		Unit	Total	Share	Total	Share
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	BUSINESS UNIT (A+B)	Unit	64,199,606	100.00	65,466,283	100.00
	Micro Enterprises (ME)	Unit	63,350,222	98.68	64,601,352	98.68
	Small Enterprises (SE)	Unit	783,132	1.22	798,679	1.22
	Medium Enterprises (ME)	Unit	60,702	0.09	60,702	0.09
2	LABOR (A+B)	People	120,598,138	100.00	123,368,672	100.00
	A. Micro, Small, and Medium Enterprises (MSMEs)	People	116,978,631	97.00	119,562,843	96.92
	Micro Business (MB)	People	107,376,540	89.04	109,842,384	89.04
	Small Business (SB)	People	5,831,256	4.84	5,930,317	4.81
	Medium Business (MB)	People	3,770,835	3.13	3,790,142	3.07
	B. Large Enterprises (LE)	People	3,619,507	3.00	3,805,829	3.08

72.47% of the total number of SMEs in existence are having issues with business management, with the following issues and problems being identified: Capital, marketing, raw materials, labor, and transportation distribution are listed in that order. (Beyza et al., 2014). These five issues have a significant impact on MSMEs' cash flow, resulting in low cash inflows or cash withdrawals without being followed by cash inflows, which puts MSMEs in a precarious financial situation. (Santoro et al., 2016). It is known that in August 2021, the United Nations Development Program (UNDP) surveyed 3,011 MSMEs in Indonesia utilizing the survey method of four SMS blasts. According to the study findings, 24% of MSMEs did not conduct any business operations during the COVID-19 epidemic. Up to 35.2% of those polled claimed that there wasn't enough money to pay for manufacturing costs.

As many as 30.2% of respondents reported closing their businesses after seeing a very sharp decline in sales as a result of low demand for their goods. Following that, 27.5% of respondents claimed that government rules, including the implementation of limitations on communal activities (PPKM), drove them to shut down their enterprises. (Kamien & Schwartz, 2014). In addition, 2.2% of respondents claimed that it was difficult to get raw materials, and 4.9% of respondents liquidated their businesses because they had trouble accessing internal money. The report also reveals that the majority of company closures occur over a period of two to six months. 46% of respondents claimed to have suspended operations for longer than six months.

According to the findings of the conducted interviews, the decline in profits and losses that occurred here was not only brought on by the pandemic that is currently ravaging the entire world, but also by the fact that consumers who are the target market of business actors are undoubtedly saturated with a product produced from a business unit [1]. Product creation and diversification aims to increase sales volume/quantity that can be carried out by companies that are already at the maturity stage [2]. A corporation can rely on different products instead of only one type of product with product diversification because other types of products can compensate for a declining market for one type of product [3]. PT. Khong Guan is an illustration of a product that successfully underwent product diversification and invention, increasing the company's sales volume.

## 2 Literature Review

### 2.1 Innovation

According to Schumpeter, innovation is "a new combination" of either new or preexisting information, resources, tools, and other elements. New developments in product development, manufacturing procedures, markets, resources, materials, technology, and organizational structures are what this innovation is all about. As stated by (Schumpeters, 1934) innovation has 3 influences, namely: 1) New technology introduced; 2) Increase monopolistic profit, a key source of funding for capital accumulation, by generating greater profit; 3) Following innovation, an imitation process, or the existence of other businesspeople who copy the new technique, will emerge.

Merely individuals who are willing to explore and implement new ideas can be said to as entrepreneurs, according to Schumpeter; those who consistently manage their businesses are not entrepreneurs but only manage [3]. According to Schumpeter, a businessperson can profit financially from introducing successful inventions. According to this notion, an entrepreneur's primary duty is to make helpful innovations available to the general population. As a reward for their performance, these technologies will eventually produce advantages [2].

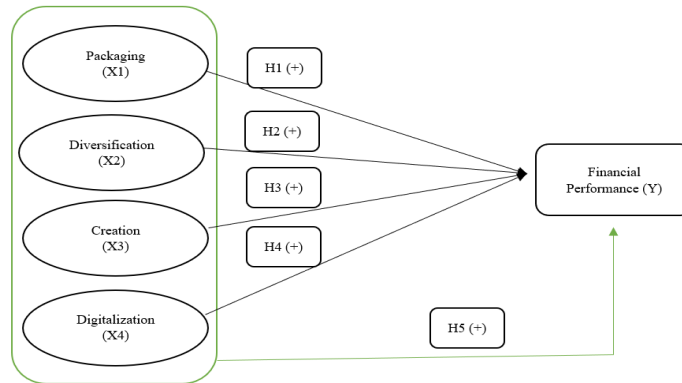
### 2.2 Financial Performance

Definition of financial performance according to [5]. is a study done to determine the extent to which a business has applied financial implementation guidelines accurately and correctly. Financial performance serves as an example of how a firm achieves success, which can be seen as the outcomes of the numerous actions that have been undertaken [6]. Financial performance can be defined as an analysis performed to determine the degree to which a company has operated by employing the rules of financial implementation correctly and appropriately (Anser, 2018), and MSME criteria as in table below :

**Table 2.** MSME Criteria

2008 MSME Law	PP MSME No. 7 of 2021
<b>Criteria</b>	
MSMEs are classified according to net worth or annual sales results. Net worth is the amount of sales after deducting debts or liabilities.	MSMEs are classified according to business capital criteria or annual sales results. Business capital, namely own capital and loan capital to carry out business activities.
<b>Net Worth/Business Capital</b>	
1. Micro Business At Most 300 Million 2. Small Business 50 Million-500 Million 3. Medium Enterprises 500 million-at most 10 billion	1. Micro Business At Most 1 billion 2. Small Business 1 Billion-5 Billion 3. Medium Enterprises 5 Billion-at most 50 billion
<b>Annual Sales Results</b>	
1. Micro Business At Most 300 Million 2. Small Business 300 Million- at most 2,5 Billion 3. Medium Enterprises 2.5 Billion-at most 50 billion	1. Micro Business At Most 2 billion 2. Small Business Billion-15 Billion 3. Medium Enterprises >15 Billion-at most 50 billion

The following is the framework of this research:



**Fig 2.** Framework

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \quad (1)$$

### 3 Research Method

#### 3.1 Population

The study's target audience is the Tanjungpinang city's MSME tourist industry. The following are a few of the tourism industries represented in this study: 1) Culinary sector; 2) Handicraft sector; and 3) Tour and Travel sector.

The total population in this study amounted to 964 MSMEs in the tourism sector in Tanjungpinang City.

#### 3.2 Sample

Using the Slovin formula, the samples for this investigation were determined. In cases where the behavior of a population is not known with certainty, Slovin is a formula for determining the least number of samples to be taken [6], the determination of the sample is as follows:

$$n = N / N(d^2) + 1$$

(2)

$$n = 964 / 964 (5\%^2) + 1$$

$$n = 964 / 964 (0.05^2) + 1$$

$$n = 964 / 964 (0.0025) + 1$$

$$n = 964 / 2.41 + 1$$

$$n = 964 / 3.41 \quad n = 282.6 \quad n = 283 \text{ MSMEs}$$

Additionally, incidental sampling was included in the study's sample criteria.

### 4 Result and Discussion

The following are the results of Multiple Linear Regression and Partial Tests:

**Table 3. Multiple Linear Regression and Partial Tests Coefficients<sup>a</sup>**

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	6.268	1.989		3.151	.002
	Packaging	.242	.156	.421	4.296	.000
	Diversivication	.244	.166	.177	3.665	.008
	Creation	.201	.172	.163	3.405	.004
	Digitalization	.275	.059	.140	3.263	.000

Based on the table above the following results are obtained: 1) The value of the  $\alpha$  constant of 6,268 gives the understanding that if packaging (X1), Diversivication (X2), Creation (X3) and Digitalization (X4) in this case  $X = 0$ , then the company's Financial Performance (Y) is equal to 8,358; 2) The regression coefficient of the packaging variable (X1) has a value of 0.242 meaning that if the other variables have a fixed value and packaging (X1) has increased by 1%, then financial performance (Y) will have increased by 24.2%; 3) The regression coefficient of the diversivication variable (X2) has a value of 0.244 meaning that if the other variables have a fixed value and diversivication (X2) has increased by 1%, then financial performance (Y) will have increased by 24.4%; 4) The regression coefficient of the creation variable (X3) has a value of 0.201 meaning that if the other variables have a fixed value and creation (X3) has increased by 1%, then financial performance (Y) will have increased by 20.1%; 5) The regression coefficient of the digitalization variable (X4) has a value of 0.275, meaning that if the other independent variables have a fixed value and digitalization (X4) has increased by 1%, then financial performance (Y) will have increased by 27.5%; 6) The calculated t value is greater than t table, and the sig value of 0.000 is smaller than 0.05, then all independent variables have a significant effect on financial performance

The following is a simultaneous test in this reseach

**Table 4. Simultaneous Tests ANOVA<sup>a</sup>**

Model		Sun of Squares	df	Mean Square	F	Sig.
1	Regression	391.150	4	97.787	16.180	.000 <sup>b</sup>
	Residual	507.659	84	6.044		
	Total	898.809	88			

a. Dependent Variable: Financial\_Performance

b. Predictors: (Constant), Digitalization, Packaging, Diversivication, Creation

It is evident from the data above that the f count is 16.180 and the sig value is less than 0.000, indicating that the f count is greater than the f table and the sig value is less than 0.05, indicating that independent variables have a significant impact on the dependent variables, namely financial performance, simultaneously or concurrently.

## 5 Conclusion

From the results of the study above, all hypotheses are proven to be correct with all variables partially positively and simultaneously influential, with an overall influence of 40.8%.

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