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CREATING MSMEs GOVERNANCE INDICATORS, AS EVALUATION TOOLS AND REFERENCE IN CREATING A GOOD CORPORATE GOVERNANCE

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ABSTRACT

Micro small and medium enterprises (MSMEs) in Indonesia have difficulties in developing their business, this is due to a lack of knowledge and references about good governance concepts for MSMEs. Base on that phenomenon, this study aims to find the right indicators, to be used as a reference for MSME in improving good governance. Using experimental research methods, we found several good governance indicators for MSMEs: (1) Transparency: Transparency of financial statements through separation of company and personal finance, transparency of rights and obligations of employees, (2) Accountability: Human resources function, marketing function, financial function and operation function (3) Responsibility: business legality, waste management and Product Certification, (4) Independency: Profitability and autonomy in managing the business, (5) fairness: Equal opportunity in a company career and a fair compensation system. This indicator is implemented in the evaluation process of MSMEs, The result show that MSMEs with better governance score, able to survive and improve its performance while MSMEs with bad score go bankrupt. These results prove that these indicators can be used as an evaluation tool and can be a reference for MSMEs in creating good governance.

Keywords: good corporate governance, MSME, performance

Preliminary

Background

The concept of good corporate governance has been widely applied to the large companies. The basic concept of GCG itself, actually also required by the small companies as an effort to improve their performance. The basic concepts of GCG such as transparency, accountability, responsibility, independency and fairness are obviously needed by small companies, but needs adjustments to be applied.

Based on the existing phenomenon in the field, many small and medium micro enterprises that went bankrupt, because owners and managers of small and medium micro enterprises do not understand the concept of governance. This occurs due to the limited knowledge of MSMEs owners on the governance concept, beside that the aversion of the owners in running their business based on science, become a barrier to the implementation of governance at MSME.

Currently the number of MSMEs in Indonesia continues to grow. The survey results of 60 MSME who are nurtured by STIE EEKUITAS only 11.6% who make financial statements and have a clear SOP. This situation shows the poor of company management. Most of the owner of MSME do not understand what are the indicators of good governance, making it difficult for them to manage the company properly. Several previous studies related to MSME in Indonesia conducted by Anton et al. (2015), Rahadi (2016) and Islami et.al (2017), concluded that in general the performance of MSME is not too good this is due to poor management.

Based on these conditions, the authors attempt to help the owners of MSME to improve their governance, by providing indicators of governance for MSME, which can be a reference for the owner of MSME in improving their business performance.

Problem Formulation

Based on the background of the problem above, then the formulation of the problem in this study are:

1. What are the indicators of MSME governance that can be used as a standard and evaluation tools?
2. Are the indicators appropriate for use as a standard and an evaluation tool?

Literature Review

This research is related to the governance of MSME, which seeks to find the right governance indicators for MSME, that can be used as a reference in improving the MSME management. The theory that will be the basis of this research is the theory of corporate governance. Some definitions of good corporate governance are stated as follows.

a. Good Corporate Governance (GCG) or better known as a good corporate governance as an option which is very influential in increasing the company's value. There is an opinion that the economic crisis in Southeast Asia and other countries is not only caused by the macroeconomic factors but also in the governance in these countries (Iskander and Chamlo, 2000). These factors include the weakness in law enforcement, in established accounting standards.
b. According to Forum for Corporate Governance in Indonesia (FCGI, 2001) the definition of corporate governance is: a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders respect to their rights and responsibilities, or the system by which companies are directed and controlled. The objective of corporate governance is to create added value for the stakeholders.

c. GCG is defined by IICG (Indonesian Institute of Corporate Governance) as a process and construction that is applied in running a company, with its main goal to improve shareholder value in the long term and at the same time consider the interest of other stakeholders.
d. According to World Bank Journal, March edition (2008: 2), the meaning of good corporate governance is: The blend of law, regulation and appropriate voluntary private sector practices, which enable a corporation to attract financial and human capital, perform efficiently and there by perpetuate itself by generating long term economic value for its shareholders.
e. GCG Principles of transparency, accountability, responsibility, independence and fairness and equality are needed to achieve sustainability of the company with regard to stakeholders, (KNKG, 2006).

Based on the definition above, it can be concluded GCG is a system aimed at creating value for the company, through the management of the company effectively and efficiently, by adhering to the principle of transparency, accountability, responsibility, independence and fairness.

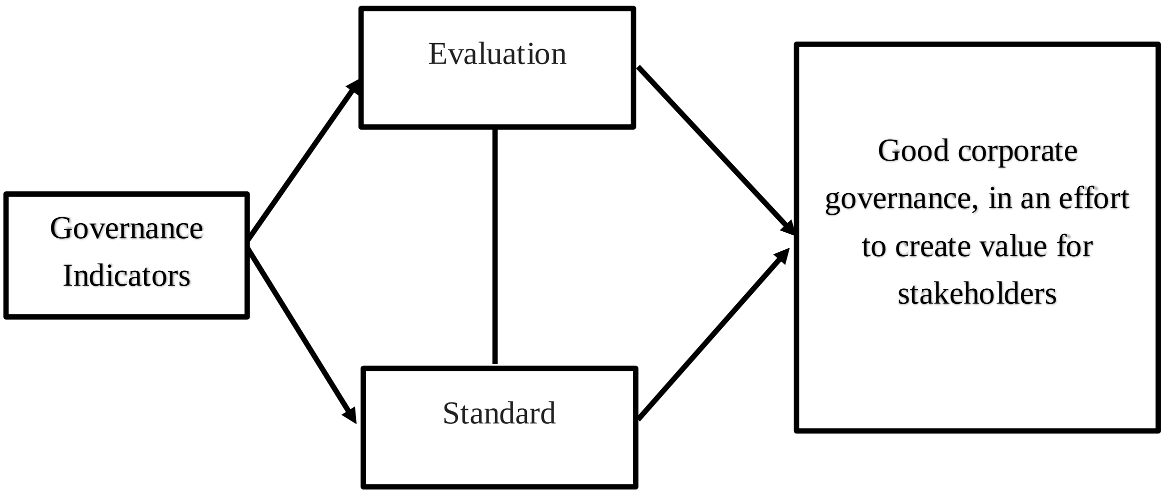

Figure 1. Research Framework

Caption:
To improve corporate governance as an effort to create value for the company's stakeholders, the company needs an indicator of governance, which will be used as standard and tools in conducting corporate evaluation activities. The essence of GCG is control where so far the control mechanism is more suitable for large companies, so in its application in MSME requires an adjustment.

Research Methods
This study seeks to find indicators of MSME governance measurement, these indicators are derived from the GCG theory, and then tested on 2 (two) MSME that are likely to have different governance. Based on the stages of the research, the method that considered is the experimental research method. Experiments according to Sugiono (2008) is a study that is used to find certain treatment against others under controlled conditions. According to Latipun (2002) Research carried out by manipulation that aims to find out the effect of manipulation of individual behavior observed. Arikunto & Suharsimi (2000) which defines experimental research is a study intended to find out whether there is a result of treatment in the subject being investigated.

The way to find out is comparing one or more experimental groups that were treated with a comparison group that was not treated. Thus, it can be concluded that the experimental research method is a method that tries to solve problems in research, by giving treatment or manipulation of the object under study, in this case the MSME GCG indicators are tested on 2 different objects to ascertain whether the indicators are right to measure the level of MSME governance.

The following is an overview of the research stages:
a. Determine MSME GCG indicators based on the GCG theory
b. Choose 2 research objects, which have different conditions.
c. Perform an initial assessment of 2 different objects
d. Perform monitoring of objects by assessing object performance every 6 months
e. Evaluate the results of the assessment

Discussion
Based on GCG theory, the concept of GCG consists of Transparency, accountability, responsibility, independency, and fairness. As previously discussed, the implementation of the concept of GCG in MSME is required to have different GCG indicator indicators. The following indicators are developed based on the GCG concept according to the Komite Nasional Kebijakan Governance (KNKG) which issued GCG guidelines in Indonesia in 2006:

Transparency
Basically, transparency in the GCG concept is to maintain objectivity in running a business, a company must provide material and relevant information in a way that is easily accessible and understood by stakeholders. Companies should take the initiative to disclose not only the problems required by legislation, but also important for decision-making by shareholders, creditors and other stakeholders.
Based on these definitions, the indicators that can be used in measuring the level of transparency in MSME are

1) Transparency Clarity Employee's rights and obligations.
   Rights and obligations made in writing and well disseminated to employees, can encourage employee performance, because then employees know what to do, and what he got after successfully completing the job. In the theory of ideal democratic management according to weber (Robbins & Coulter, 2009) bureaucracy must have formal rules and regulations
2) Financial transparency, namely the separation between the owner's personal finances and the company's finances.
   The separation between personal and company finances needs to be done, in order to clarify the company's actual financial position, this is important because by knowing the financial position the owner can take the right and workable policy. Conversely, companies without good financial transparency will confuse the personal finances of the owners and the company, causing difficulties in tracking the company's real position and impacting the wrong decision making in the management of the company, because financial information is not material and relevant.

Accountability
Accountability means the Company must be able to account for its performance in a transparent and reasonable manner. For that the company must be managed properly, measurable and in accordance with the interests of the company by taking into account the interests of shareholders and other stakeholders. Accountability is a necessary prerequisite for achieving sustainable performance.

Accountability (accountability) is the functioning of all components driving the way the company's activities, according to their respective duties and authorities. Managerial accountability (Suherman Toha, 2005). Managerial accountability that can also be interpreted as performance accountability is the responsibility to manage the organization effectively and efficiently. (Syahrudin Rasul, 2002)

Based on the definition above, it can be concluded that accountability is the well-functioning of every function in the company, these functions consist of:

1) Financial function
   a. Having a financial statement
      According Fahmi (2013), the purpose of financial statements is to provide information to parties in need about the condition of an enterprise from the point of numbers in monetary units. Thus, the existence of financial statements in accordance with the principle of accountability is as a form of accountability and measuring tools that can be used to determine the performance of the company.
   b. Funding, investment and returns
      Keown (2010) discusses the relationship of corporations with money market and capital market, where each company can get fund from money market and capital market, then the fund is invested in company operation which is expected to give return to company stakeholder. Based on the above, it can be concluded that the activities of the company consist of funding, investment and return, the effectiveness of the three activities indicates the accountable company.
2) Marketing function
   a. There are marketing programs both offline and online
      In marketing known the term marketing mix. According kotler (2012) Device marketing tools that companies use to pursue marketing goals ". One of the marketing mix is promotion that can be done both offline and online.
   b. The execution of certain events as part of the marketing program.
      One form of promotion that can be done company is the implementation of certain events. The more active the company in the implementation of the event, the more known the company's products, which of course can increase sales of the company, thus encouraging the creation of maximum profit
3) HR functions
   a. Recruitment. Employee recruiting means finding and / or attracting applicants for the employers open positions (Desler, 2010).
   b. Employee placement (Mathis and Jackson,2012) defines placement is placing position a person to the right job position, how good someone fit into their work will affect the amount and quality of work.
   c. Compensation, according to equity theory of motivation Higher up the primate line, the equity theory of motivation postulates that people are strongly motivated to maintain a balance between what they perceive as their contributions and their rewards. Equity theory states that if a person perceives an inequity, a tension or drive will develop in the persons mind, and the person will be motivated to reduce or eliminate the tension and perceived inequity.
   d. Job description A job description is a written statement of what the worker actually does, how he or she does it, and what jobs jobs are.
   e. Job specification The job specification takes the job description and answers the question, What human traits and experience are required to do this job effectively?

   Running HR functions above will certainly encourage employee performance and improve company performance.

4) Operation function

   Having SOPs according to MENPAN and RB No. 35 in 2012 , standard Operational Procedure is a set of standardized written instruction on various organizational activities, how and when to do, where and by whom

Responsibility

Companies must comply with legislation and carry out responsibility to society and the environment, so as to maintain business continuity in the long term and get recognition as good corporate citizen.

1) Business legality.

   As a form of compliance with laws and regulations, every organization is required to have complete licensing, therefore every organization, whether large or small, must be a legal entity
2) Waste management

   Article 68 of Law no. 32 of 2009 on the Protection and Management of the Environment, where every business actor is obliged to maintain the environment
3) Product certification

   As a form of accountability to customers, each company is required to provide products that are safe for customers.

Independence

To smooth the implementation of GCG principles, companies must be managed independently so that each company's organs do not dominate each other and can not be interfered by others.

1) Financial independence (ability to generate profits)

   The ability of the company to generate profits, indicating the company's financial independence, because one form of capital itself is retained earnings obtained from the company's operations effectively and efficiently.
2) Have autonomy in managing the business

   Every company that has autonomy in managing a company is an independent company.

Fairness

In carrying out its activities, the company must always pay attention to the interests of shareholders and other stakeholders based on the principle of fairness and equality.

1) Payment of salary is on time

   Salary is an obligation that companies must pay to employees. Every company should pay the salary of employees on time. Every worker / laborer is entitled to income that fulfills a decent living for humanity (Labor Law No. 13/2003, article 88)
2) Compensation Compliance

   Each company is required to pay appropriate compensation, with what an employee has done, as a form of corporate responsibility to employees.
3) Career opportunities

   Labor law No.13 of 2003 article 5 regulates, every worker has equal opportunity without discrimination to obtain employment

To ascertain whether the indicators can actually be used as a standard of MSME management and evaluation tools, the indicators are tested by using them in evaluating the performance of 2 (two) MSME that have different characteristics during 2 years of observation. Both MSME are equally engaged in the same industry that is cutting and hair care services, are in the same

market and the same segment, which distinguish only the quality of governance in each company.
Here the assessment governance V barbershop using indicators GCG for MSME:

Table 1. V Barbershop performance Evaluation using GCG Indicator

Indicator	**Value**	**Description**
Transparency		
1. Transparency of Rights Clarity and employee liability	5	The Company provide information to new employee about right and obligation formally
2. Financial transparency separation between personal finances owners with corporate finance	5	Owner separating between personal and corporate financial.
Accountability		
1. Financial function		
a. Having a financial statement	3	Has simple recording system that report everyday
b. Funding, investment and returns	2	Deficiency lies in the cost of depreciation has not been recorded well
2. Marketing function		
a. Offline & online marketing program	4	Programs run well
b. Active on certain events	4	Actively sponsoring event in schools
3. HR functions		
a. Recruitment	5	The recruitment system exists and have clear stages
b. Employee placement	5	Employees are placed in accordance with knowledge, skills and ability
c. Compensation	4	Clear and appropriate compensation system
d. Job description	4	There is a formal job description
e. Job specification	4	There is a formal job specification
4. Operation function		
a. Quality and completeness of equipment		
b. Standard Operational Procedure	4	Equipment is quite complete
	4	SOP is clear and formally created
Responsibility		
1. Business legality	1	Not available
2. Waste management	2	Not good
3. Product certification	3	Every barber is certified
Independence		
1. Financial independence (Profitability)	4	Able to generate profit
2. Have autonomy in managing the business	5	They have full autonomy in managing their business
Fairness		
1. Payment of salary is on time	5	Always

2. Compensation Compliance	4	Performance based compensation
3. Career opportunities	4	Have a clear career path
Total	81	Total number of values
Score (81/105)x 100%	77%	Percentage of ability to meet governance points

Table 2. D Barbershop performance Evaluation using GCG Indicator

Indicator	Value	Description
Transparency		
1. Transparency of Rights Clarity and employee liability	2	The Company has no formal explanation about right and obligation formally
2. Financial transparency separation between personal finances owners with corporate finance	1	The company is not separating between personal and corporate financial.
Accountability		
1. Financial function		
a. Having a financial statement	2	Has simple recording system that report everyday but the owner and employee never use that system
b. Funding, investment and returns	1	Do not run well , because the owner does not understand the financial activity
2. Marketing function		
a. Offline & online marketing program	2	Not active in online marketing although they have the tools
b. Active on certain events	1	Does not active follow event for promotion
3. HR functions		
a. Recruitment	2	Recruitment system doesn’t work properly
b. Employee placement	4	Employees are placed in accordance with knowledge, skills and ability
c. Compensation	2	The compensation system is unclear
d. Job description	1	They don't have formal job description
e. Job specification	1	They don’t have formal job specification
4. Operation function		
a. Quality and completeness of equipment	2	Less complete
b. Standard Operation Procedure	1	They don’t have formal SOP
Responsibility		
1. Business legality	1	Not available
2. Waste management	2	Not good
3. Product certification	2	Their employees don't have any certification related to the job
Independence		
1. Financial independence (Profitability)	2	Loss

2. Have autonomy in managing the business	4	They have full autonomy in managing their business
Fairness		
1. Payment of salary is on time	2	The salary under the standard and often late in payment
2. Compensation Compliance	2	have not clear compensation system
3. Career opportunities	2	There is no career path for employee
Total	39	Total number of values
Score (37/105)x 100%	37%	Percentage of ability to meet governance points

In the transparency indicator shows, V barbershop get the maximum point, every employee of v barbershop knows their rights and obligations clearly, such as getting a holiday allowance, get money to eat and others. Employees also understand their obligations, this course makes them become professional barbershop and encourages the creation of maximization of company performance. In addition, the separation between corporate and personal finance, and also the good enough financial report, facilitate the company in evaluating its performance and facilitate in making the right decision.

On the side of accountability V barbershop has a good value, only on the financial side there is a problem that needs to be fixed is the calculation of depreciation that must be done correctly. Another thing that needs to be improved is the legality of the business, where v barbershop has not been legal entity, the rest v barbershop is able to fulfill the elements of good governance of UMKM.

The opposite condition occurs in D barbershop, almost all the good governance criteria of MSMEs are not able to be met maximally by them. The lack of clarity of employee's rights and obligations, leads to the demotivation of employees, as evidenced by the employment of withdrawing with very short tenure. Mixing the company's finances with personal finances, become the cause of the financial difficulties experienced by D barbershop. Indications of poor financial management are evident from the delay in compensation payments. The absence of job description and job specification leads to poor performance from employees, visible from unprofessional work hours and high complaints from customers, based on observations in the authors find some customers of D barbershop move to V barbershop.

Based on the results of the assessment, companies that have better governance scores managed to grow.The V barbershop performance after 2 years, they managed to open a new branch, and the new branch is also growing quite well and able to generate profits to finance its operational activities, while D barbershop with a bad governance score, only able to survive not until 1 year. D barbershop decided to close their business, and one of his employees moved to V barbershop 4 months before they actually closed. The results of this test proves that the indicators of MSME governance above, can describe the company's performance and precisely in measuring the company's performance. Indicators can be used by MSME as a standard in creating good corporate governance. The indicators have been adjusted to the needs of small companies, so it is more appropriate to be applied to MSME.

Conclusion

Based on the results of the study, it can be concluded that there are 14 indicators of governance of SMEs that can be used in measuring the performance of MSME found in this study. These indicators have been able to measure well the performance of companies, especially small and medium enterprises. Of course, there are still disadvantages that can be fixed in the following studies, to complement the indicators of governance of MSME and to describe more fully and disrupt the performance of MSME.

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