

The Effect of the Performance of Micro and Small Companies on the Collectability with Spirituality as Moderating Variable

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Abstract: The Effect of the Performance of Micro and Small Companies on the Collectability with Spirituality as Moderating Variable by Maulana Ali Economics Faculty, STIE MURA, Sumatera Selatan Indonesia Abstract. The government provides a variety of aids to micro and small companies in order to increase the competitiveness of them and their performance and in return their collectability. The objectives of the research are (a) to explore and analyze the effect of the performance of micro and small companies on the collectability?; and (b) to explore and analyze the moderation of the spirituality on the relationship between the performance of micro and small companies and their collectability. The location of the research is at southern Sumatera and the number of samples are 250 micro and small companies. We use 2 independent variables (ROI and spirituality) and a dependent variable (collectability). The results show that the micro and small companies (debtors of PT Pertamina) have increased their performance measured by return on investment (ROI). Their performance do not affects on the collectability. As the owners of micro and small companies have and applicate the religion knowledges, the performance of micro and small companies influence on the collectability. Keywords: Performance, spirituality, and collectability.

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1. Introduction

The objective of continued development in Indonesia is increase the prosperity of the society. The successful development must involve all parts of the nation including governments and societies (academic institutions and industries) with integrated and directed national planning.

Until 2005, the government had provided many facilities mostly only for large scale companies and very limited facilities for micro and small scale companies with objective that government through state companies and large private companies had provided much more employments and to increase the economic activities.

Along with the population growth, the government (through departmental institutions and state companies) and large scale private companies had provided small number of the employment than expected and had declined their contribution to all sectors of economic activities. The government then set policies by providing financial aids, training, and promotion for the micro and small companies. All aids are provided by almost all departmental and non departmental institutions and all state companies. They distribute them in the form of soft loans, free of charge training, and promoting of their products at national and

international markets. The objective of the policy is to increase the competitiveness of micro and small scale companies, so that they can provide more employments and contribute their economic activities to national income.

Those aids are supported by government regulations in the form of Act of Republic of Indonesia number 19 of 2003 concerning the state enterprises to reserve and use the profit for assisting micro and small enterprises and credit unions and Act of Republic of Indonesia number 10 of 1998 concerning the obligation of commercial bank to facilitate and shorten the terms of credit for micro and small enterprises and credit unions; and The Ministry Decree of State Enterprises number 236/MBU/22003 and The Regulation of Ministry of State Enterprise number Per-05/MBU/2007 concerning the program of partnership of state enterprises with micro and small enterprises and credit unions and the program of developing its environment.

The role of societies in the economic development are motivated by government. The government has shortened the time of publishing the company start up permit. Up to present, the number of the micro and small scale companies are almost 99 percent. They provide the employment almost 93 percent, and contribute to GDP almost 43 percent.

Financial aids of government are used by the micro and small scale companies to increase their working capital, production capacities, to replace old machines/transportation equipments, and to penetrate the markets. The objectives of raining provided by the government is to improve the financial and accounting system, product quality, and service quality. The objectives of promotion aids are to introduce and promote their products and services to new their markets both in local and international markets.

There are many state enterprises that have carried the financial aids to micro and small companies. PT Pertamina Region II is one of the state enterprises carries the program of partnership of state enterprises with micro and small enterprises at south Sumatera which consist of (a) agriculture; (b) mining; (c) trade; (d) services; and (e) manufacturing. There are some reasons why these micro and small enterprises have been developing in this region, namely: (a) the regional income have been increasing significantly recently; (b) the local government and private enterprises can only provide small number of employment compared to the labor forces. To decrease the unemployment, central government Through PT Pertamina has supported to them to start the business by providing

financial aids, training, and promotion. The debtors will use the financial aids to increase their working capital or to purchase the additional fixed assets such as machines, to buy new offices for increasing the capacity.

It is expected that the variety of aids can increase the competitiveness of micro and small companies and in turn will increase their performance in the form of increasing return on investment (ROI). ROI measures the effectiveness of management in generating profit by employing the assets (Gitman, 2009). As increasing ROI, the companies can pay the principal and interests periodically (increasing collectability).

Based on the background, the problem of the research can be stated as is that (a) Does the performance of micro and small companies affect on the collectability?; and (b) does the spirituality moderate the relationship between the performance of micro and small companies and their collectability?.

The objectives of the research are (a) to explore and analyze the effect of the performance of micro and small companies on the collectability?; and (b) to explore and analyze the moderation of the spirituality on the relationship between the performance of micro and small companies and their collectability.

2. Literatur Review

2.1 Agency Theory

Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal engage another person to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties are utility maximizers, there is a good reason to believe that the agent will not always do the best interest of the principal.

They also show that firm value increases as economic incentives between shareholders and management become more aligned through managerial equity ownership. Similarly, the information asymmetry and applicable agency costs that exist in firms can be reduced by control measures to limit the ability of managers to follow their own agendas and negatively influence firm performance. Alignment of goals through management ownership, as explained by the "convergence-of-interest" hypothesis (Jensen and Meckling, 1976) will reduce the level of management shirking (Lewellen, 1969; Benston, 1985).

Eisenhard (1989) reviewed the agency theory and states that from its roots in information economics, agency theory has developed along two lines of theory: (a) positivist theory; and (b) principal-agent. Positivist theory focuses on identifying situations in which the principal and agent probably have conflicting interest and then describing the governance mechanism that limit the self serving behavior of the agent. The theory have focused exclusively on the special case of the principal-agent relationship between owners and managers of large and public corporations. Principal-agent theory focuses on the general theory of the principal-agent relationship. The theory can be applied to employer-employee, lawyer-client, buyer-supplier, creditor-debtor and other agency relationship. The study is classified into

principal-agent theory concerning to finding the mechanism to reduce the conflict between the debtor and creditor or to increase the alignment between debtors and creditors.

2.2 The Performance and Collectability.

Small and medium enterprises (SMEs) play a major role in economic development in every country. Studies indicate that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector (Ayyagari et al, 2007). One measure of the performance of micro and small companies is return on investment (ROI). The lower ROI, the lower their collectability and it affects on the increasing of non performing loan (NPL) of the loan institution. Stephanou and Rodriguez (2008) analyze trend and structure of the SME financing market in Colombia and find that banks in the country regard the SME segment as an attractive companies opportunity. They conclude that the market is characterized by a number of institutional and policy constraints, which inhibits further growth of SME lending.

Although they have good performance and ability to make loan payment, it does not guarantee that they do, because the bank has credit risk, namely bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms (Basel, 2000). Sinkey & Greenwalt (1991) argue that there are five major types of risk in banks: 1-credit risk 2- liquidity risk 3- Market risk 4- Interest rate risk 5- profitability risk. NPLs create due to weak criteria of credit assays, ineffective policies, risk acceptance without regard to limitation of bankroll and wrong functional indicators (Morton, 2003).

2.3 Spirituality

Spirituality is complicated multidimensional concepts (Cook 2004; George et al. 2000; Moberg 2002). Spirituality is defined as oneself experiences, one experiences with respect to other people and nature and transcendent substance. Spirituality as tendency to make a meaning through the connection feeling with the dimensional over oneself. This connection maybe intrapersonal, interpersonal (with other people and nature), and transpersonally (with God).

Intrapersonal can be expressed in the form of the originality, peaceful inner feelings, consciousness, and self experiences and searching the life's meaning (Elkins et al 1988.; Young-Eisendrath and Miller 2000; Hungelmann et al 1985.; Mahoney and Graci 1999; Chiu et al 2004). Interpersonal can be expressed as love and affection, thanks to God, and surprise. Transpersonal can be connection with out of bounds such as magic power or God. Aspects with respect to transcendent substance is admire, expectation, holiness, adoration and transcendental experiences (Cook 2004).

It seems that there are large contributions about the importance of one spirituality that influences on one's working mental and significantly influences on one's (McCormick and Donald W, 1994; Strawbridge et al, 1997; Mitroff, Ian I., Elizabeth A Denton, 1999; Lewis and Gary, 2000).

The most of the owners of micro and small companies follow and embrace their own religion that teach them to behave correctly such as prohibit deception, prohibit lying, keep promise, and other good behaviors. The behaviors represent the regulation of a religion and the output of application of devotion to God. Mastering and applying the religious knowledge's by owners of micro and small companies, then it is expected that as increasing the performance of the companies, therefore increasing the collectability.

Based on the theoretical review, we can develop hypohthesis as follows: H1: Higher the performance of micro and small companies, higher spirituality, higher collectability.

3. Research Method

The location of the research is at southern sumatera and the number of samples are 250 micro and small companies. According to Roscoe 1975 (Sekaran, 2003) that study that uses multivariate analysis, then the number of samples must be more than 10 times as analyzed variables and the number of samples for the research is more than 30 and less than 500 units.

The performance of micro and small companies represented by return on investment (ROI). Return on investment is net profit divided by total assets (investment). Spirituality variable applied in this study includes searching meaning in life, self-actualisation and connection with inner self and the universal whole (Parsian and Trisha, 2009) and religion aspects (2 indicators), namely (a) the mastering the religious knowledges and (b) the application of the religious knowledges. This variable is measured by likert scale. Collectability is measured by classifying into 4 catagories, namely 1 is good, 2 is fairly, 3 is bad, and 4 is very bad.

The research model in the study can be presented as follows.

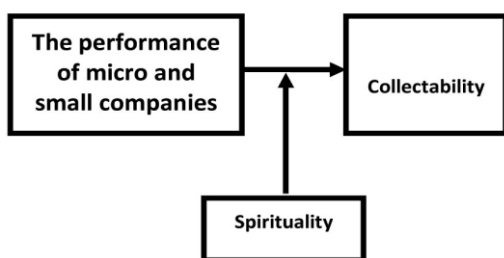


Figure 1. Research model

4. Results and Discussions

We present the results with the beginning of descriptive statistics for variables of return on investment, spirituality, collectability as follows.

Table 1. Descriptive Statistics

Variables	N	Mini mum	Maxi mum	Me an	Std. Devia tion
ROI	250	.72	.73	1.5	1.2
SPIRITUA LITY	250	2.00	3.00	5.0	4.3
COLLECT ABILITY	250	3.00	1.00	4.0	2.4
Valid N (listwise)	250				

Since the sipirituality variable is latent variable, so we need to test of validity and reliability to the spirituality variable. Based on Pearson Correlation to test the validity of the spirituality variabel, at the level of significant of 5% it shows that p value of all items are less than 0.05. It means that the sipirtual variable is valid and based on Cronbach Alpha to test the reliability of the spirituality variable, it shows that cronbach alpha has value more than 0.6. It means that the variable is reliable.

The results of simple regression to find out whether the performance of micro and small companies affect on the collectability as follows.

Table 2. Simple Regression

Model	Unstandardize d Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.837	.519		3.538	.000
ROI	.505	.434	.074	1.165	.245

a. Dependent Variable: COLLECT

The table shows that the performance of micro and small companies (ROI) affect on the collectability. It indicates that there are micro and small companies that have low ROI do not pay loan payment, but some do. There are also some have high ROI do not pay loan payment, but some do.

By using spirituality variable as moderating variable, the results of multiple regression as follows.

Table 2. Multiple Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712 ^a	.507	.501	.82235

a. Predictors: (Constant), SPIROI, SPIRITUALITY, ROI

SPIROI is the interaction between ROI variable and Sipirtual variable. The table 3 shows that at level of significant 5%, the p value is less than 0.05. It means that the interaction ROI variable and Sipirtual variable affects on the collectability. It indicates that as ROI and sipirituality increase, the collectability increases. As the owners of micro and small companies have a deep religion knowledges and applicate it and as they have positive ROI, so they will pay loan payment.

5. Conclusion

The objective of the research is that whether the micro and small companies the performance of micro and small companies affect on the collectability and their relationship will be moderated by spirituality variable. Based on the results and discussion, it can be concluded that the micro and small companies that accept the loan from PT Pertamina have increased their performance measured by return on investment (ROI). Their performance do not affects on the collectability. Still, as the owners of micro and small companies have and applicate the religion knowledges, the performance of micro and small companies influence on the collectability.

The research has limitation, namely it does not analyze the factors that affect on the performance of micro and small companies. For future research, it suggests to add those variables.

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