

ABSTRACT

This research is analysing the influence of production competence, marketing competence, business characteristics, productivity and working capital, towards financial performance of small manufacturing enterprises (SME) in East Java.

The population of this research is small manufacturing enterprises having other had TDI and dealing in wooden furniture industry, industry of textil ready-made wear and other ready-made wear products, industry of shoes and sandals and other footwears as well as industry of leathered goods and imitated leather products. Samples are taken randomly with the interviewed respondents are the owner or the manager using questionnaires which are given directly to 295 enterprises.

The variables researched consist of production competence, marketing competence, business characteristics as free variables of which influences are going to be examined towards financial performance as dependent variable through productivity and working capital as interfening variables.

Based on theoretical modelling proposed in this research, Structural Equation Modelling (SEM) with the help of AMOS 4.0 program is used to analyze data and to examine hypothesis.

Hypothesis examination results in nine rejected nol hypothesis so that alternative hypothesis is accepted and then working hypothesis is also accepted which state that there is positive significant relationship between production competence, marketing competence, working capital and productivity, marketing competence and working capital, and then production competence, productivity, working capital and financial performance.

While negative significant relationship is found between business characteristics and productivity, and between business characteristics and financial performance.

According to the findings of this research, to develop SME we need some strategic steps as follows: (1) increasing production competence with strategic steps through flexibility of product and quality, process innovation, managerial and enterpreneurship competence, (2) increasing marketing competence, through mix marketing strategy, market expansion, and marketing information, (3) linkage competence with interrelated industries to provide backward linkages and foreward langkiges, (4) increasing productivity especially of labour by increasing skills and creativity as well as giving adequate salary based on the prevailing rules., (5) increasing the capitalization competence such as efforts to get access to capital sources from banking enterprises. The role of government in developing SME is very big through producing condusive climate for running business.

Key words

production competence, marketing competence, business characteristics, productivity, working capital and financial performance of Small Business Enterprises/SME) in East Java