

## Research Article

# Improving Business Performance of SMEs Using SDGs Components and Business Strategy

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**Abstract.**

This study aims to describe and analyze the correlation of the SDGs components related to business strategy and performance of SMEs. Sustainable Development Goals (SDGs) were conceptually used as basic variables in improving the business performance of small and medium enterprises (SMEs) in order to reduce poverty alleviation. The type of this research is explanatory research. The number of samples in this study were 170 respondents of SMEs determined by structural equation model (SEM) as the method of analyzing data, which is operated by AMOS. The population is 295 SMEs. The result of this study shows that the greatest influence of performance of SMEs was business operational strategy of 6,365, and the smallest effect was on SDGs economic indicators to business operational strategy of 1,022. In this case, it can be stated that the sustainable development goals (SDGs) have a significant influence on the business operational strategy and business performance of SMEs. For small and medium entrepreneurs in Yogyakarta, seeing SDGs as a development goal will affect their operational business strategy, especially related to economic variables.

**Keywords:** business performance, business strategy, poverty alleviation, small and medium enterprise (SMEs), SDGs

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## 1. Introduction

During Covid-19 pandemic, many SMEs shifted their activities. Several SMEs that chose to survive decided to make various changes to business strategies that affected their business performance. Around 23,000 SMEs in Yogyakarta was affected their business operation by Covid-19 pandemic in 2020-2022. This is what underlies the author's desire to find out more about how to improve the performance of SMEs when viewed from the conditions of the business environment and the strategies taken in carrying out their business activities to reduce poverty alleviation.



The empirical study result shows that the success of enterprise in achieving their effective performance based on how their management implement the strategic business alliance. So far management have very little or minimum orientation on strategic businesses operational. They feel that strategic operation is routine activities such as the used of manufacture technology and other support instrument [1].

The previous study conducted by [2], shows that business environmental factors in Indonesia affected the business operational strategy of enterprises. Some research related to contribution of operational strategic on the improvement of business performance have been done by researchers. Some of them focused his research on the effect of operational strategic to the improvement of business performance of high and medium industries in Yogyakarta. His study result shows that business operational strategy has simultaneous or partially significant impact on the business performance whether related to financial as well as manufacture performance.

As stated by Krawjesky [3] defined that the operational strategy must be adopted by industries to fulfill the market needs and to win the competition. Production systems is a series of process to transform input of raw materials into a valuable and beneficiary of products. While Krawjesky [3] define that operational strategy as a planning board of industry or business units to develop, explore, and produce their qualified product compare to their competitor regarding fulfill the customer needs. Those two above definition stressing that customer satisfaction and the competition instrument must be well manage by business organization.

Business operational strategy considering by most of business managers specially manufacture or production managers. Sanusi [4] stated that operational strategy is a long-term program of manufacture functions to integrate the objectives of the industry. Some study exploring the operational strategy from planning instruments perspective rather than business strategy in the strategic management. Stonebaker [1] thought that operational strategy is the special areas of strategic management. While, Gerwin [5] concluded that operational strategy as a decision-making procedure of industries to lead manufacture processes based on strategic perspective.

Operational strategic dimensions as stated by Ward [6] can be grouping into four component such as cost, quality, flexibility, and distribution/logistic. Those four strategic dimensions should be seen as an integrated component which is one and the other have their strong relationship. Swamidas [7] stated that cost strategy as production and distribution of product with minimum waste resources. This strategy reflected the

priority of industry on cost efficiency as competitive advantages. Quality strategy define as industries activities in produce a good quality of products based on specification standard as well as the customer satisfaction/needs. Flexibility strategy define as a quick response to the changes needed due to customer responses. While, distribution strategy reflected the delivery commitment on schedule and/or a quick response to the customer ordered.

Regarding improve business performance of SME's, the Baldrige performance excellence criteria can be used to improve overall performance [8]. Think about embraced recognized whether employees' execution would be superior if they were treated with reserves in a more improved natural condition. This ponders moreover needs to demonstrate whether there is a relationship as a judge or mediator between the level of work fulfillment and inspiration to work in that air. Based on the JCM hypothesis, this consideration aims to distinguish and analyze the impact of working conditions on work execution. More particularly, this thinking centers on analyzing the impact of the interceding part of work fulfillment and the directing part of inspiration on work fulfillment and work execution of workers. In expansion, to analyze whether work inspiration is a critical figure that can influence representative fulfillment and execution [9].

The issues in feasible improvement are quickly developing overview range that incorporates the interface of the world of trade, the scholarly community, and society at huge. This economical advancement can be characterized and in different ways and settings. This conceptual system progressively appears the course of advancement deciphered that leads to financial action, and more companies are joining social and natural criteria in their exercises. The activity to utilize feasible improvement within the exercises of the supply chain trade component is likely to be started by a pilot organization (not necessarily company-centered), and after that this amplified to the accessible supply chain cells. For illustration, an organization that acts as a pioneer will to begin with carry out exercises proactively in a specific supply chain, start activities towards its sustainable development, and carry out more entirely controlled hones, and after that will be traded to other parts of the scope of its supply chain component [10].

Jogjakarta the exertion to realize economic improvement objectives, it is suspected that there's a major deterrent, within the frame of a prevailing social worldview. For this reason, it is essential to create nonstop endeavors to evacuate impediments affected by the overwhelming social worldview and anticipate the integration of instruction for feasible improvement, specifically, the instruction itself, adjust educational rules and authorization, intrigue challenges, and resistance to changes in the field of instruction.

Different considerations related to the over have distinctive approaches in appraisal and address viewpoints of feasible improvement. Hence, there are still crevices in completing it so that it gets to be something valuable in its usage hone. For each trade, execution has been evaluated by essentials of the commerce relating to deals, income, or profit. Sometime recently, this ponders points to analyze and investigate the concurrent or halfway relationship between SDG's conceptual, vital businesses, and execution of the SMEs in Yogyakarta, Indonesia.

## 2. Theoretical Concept and Hypotheses

Based on the above background, this study was developed using below theoretical concept as illustrated in figure-1.

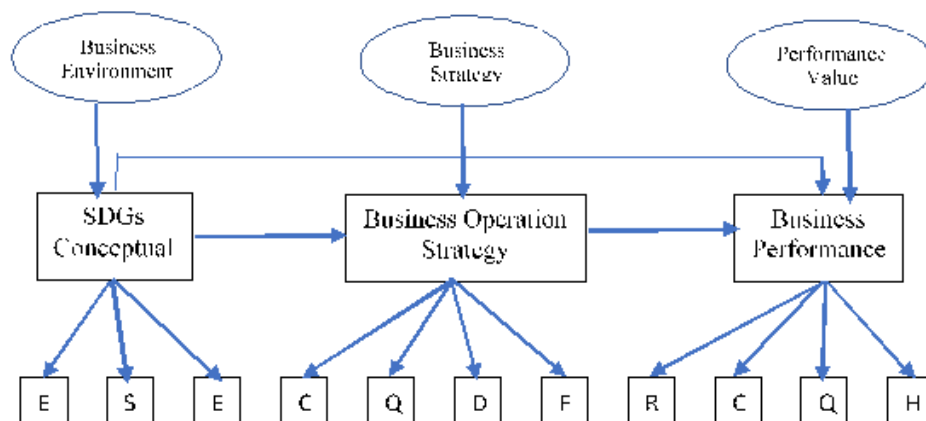


Figure 1: Conceptual framework.

Based on the theoretical concept as figuring out above, hypotheses were developed as follows:

- H1: SDGs parameters has correlation to the business strategic operational of SMEs.
- H2: SDGs parameters has correlation to the performance of SMEs
- H3: Business strategic operational has correlation to the performance of SMEs
- H4: SDGs parameters has correlation to the performance of SMEs through business strategic operational of SME's.

The formula of the above concept, as follows:

$$Y_2 = a + b_1X_1 + b_2X_2 + b_3X_3 + Y_1 + e \dots\dots\dots 1)$$

Where:  $Y_2$ : SME's business performance; a,  $b_{1-3}$ : constant;  $X_{1-3}$ : SDGs conceptual (economic, social, and environment);  $Y_1$ : business operational strategy; and e: error.

## 3. Methods

### 3.1. Design of the research

This ponders points to analyzing the impact of the SDG's concept on the execution of SMEs with trade vital operations as an intervening variable in arrange to decrease destitution. To attain these objectives, the sort of investigation utilized is an explanation as recommended by Morissan [11], that explanation inquiries about looks to reply to the question of why, and to supply clarifications and reasons within the frame of a causal relationship. This investigate was conducted with a blended strategy, specifically this to inquire about is a quantitative inquiry with a survey strategy, with the category of explanatory overview, which is to consider two or more factors to reply to investigate questions or test investigate speculations [11].

### 3.2. The variable of this research

#### 3.2.1. Classification of the variable

The Endogen Variable

The Endogen variable of this research is performance of SMEs ( $Y_2$ )

The Intervening Variable

The Intervening or mediating variable in this research is business operational strategy ( $Y_1$ )

The Exogen Variable

The Exogen variable of this research are all the component of SDGs conceptual parameters, consist of:

Economic ( $X_1$ )

Socio and cultural ( $X_2$ )

Environmental ( $X_3$ )

#### 3.2.2. Conceptual definition of variables

Today's company performance can be measured its achievement through financial and non-financial measures capable of providing a more realistic assessment as well as functioning as a driver of future company progress. The essence of using a company's

performance measurement tool really depends on what the goals of the company are. In today's era of business competition, it is not enough just to measure the company's performance with financial measures alone, but also non-financial measures. productive and cost-effective business/internal processes and/or developing productive and committed personnel. The company's operational strategy is a dimension that must be owned by the company in order to support the fulfillment of customer demands so that the company is able to compete [3].

The MDGs as a global agenda in fighting poverty are considered relatively successful. However, the MDGs are not far enough. So, it is necessary to create new targets that target more than just problems related to poverty. The agenda must apply not only to poorer countries, but to all countries in the world. In addition, the global agenda must also raise higher standards, be universal, integrated, and transformative.

The SDGs consist of 17 Goals and 169 Targets. These goals and targets describe the vision and scope of an inclusive and multidimensional global development agenda, which will serve as a guide for the global community for the next 15 years to realize the prosperity of the global community. SDGs are implemented with universal, integrated, and inclusive principles to ensure that no one will be left behind or "No-one Left Behind."

### **3.2.3. The location of the research**

Yogyakarta province (DIY), which is consists of four (4) Regencies/District and one (1) City was selected as the location of this research. This is due to the uniqueness of the city, which is the special region in Indonesia.

### **3.2.4. The population and the research sample**

The population of this study means that all the existing SMEs operated and registered in the cooperative and SMEs of government institution at the province of Yogyakarta.

Based on reports provided by the Statistical Board of DIY as stated in the table-1 below, shows that in 2022 the number of SMEs was operated in the entire DIY province.

The number of samples to be used in this study was calculated using formulas of Raosoft.com which is counted in minimum 168 (we used 170), which is consisted of all types of SMEs operated in Yogyakarta Province.

TABLE 1: Number of population and sample.

Areas	SMEs registered	Number of Respondent
Kulon Progo	55	32
Bantul	62	36
Gunung Kidul	53	31
Sleman	62	37
Yogyakarta	58	35
DIY Province	295	170

Sources: The website of the Local Government, 2022.

### 3.2.5. Type and the source of data

The quantitative information in this inquiry is essential information obtained from investigating rebellious contained within the form of an explanation within the survey. Essential information related to respondents' discernment of the execution of SME commerce operations, operational trade procedure, and SGDs conceptual were essential information utilized in this inquiry. Other than that, the explanation of chosen asset people for arrangement and choices made by nearby governments related to SMEs trade environment to be backed explanation to fortify the result of the investigation.

### 3.2.6. The technique of data collection

Information collection procedure in this consider utilized a survey, which was conveyed specifically to the respondents containing an explanation and an elective estimation scale to induce respondents' reactions almost the factors considered, specific: the execution of SME businesses, operational commerce key, and components of SDGs conceptual, such as financial, social & culture, and environment.

### 3.2.7. The instrument of the research

Investigate instrument utilized for quantitative information collection was a list of questions. Respondents were inquired to state their choice of each articulation given. Estimation of each investigate variable employments a Likert scale, to be specific the interim measuring scale utilizing the regular five-category Likert scale with numbers 1 to 5 as takes after: unequivocally concur with a score of 5, concur with a score of 4, impartial with a score of 3, oppose this idea with a score of 2, and unequivocally oppose this

idea with a score of 1. Each variable was separated into numbers of pointers and each pointer bolstered by one or more questions.

### 3.2.8. The technique of data analysis

#### 1. The descriptive analysis

For the quantitative information, graphic investigation utilized points to decide the degree of respondent's reactions or recognitions to SDGs conceptual parameters, commerce methodology and trade execution. Clear investigation is communicated through information organization tables, both recurrence dissemination tables, histogram charts and after that portraying vital angles concurring to the investigate goals to be accomplished.

#### 2. The analysis of Structural Equation Modeling (SEM)

The reason for utilizing SEM in this ponder is that the concept or build utilized is surreptitiously or inactive [12]. In expansion, the causal relationship between exogenous and endogenous factors can be decided more completely []. Not as it were canning the causality relationship contained within the watched factors or develops be identified, but the components that contribute to the build itself can be decided in magnitude. The steps within the examination utilizing SEM are as follows:

##### a. The formulation of the model

Based on the detailing of the issue and the premise of hypothetical systems as well as important inquiries about ponders, a system of thought and proposed a research hypothesis. This investigation speculation may be a proposed show to be affirmed observationally through the SEM investigation strategy.

##### b. The path diagram making process

The demonstrate to be tried is shown in a total way graph so that it is simple to decide the causality relationship of exogenous and endogenous factors. In a way chart, a straight bolt appears a coordinate causal relationship between one variable and another, whereas a two-way bolt appears the relationship between factors.

##### c. The formulation of the measurement equation

The show and way graph have been made, the following step is to change over the way chart into conditions, to be specific: estimation conditions for exogenous idle factors, estimation conditions for endogenous idle factors, and basic conditions.



## 4. Result and Discussion

### 4.1. Result

The result of SEM analysis using modification indices shows in the table-2 below.

TABLE 2: Result of model modification indices analysis.

Goodness of fit index	Cut of rate	Analysis result	Evaluation model
Chi-Square	Small	68,786	significant
Probability	0.000	0,936	not significant
GFI	> 0.90	0,955	significant
AGFI	> 0.90	0,921	significant
TLI	> 0.95	1,024	significant
CFI	> 0.95	1,000	significant
RMSEA	< 0.08	0,000	significant

Source: Output of AMOS analysis

The results of this test indicate that the indicators tested have good reliability in shaping and operationalizing the latent variables of SDGs conceptual which is economic, socio & culture, and environment. In general, the result of SEM analysis shows in the figure-2 below.

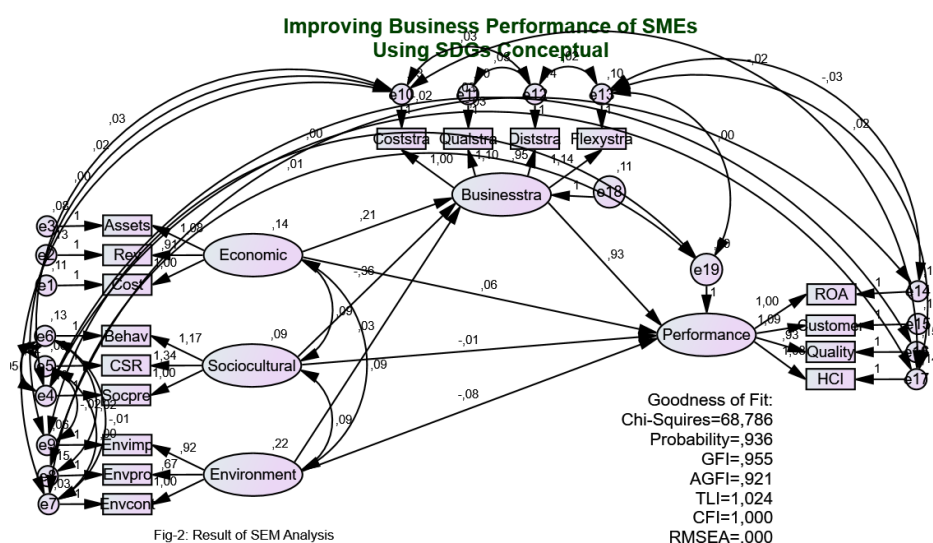


Fig-2: Result of SEM Analysis

Figure 2: Results of SEM analysis.

We found that correlation between SDGs conceptual, business operational strategy, and business performance perceived by the SMEs as presented in table-3, below.

TABLE 3: Correlation between SDGs conceptual, business operational strategy, and business performance of SMEs in the Yogyakarta Province.

			Estimate	S.E.	C.R.	P	Label
Businesstra	<—	Economic	,206	,201	1,022	,307	par_13
Businesstra	<—	Sociocultural	-,357	,304	-1,173	,241	par_14
Businesstra	<—	Environment	,031	,099	,318	,751	par_15
Performance	<—	Economic	,060	,133	,450	,652	par_16
Performance	<—	Sociocultural	-,014	,202	-,068	,946	par_17
Performance	<—	Environment	-,082	,100	-,817	,414	par_18
Performance	<—	Businesstra	,931	,146	6,365	***	par_22
Cost	<—	Economic	1,000				
Rev	<—	Economic	,906	,113	8,046	***	par_1
Assets	<—	Economic	1,077	,112	9,651	***	par_2
Socpre	<—	Sociocultural	1,000				
CSR	<—	Sociocultural	1,340	,197	6,812	***	par_3
Behav	<—	Sociocultural	1,165	,152	7,691	***	par_4
Envcont	<—	Environment	1,000				
Envpro	<—	Environment	,669	,074	9,036	***	par_5
Envimp	<—	Environment	,922	,065	14,161	***	par_6
Coststra	<—	Businesstra	1,000				
Qualstra	<—	Businesstra	1,096	,130	8,398	***	par_7
Diststra	<—	Businesstra	,945	,119	7,914	***	par_8
Flexystra	<—	Businesstra	1,142	,154	7,411	***	par_9
ROA	<—	Performance	1,000				
Customer	<—	Performance	1,086	,149	7,296	***	par_10
Quality	<—	Performance	,928	,142	6,530	***	par_11
HCI	<—	Performance	1,083	,155	6,977	***	par_12

Source: Output of AMOS analysis, 2023.

## 4.2. Discussion

Based on the results of the analysis carried out using the AMOS program version 24, it was found that the SDGs latent variables affect the business operational strategy and the performance of the SMEs business. The greatest influence was stated on business operational strategy to performance of SMEs of 6,365 and the smallest effect was on SDGs economic indicators to business operational strategy of 1,022. The direct correlation of SDGs conceptual to business performance relatively low, which is only

0,450 of economic parameters with probability of 65.2%, -0,680 of sociocultural with probability of 94.6%, and -0,817 of environment parameters with probability of 41.4%. The direct correlation of SDGs conceptual to business operational strategy was relatively high, which is presented by 1,022 of the economic parameters with probability of 30.7%, - 1,173 of sociocultural with probability of 24.1%, and 0,318 of environment with probability of 75.1%. In this case it can be stated that the sustainable development goals (SDGs) have a significant influence on the business operational strategy and business performance of SMEs. For small and medium entrepreneurs in Yogyakarta, seeing SDGs as a development goal will affect their operational business strategy, especially related to economic variables, both micro and macro.

## 5. Conclusion

This study found that there is a significant relation between business operational and business performance of the SMEs post pandemic Covid-19 era. The improvement of business performance influenced the poverty conditions of peoples who is below poverty line, when they are connected to the business activities. Besides, improving SDGs component together with business operational strategy will significantly improve business performance which is leads to poverty alleviation.

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