

## Improving medium small micro enterprise' (MSME) performance



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### ABSTRACT

The contribution of Indonesia's medium, small and micro to Gross Domestic Product in 2018 at 60.34%. There are MSME's weaknesses (1) business capital (2) entrepreneurship (3) product innovation (4) distributing products (5) marketing (6) mentor/coach (7) transaction recording via online (8) no branding (9) customer loyalty (10) business permit. The variables X are leadership, innovation, and financial recording. The dependent variable is Y business performance. The correlation of leadership to finance has an effect, the correlation between financial and business performance has significant, and the correlation between innovation and business performance shows weak. The conclusion for operational management is fit as well as leadership, innovation, and financial recording improve business performance, however, innovation is not given effect on business performance.

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### 1. Introduction

The strategic contributions of SMEs to Indonesia include national income and employment, poverty reduction, and job creation (Tambunan, 2009). The government of Indonesia sees three important roles of MSME to marginal society: Firstly, it is 'release' the poor from poverty traps because these enterprises are capable of hiring a lot of employees. Data from Ministry of Cooperation and MSME in 2011 showed 55.2 million MSME absorbed 101.7 million workers. Secondly, it increases marginal people wealth as the MSME existence in 34 provinces have reduced gap between the haves and poor. Addition positive impact is that the marginal ones do not have to go to cities seeking better life. Thirdly, based on Ministry of Cooperation and UKM in 2017, MSME gives national income from export reached to IDR 88.45 billion.

On the other hand, the Head of Akumindo said that contribution of the medium, small and micro to Gross Domestic Product in 2018 at 60.34%. Fig. 1

reveals that MSME gives an important role in Indonesia's economical sustainability.

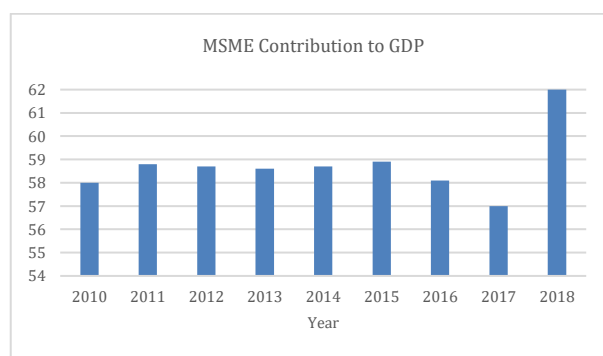


Fig. 1: MSME Contribution to GDP 2010-2018 (BMI, 2018)

Bukittinggi city is one of the tourist destinations in West Sumatra due to its natural beauty and cool climate. The city is known to have preserved traditions as well as accessories market dan various culinary. This is contributed by the MSME industry (embroider, woven cloth, and culinary). According to Dinas Koperindag and MSME Bukittinggi City shown in Table 1. The number of business units is 315 with a revenue of IDR 89.441.160.000 for embroidery and woven cloth, although its amount at IDR 309.000.000 (total revenue of IDR 20.129.705.000 OF 65 business).

Referring to literature reading, observation as well as an interview with stakeholders (Head of Koperindag Bukittinggi city and SME's owners), the

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matters faced by MSME in Bukittinggi is low volume sales of the products (embroidery, woven cloth) both in the national or international market. Reasons for these problems are related to MSME's weaknesses (Dubey and Das, 2021), including (1) business capital; (2) knowledge of entrepreneurship; (3) product innovation; (4) difficulty in distributing products; (5) marketing; (6) mentor/coach unavailability; (7) knowledge on the transaction

recording via online; (8) no branding; (9) have not implemented customer loyalty; (10) do not have a business permit. Therefore, this research sees the necessity to evaluate the Leadership of MSME owners as the core to boost the implementation of Innovation and Financial Recording as indicated as one of the weaknesses. Subsequent of those management practices are expected to increase business performance.

**Table 1:** General data of MSME in Bukitinggi city based on the Industrial central year 2013 (Yenniwati, 2000)

No.	Commodity	Number of business unit	Revenue	Average
1	Tea and coffee	71	5.825.506.000	82.049.380
2	Crackers and so forth	182	31.291.599.000	171.931.863
3	Sanjai crackers	65	20.129.705.000	309.687.769
4	Embroidery/ woven cloth	315	89.441.160.000	283.940.190
5	Footwear	88	18.599.004.000	211.352.318
6	Bricks	801	176.476.874.000	220.320.692

Dubey and Das (2021) investigated the importance of leadership to business and supported that leader influence is essential to overall MSME processes and results. Dubey and Das (2021) stressed that innovation is activities that cause MSME to sustain itself in a competitive world or even win the competition. Onyema and Odeiem-ogulu (2019) and Nasution and Ramadhan (2019) found the importance of financial recording to SME's success, although at the same time many companies do not always do those important activities. This research evaluates the interaction effects of four construct or latent variables within a new model or frame thought. It investigates whether leadership affects simultaneously financial recording and innovation whilst at the same time the two latest variables affect MSME performance. The research intends to investigate the effect of leadership on innovation and financial recording and investigate the effect of financial recording and innovation on business performance.

## 2. Literature review

The business currently experiences pressures due to various issues such as globalization, competition, changing workforces and consumer influence; innovation in technology, obsolescence, overload information, and electronic commerce; and in social aspects regarding social responsibility; government regulation, deregulation, and shrinking budget and ethics (Widajanti, 2012). Companies have to overcome those pressures if they want to grow and sustain themselves.

In that respect, business sustainability is dependent upon a company leader who gets himself/herself involved, making decisions and determining strategy. Leadership can be visible in MSME operation management in the form of innovation and financial management which are two significant factors for MSMEs. Innovation encourages continuous improvement in product value-added and service as well as better process creation for which companies can win a competition (Putra et al.,

2020). At the same time, the company has to be capable of providing cash flow through cash flow and financial balance.

### 2.1. Micro small medium scale business

An organization is a social entity (system) 'willingly' coordinated at the exact limitation which can be identified (for instance, economic growth) in pursuing 'their' purposes or objectives (Dubey and Das, 2021; Hubeis, 2009). Whilst, small scale organizations can be categorized as individual companies, CV, a limited company (PT), and cooperation. The existence of an organization can assist small scale in various aspects: Decision making, business control; and improvement in control capability. Dubey and Das (2021) elaborated on organization attributes covering: Capital, owner, ownership feature, orientation, development process, control system on the decision, manager, organization, rules, secrets, debt obligation, tax, employee, stock, sustainability, and agreement.

### 2.2. Competitive advantage

Competitive advantage is a company's capability to create value that cannot be owned and copied by competitors or the company's capability to create a superior position over its competitors (Sanusi and Connell, 2018). This is shown through company performance in high sales level, big profit margin, and growth in market share. Indicators for competitive advantage can be: a) Price, when a company gives a price more competitive or lower than competitors; b) quality, when high-quality products and services increase customers and make them loyal; c) dependent on supply, interdependent between partners in the supply chain will strengthen product delivery from downstream to upstream; d) innovative product answer customer needs and better than competitors; and e) time to market is how far companies are capable to launch and introduce new product faster than competitors.

### 2.3. Company performance

Company performance is something produced by a company in a certain period referring to a defined standard and expectedly is measured results and show the empirical condition of the company of various measurement agreed. Company performance refers to how well a company orientates to market and financial purposes. Performance is a motivational function, skills, and roles perception (Kurniawan et al., 2019). Whilst defines performance as records about output generated by the function of special jobs or activities within special time. The result of Kurniawan et al.'s (2019) research was motivation and discipline affect significantly and positively business performance (Kurniawan et al., 2019).

Company performance is the achievement level of jobs execution within the organization, in an effort to achieve the target, objectives, mission, and vision of the organization. Indicator performance variable: a) financial/market performance is production cost target and company productivity level; b) operational performance is company performance in controlling market share, doing new product launches, increasing product quality, and increasing customer satisfaction (Purwanto et al., 2019; Artini and Sandhi, 2021).

Whilst Serawitu (2020) observed that performance is stated as a rate of improvement annually as affected by rules and government, business permits, technology, infrastructure, marketing, financial, management, and entrepreneurship skills (Serawitu, 2020). Mostafiz et al. (2021) found facts that difficulties in finances emerged because of financial lack to capitalize on business and or financial mismanagement (Mostafiz et al., 2021). More specifically, financial performance is affected by weakness in financial management, bad planning, lack of managerial skills, lack of entrepreneurship skills, lack of access to financial sources, and competition. This is supported by the finding competitive advantage is affected by innovation, and management capability (Ratnawati, 2017).

### 2.4. Innovation

Entrepreneurship is a creative process of new things (creativity) and making something new (innovation) from existing, for individual wealth and giving value-added to society from strength owned by himself/herself (Dubey and Das, 2021). Innovation is introductory of new technology success in the economy or new combination from existing technology to create a drastic change in relation to value and price offered to customers. Innovation is divided into two types that are incremental and radical innovation (Pasariibu, 2016). Incremental innovation shows processes, methods, and tools used by organizations kept and repaired continuously. Radical innovation shows how to do something differently. Innovation management

occurs when a company applies innovative ways sourced from research and development functions (Ratnawati, 2017). This model meets the innovation needed by MSME. Innovation through value-added is a competitive advantage giving superiority to a competitor to open new market spaces.

A company becomes a state of the art entity when value-added is put into through innovation from events, capability, and systems (Pasariibu, 2016). To be capable of innovating as competition, a company has to have adequate knowledge. Good sales and income are possible through continuous innovation of that product (Pasariibu, 2016). In addition to function, appearance and benefit are part of product innovation. Customers (market) have willingness unlimited. Consumed products by the customer are challenged by similar products from other suppliers or new products. Therefore, innovation is inestimably for a company to operate at that time. Innovation is then done to summarize the process and increase quality in order to produce can be supplied at a low price, fast and flexible. This research uses factors of increased value-added, process improvement, and improvement to product/service to explain MSME innovation.

### 2.5. Financial recording

MSME growth results in challenges or financial matters needing caution in its financial management or in particular financial reporting. The accounting system is a set of tidy manual and accounting methods computerized to make a management decision. Accounting is an indicator key for business performance said that good financial reporting gives understanding, verification, neutrality, boundless time, cooperation, and completeness to support company performance (Olaoye et al., 2019). An accounting information system in the form financial report can be as basis capital for MSME to make a decision, i.e., the decision to enlarge the market, price, and interaction with government and creditors (Nurhidayati et al., 2017).

Accounting information systems have benefited largely from MSME, although their knowledge of accounting has not been accurate. From a survey in Kecamatan Datuk Bandar Kota Tanjung Balai, there are many businesses that have not made the transaction in the document. Transactions are activities to note every transaction related to business activity. The recording emerged when a number of person transactions becomes many and this person can no longer memorize (Nasution and Ramadhan, 2019).

Accounting is a process to record, classify, summarize, and give data, and financial transactions. The financial report is the final result of the accounting process (Nasution and Ramadhan, 2019). The daily transaction gives evidence of transaction proof put into a journal. Journal is then posted into a big book (ledger) according to the transaction group. The big book is then summarized into trial balance. Referring to Firdaus et al. (2019) financial report is

complete covering balance, profit loss report, and cash flow. Balance is a report providing information on resources or assets owned by the company, liability, and equity (capital) of the owner. Balance is a financial report showing financial condition has to be in balance between total asset invested within the company with liability and equity of owner to support company operation. A profit loss report is a report showing the composition of sales, basic price, and company expenses for a certain period. This report gives information to creditors and investors to predict the amount, time, and uncertainty of future cash flow in the future. A cash flow report is a report providing receiving flow and outgoing flow based on investment activity and the fund from a company in a certain period. A cash flow report often is known as a report of the source and use of funds (Fatihudin et al., 2018).

## 2.6. Leadership

In general, MSME is a business organization led and or managed directly by the owner of the company. Sanusi and Connell (2018) stated that a leader in the core of the company meaning management will be achieved when a leader exists. Business sustainability is dependent upon ownership leadership in terms of mission and vision to motivate, strategy options, and leadership styles. Further, an elaborate leader function is (Sanusi and Connell, 2018): Formalize accurately organization purpose, encourage to analyze situation put into activity plan, assist information gathering, give the confidence to do tasks of employees, encourage problem-solving, ease objective achievement, create a comfortable working place, and create employees feeling like part of the organization.

There are 2 categories of Leadership styles (Sanusi and Sutikno, 2009), 1) authoritarian is based

on position strength and use of authority; 2) democratic is based on personal strength and followers' involvement in problem-solving and decision making. The two add leadership styles are character, habit, tempers, and personality differentiate a leader in interaction with others. This style is a behavior norm used by someone when he/she tries to affect other behavior or subordinates. Leader orientation is focused only on productivity improvement of employees by less attention to feeling and wealth. Participative orientation motivates employees to have ownership of the company and encourages their capability of them to make the decision. Delegative orientation is employees make decisions and polity freely in doing their jobs. This research uses a variable of strategy determination and decision making to explain the leadership variable. This also refers to management as a part of management change (Purwanto et al., 2019)

## 2.7. Logical framework

Generally, the MSME owner is as also as top management of this business who is the soul of it. Mission or noble reasons to establish companies have caused him/her to lead with associated attributes. The leader of the business makes strategies and decisions to grow, sustain and exist his/her business for a long time. Leadership gives direction and magnitude of innovation and financial recording to be part of operational management which both results in business performance (Yuliadi and Nugroho, 2019). This elaboration leads to the definition of this research frame of thought as presented in the following model. Fig. 2 shows the framework of thought.

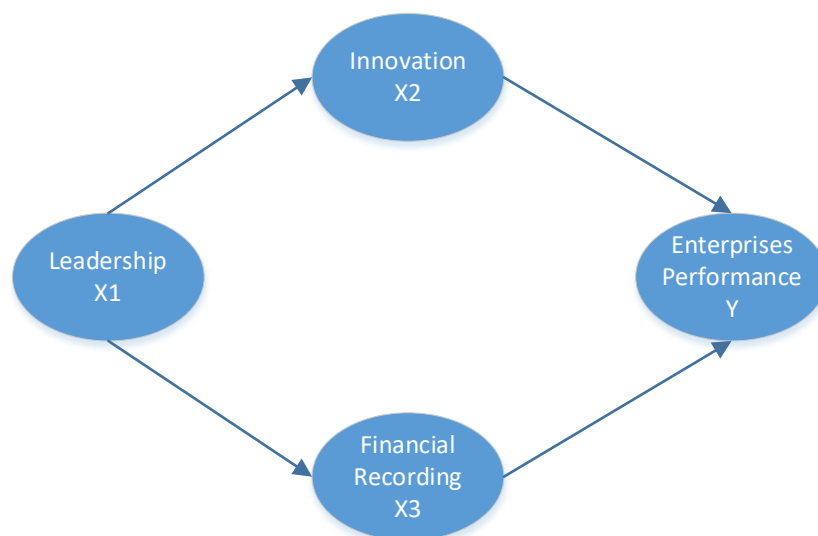


Fig. 2: Framework of thought

Leadership as explained above determines MSME strategy like type and quality of product/service sold, selected market, cooperation with stakeholders

up to price decision. Afterward, the operation of business gives changes, challenges, and obstacles for which top management has to decide accordingly.



Therefore, leadership affects innovation activities (hypothesis 1) which are comprised of value-added to get in order product/ service superior to product/ service competitors. This also includes process improvement through working procedure change, layout, designation, and financial transaction recording (hypothesis 2). The decision of a business owner to make a record on any transaction in a certain accounting method including balance, cash flow, and ratio. The two variables, innovation, and financial recording simultaneously affect sales level, income, and growth of the business (Hypothesis 3 and hypothesis 4). As illustrated, process improvement results in product/ service delivery quicker to the customer and will increase sales, income, and market share. Recording the cash flow enables the business to update the cost structure by which a more competitive price refers to the market price.

The hypotheses explained above are summarized in the following:

- Hypothesis 1: Leadership gives a significant and positive impact on Innovation.
- Hypothesis 2: Leadership give a significant and positive impact on the financial recording.
- Hypothesis 3: Innovation give a significant and positive impact on business performance.
- Hypothesis 4: Financial recording gives a significant and positive impact on business performance.

### 3. Methodology

#### 3.1. Research design

##### 3.1.1. Research variable

The Variable in the PLS analysis of this research is comprised of two variables, which are the latent variable and the indicator variable. The latent variable is an abstract and a key variable to be investigated. The latent variable is explained by the indicator variable which is in quantitative form. The Independent variable (X) or exogenous variable affects the dependent variable. These are leadership (X1) with measuring items such as strategy determination (X1.1), decision making (X1.2); Innovation (X2) with items of value-added creation (X2.1), process improvement (X2.2), and product/service improvement (X2.3) and Financial Recording (X3) with items of cash flow (X3.1) and balance (X3.2). The dependent variable or endogenous (Y) is business performance (Y) with measuring items covering sales (Y1), income (Y2), and market share (Y3)

##### 3.1.2. Definition and variable measurement

Operationalization of variables is very important to get data for testing hypothesis and test model

fitness established based on the theory of construct. This operationalization in this research is meant to ease and direct questionnaire making. This research is used a closed questionnaire instrument in the form of questions or statements to be answered by the respondent by choosing the scale of answers prepared.

#### 3.2. Leadership

Leadership is a process affecting group activities arranged to achieve group objectives ([Sanusi and Sutikno, 2009](#)). The operationalization variable applies Likert 5 points consisting of very disagree, disagree, neutral, agree, and very agree. Indicator variable explains latent variable of leadership: X1 (Determining strategy) = Leader select strategies for his/her MSMEs; X2 (Making Decision) = Leader make decisions regarding MSME operation;

#### 3.3. Innovation

Innovation is introducing new methods and new processes giving a successful economy to create changes in value offered to customers ([Pasaribu, 2016](#)). The operationalization variable applies the Likert 5 scale consisting of very disagree, disagree, neutral, agree, and very agree. Indicator variables explaining this Innovation latent are X2.1 (Value Added Creation) = activity to increase value-added to overall processes and product/service of the business; X2.2 (Process Improvement) = activity to improve the internal process of the business; X2.3 (Product Improvement) = activity to improve quality of product/service.

#### 3.4. Financial recording

Financial recording is the activity to record each transaction related to business activities in the form of a cash flow record, balance, and ratios ([Okulich-Kazarin, 2021](#)). The operationalization variable applies the Likert 5 scale consisting of very disagree, disagree, neutral, agree, and very agree. Indicator variable explains financial recording latent variable are: X3.1 (Cash flow recording) = to record incoming flow and outgoing flow of money; X3.2 (balance) = to record balance between asset, liability, and equality.

#### 3.5. Business performance

Business performance is the level of company achievement exposed in terms of sales volume, income magnitude, and market share level ([Chen et al., 2021](#)). The operationalization variable applies the Likert 5 scale consisting of very disagree, disagree, neutral, agree, and very agree. Indicator variables explain business performance variables are: Y1 (Sales) = volume of product/service sold to a customer; Y2 (Revenue) = Money amount collected from the sold product/service; Y3 (Market share) = percentage of the market owned by the company.

The latent model and associated indicator variable are presented in the following model (Fig. 3).

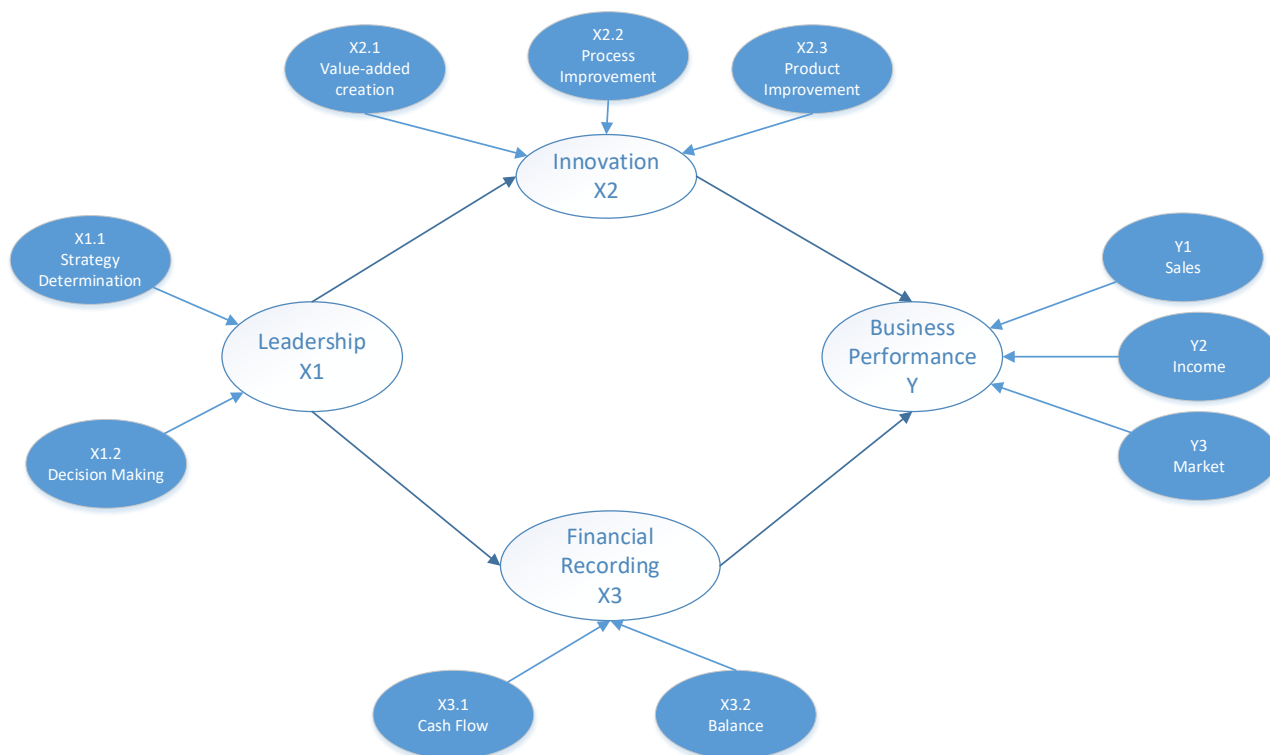


Fig. 3: Research model

#### 4. Discussion

The management model is evaluated in terms of its fitness and significant correlation between variables building the model. The evaluation involves validity and reliability testing, outer model evaluation, inner model as well as significance between the variable of which acceptance criteria are defined.

Validity. First of all, a validity test is undertaken as validity shows the accuracy level of measuring indicators in representing the latent variable. In other words, the collected data of the indicators do not deviate from the referred dimension or construct. This is tested using Product Moment Pearson Correlation which requires  $r$  calculated  $> r$  table (defined at 0.50). Table 2 shows the validity testing result.

Table 2: Validity testing result

Variable	indicator	r calculated	r table	Result
Leadership (X1)	X1.1	0,864	0,32	Valid
	X1.2	0,893	0,32	Valid
Financial recording (X2)	X2.1	0,967	0,32	Valid
	X2.2	0,963	0,32	Valid
	X3.1	0,928	0,32	Valid
Innovation (X3)	X3.2	0,960	0,32	Valid
	X3.3	0,940	0,32	Valid
Business Performance (Y1)	Y1.1	0,943	0,32	Valid
	Y1.2	0,927	0,32	Valid
	Y1.3	0,950	0,32	Valid

Table 2 provides statistical validity test results in which leadership, innovation, financial recording, and business performance have  $r$  calculated  $> 0.5$ . Therefore, it can be said that all indicator variables are valid. For instance, leadership can be represented by the extent of the business owner in defining strategy and making decisions to manage his/her company. Similarly, activities to record cash flow and financial ratio represent variables of financial recording. The fitness of the model is determined by which interaction between variable structures in the model can be agreed. This is

evaluated both on outer and inner models. Table 3 shows outer Loading.

Outer Model Evaluation (Measurement Model): Outer model is evaluated by knowing the validity and reliability value of the model. The validity test itself consists of convergent validity and discriminate validity. Convergent validity is a correlation between indicator scores and construct scores which is determined using the loading factor parameter value and AVE value (average variance extracted). The convergent validity of the measurement model with reflexive indicators is tested based on the correlation between item

score/component score and the construct score calculated by PLS. The convergent validity is

accepted when outer loading > 0.7 and AVE > 0.5 (Abdillah and Jogyanto, 2015).

**Table 3: Outer loading**

	Leadership	Innovation	Financial Recording	Business Performance
X1.1	0.914			
X1.2	0.830			
X2.1		0.928		
X2.2		0.959		
X2.3		0.938		
X3.1			0.966	
X3.2			0.963	
Y1				0.942
Y2				0.925
Y3				0.946

PLS processing software has generated outer loading values as seen in Table 3. It reveals the value of all outer loadings is higher than 0.7 which means

that the model is accepted from this parameter. Table 4 shows Cronbach alpha, composite reliability, and AVE.

**Table 4: Cronbach alpha, composite reliability, and AVE**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted
Leadership	0.695	0.744	0.865	0.762
Innovation	0.936	0.936	0.959	0.887
Financial recording	0.925	0.926	0.964	0.930
Business Performance	0.932	0.935	0.957	0.880

Another method to know the discriminant validity is by calculating the square root value of the average variance extracted (AVE) of each construct. Ghozali (2011) stated that individual indicators are valid if they have a value higher than 0.70. In some cases, in the new research stage, loading factors from 0.50 to 0.60 are still acceptable. Leadership variable has AVE=0.762, Innovation=0.887, Financial recording=0.930, and Business performance=0.880 which are higher than 0.500. This can be concluded that all questions in the variable are declared entirely valid.

**Reliability:** Reliability indicates the degree of stability, consistency, prediction, and accuracy by measuring the instrument which is done internally as seen from the consistency of the points. A reliable questionnaire as a measuring tool applies when the answer from the respondent is consistent or reliable from time to time. It is tested using Cronbach's alpha value which is to be higher than 0.70 to be defined as reliable. A reliable construct or variable means the

questionnaire used as a measuring tool in this study is consistent (Ghozali, 2014). The composite reliability test results have a highly reliable value because all values of leadership, innovation, financial recording, and business have composite reliability  $\geq 0.7$ . Answers from respondents regarding business performance are consistently in support that this variable is affected by Innovation and financial recording.

**Inner Model Evaluation (Structural Model).** The model is developed based on concepts and theories in order to provide relationships between exogenous and endogenous variables. The inner model or structural model is evaluated to know the direct and indirect effects between variables. This has also functioned as hypothesis testing done by seeing the R square value. The hypothesis is tested through the significance of (1) path coefficient, (2) t-statistic, and (3) r-squared values. Data is processed using Smart PLS version 3.2.8 and presented in Table 5.

**Table 5: Inner model evaluation**

	Original Sample (o)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (IO/STDEVI)	P. Values
Innovation > Business Performance	0.091	0.117	0.193	0.473	0.636
Leadership > Innovation	0.780	0.761	0.101	7.724	0.000
Leadership > Financial Recording	0.742	0.717	0.122	6.071	0.000
Financial Recording > Business Performance	0.720	0.691	0.202	3.562	0.000

R-square of leadership and innovation is 0.780 meaning that the correlation has a high level of goodness-fit. Variability of innovation can be explained by the leadership variable represented by strategy and decision making at 78.0%, while the remaining 22% is explained by other variables excluded from this model. R-square on the leadership variable on the financial recording is

0.742 means that the model has a moderate level of goodness-fit. Variability of financial recording can be explained by the leadership variable of 72.0% while the remaining 28% is explained by other variables excluded from this model. R-Square on the innovation variable for the performance of 0.091 means that the model has a low level of goodness-fit, which means the variability of performance can be

explained by the innovation at 9.1% while the remaining 90.1% is explained by variables others

not examined in this model. Fig. 4 shows Overall test results 1.

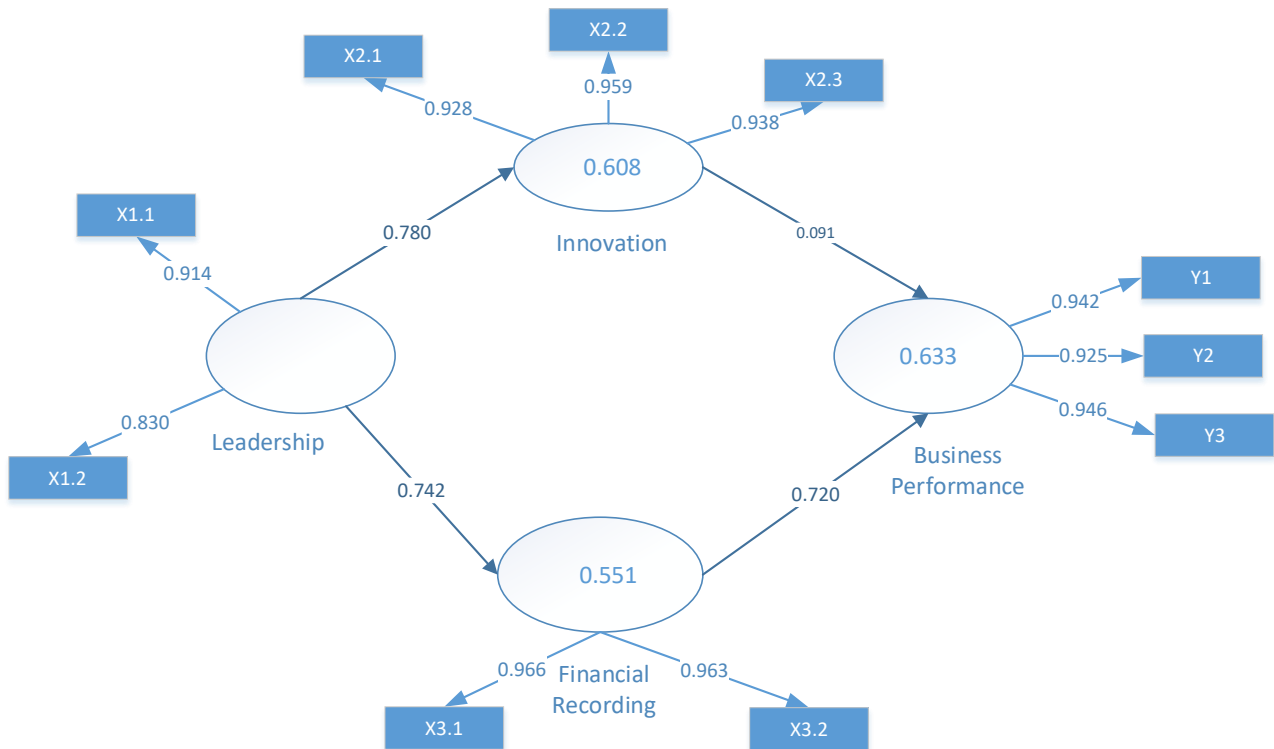


Fig. 4: Overall test results 1

Hypothesis Testing: Hypothesis defines whether there are effects of one variable on another within the model. This is known when the t-test provides a value higher than 1.96 (the t table). The significance of the hypothesis by looking at the parameter

coefficients and the Tstatistic significance value of the algorithm to boost report the Tstatistic significance value must be more than 1.96 (Ghozali, 2014). Fig. 5 shows overall test results 2.

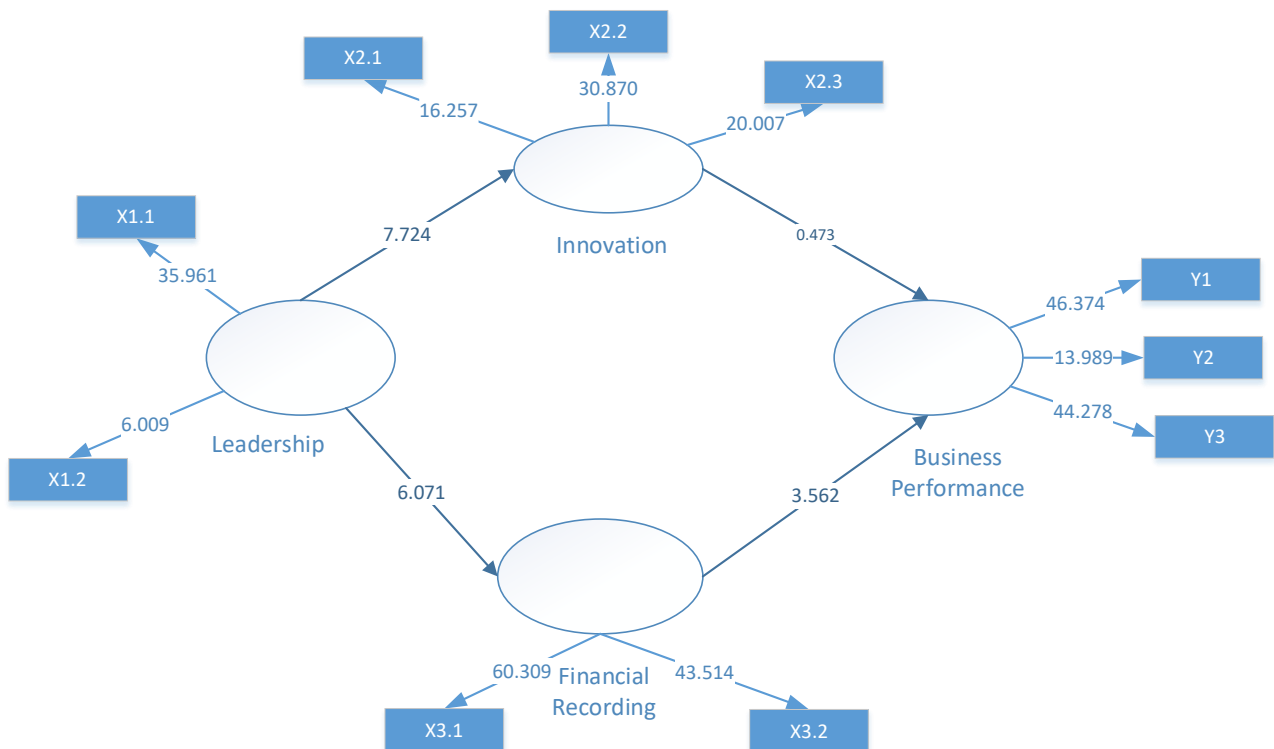


Fig. 5: Overall test results 2



Correlation between leadership and innovation provides a t statistic value of  $7.74 > 1.96$  (p-value  $0.000 < 0.05$ ) which suggests a significant value in other words leadership has an effect on innovation. This is in accordance with the result reported by in which winning competition can be sourced from innovation (Dubey and Das, 2021) Strategy determination directs SMEs to conduct innovation practices including creating product utilization from ordinary clothes into scarfs, wall decoration, and wallets. Increasing process in the form of better service through technology communication device as not limited to product. Making new patterns of bordering clothes to follow customer requests.

Correlation between leadership and financial recording provides a t statistic value of  $6.071 > 1.96$  (p-value  $0.000 < 0.05$ ) which suggests a significant value in other words leadership has an effect on the financial recording. Seemingly, the business owner has instructed their staff to make a record of any transactions up to cash flow and financial balance. The respondents have made a record of the incoming money from sales, outgoing money for buying, or other payments. It is however done in variations between manual recording and the digital one on the computer. This supports Olaoye and Ekundayo (2019) confirmed SME'S success based on financial recording, whilst at the same time difficulties.

Correlation between Financial recording and business performance provides a t statistic value of  $3.562 > 1.96$  (p-value  $0.000 < 0.05$ ) which suggest a significant value in other words financial recording increase business performance. Recording of sales amount gives valuable information about customer profile, amount and product bought, and payment. It will guide the company to give better focuses to more important products and customers too from which more sales are gained. More product sold leads to more revenue which is also benefited when data on cash flow and balance. Similar results as provided by Cottrell (2016) reveal financial sub-performance has resulted from financial management weakness and other factors such as bad planning, managerial lack, and entrepreneurship lacks.

The correlation between Innovation and business performance shows weak relation which is in contrast with Pasaribu and Sulasmityati (2016) find that good sale from innovation. This might be caused by limited market coverage within a city wherein competitors offer similar products and simultaneously limits the MSMEs to innovate.

## 5. Conclusion

The study concludes that the operational management model consisting of leadership, innovation, financial recording, and business performance is to be fit. Furthermore, leadership increases innovation and financial recording, and subsequently, financial recording improves business performance. Whilst, innovation does not give an effect on business performance. This implies to the

enterprises expand their market beyond the Bukittinggi city through various means of marketing methods including the internet since it is expected to give space for innovation as one of sustainable performance.

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## Compliance with ethical standards

## Conflict of interest

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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