THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE IN EFFORTS TO INCREASE PROFITS IN SMALL MEDIUM ENTERPRISES (SMEs)

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ABSTRACT

The development of Small Medium Enterprises or SMEs as the country's economy supporting factor contributesrelatively large to the government budget.It still has many obstacles both internally and externally. Thus, it is necessary to study the extent of the development of SMEs. This study aims to determine how the implementation of good corporate governance in order to improve the profitability of Small Medium Enterprises (SMEs). The method used is descriptive method. Population used in this research is a sample of 35 SMEs in the Kiaracondong district, Bandung. Results from the study is that the implementation of good corporate governance of SMEs in an effort to improve operating income, is categorized as average, but there is still a lot that needs to be addressed. Particularly accountability and transparency that are still very weak. Thus it must be addressed, with the creation of financial reports or cost of goods sold and accountable owner of the company.

Keywords: The Implementation of Good Corporate Governance and Profits

Introduction

Small Medium Enterprises (SMEs) play an important role in the economic development of the country, especially in developing countries such as Indonesia, SMEs are the main economic strength. Many developing countries are benefiting from SMEs, for example in Indonesia, SMEs are a major source of national income and create an important area for entrepreneurship (Keskin and Senturk; 2010).

At the end of 2012, the number of SMEs in Indonesia has reached56.53 million units with a contribution of 59.08 percent of gross domestic product. In the same year, about 7 percent of total SMEs managed to improve their status, both from small into medium,and mediuminto commercial or beyond SMEs. Minister of Cooperatives and SMEs said that by 2013 the number of SMEs has reached about 53 million units. Indonesian SMEs magazine reports that SMEs are now global. Approximately 25% up to 35% of international manufacturing exports contributed by SMEs. While 20% manufacturing companies gain profits from cross-border trade. Even more encouraging is that at this moment, as much as 25% of manufacturing SMEs who work internationally listed as competitive companies.

But in reality, the development of Small Medium Enterprises or SMEs as the country's economy supporting factor that contributes relatively large to the government budget still has many obstacles both internally and externally. Sometimes they only think how to make big profits, not thinking towards whether the companies are managed well or not. There are also several factors that cause this SME entrepreneurs fail to execute its business plans, such as incompetent managerial skills, less experienced both in terms of the ability to coordinate, manage human resources skills, and ability to integrate the operations of the company, as well as incompetence in the financial control, and failed in strategic planning for the long-term sustainability of SMEs itself (Mulyadi: 2014).

Expressed also by Indarti et al., (2013) that most SMEs are always more focused on strengthening access to obtain these resources so that they can survive in the competition. While the implementation of good corporate governance is often overlooked. In fact, unconsciously corporate governance plays an important role in determining the quality of the business to achieve profit. Adopting good corporate governance can provide more benefits for SMEs. Through the implementation of good corporate governance, business management will be able to become more organized (Abor and Adjasi, 2007).
Business cannot be allowed to develop in the direction of exclusivity without concern for the surrounding communities. The balance between corporate responsibility and commitment to empower communities has to be done. Good corporate governance is one of the many policies that can be considered to achieve profits as well as embodiestransparency, fairness, accountability that are the most critical part. (Tangkilisan; 2003)

According to Daniri (2005), the term Good Corporate Governance (GCG) was placed in a respectable position, first GCG is one key to succeedin growing profitable companies in the long term, while winning global business competition.Second, the economic crisis in Asia and Latin America which is believed to arise because of the failure of the implementation of GCG.
Looking at the phenomenon and expert opinion of GCG described above, that SMEs have a crucial role in the development of the economy because it has a great contribution togovernment budget, so it should continue to be developed, but one of the obstacles or problems to develop the SMEs generally is they only focuse on profits, while the company's management is still

overlooked. Had these demands made efforts to generate profits and good corporate governance is run side by side, then the contribution of SMEs to the government budget as the supporting factor of the economic development is big.
Based on the above explanation, the formulation of the problem of this research is how the implementation of good corporate governance in an effort to increase profits ofSmall MediumEnterprises? The purpose of this study is to see how far the implementation of good corporate governance in SMEs. So the results of this research will be used as input and solution to this problem.

Literature Review Andthinking Framework

Literature Review

Small businesses are defined as economic activities carried out by individuals or households and a body intended to produce goods or services for commercial trade and have a sales turnover of 1 (one) billion dollars or less. While Medium Enterprises are defined as economic activities carried out by individuals or households and a body intended to produce goods or services for commercial trade and having sales turnover of more than 1 (one) billion. (Afifah: 2009).

The characteristics of Small Medium Enterprises in Indonesia (Afifah: 2009) in general is (a) Stand-alone management, in other words there is no clear separation between the owner and manager of the company. (b) Owner and manager of the SMEs is the same person (c) capital is provided by an owner or a small group of owners of capital (d) The area of operations is usually localized, although there are also SMEs that have a foreign orientation, in the form of exports to countries and trading partners (e) the size of the company, both in terms of total assets, number of employees, and small infrastructure.

FCGI (2002) outlines the corporate governance principles that are described by OECD, namely (1) Fairness, the equal treatment of shareholders, especially the minority shareholders and foreign shareholders, with the disclosure of information that is important as well as prohibit the distribution to the parties themselves and shareholders by insiders (insider trading). (2) Transparency that is the rights of shareholders to be timely and properly informed about the company, can participate in decision-making process regarding fundamental changes over the company and also receive a share of the profits of the companies (c) Accountability: management responsibility through effective oversight by the balance of power among managers, shareholders, board of directors and auditors (d) Responsibility: the role of shareholders should be recognized as established by law and active cooperation between companies and stakeholders in creating wealth, employment and healthy enterprise from a financial aspect.

Then, according to the OECD, Effendi in his book (2009) the principles of corporate governance include 5 things: (a) the protection of the rights of shareholders (the rights of shareholders), (b) equal treatment of all shareholders (the equitable treatment of shareholders), (c) the role of stakeholders related to the company (the role of stakeholders), (d) Disclosure and transparency (disclosure and transparency) and (e) the responsibility of the board of directors (the responsibilities of the board). Same thing with that proposed by fcgi (2002) outlines the corporate governance principles of the OECD as described above with the objective socialization of GCG that consists of Fairness, Disclosure and Transparency, Accountability and Responsibility.

According to Arafat (2008) the benefits of the GCG implementation can basically be grouped into four, namely (a) Improve the performance of companies through the creation of a better decision-making process, boost operational efficiencies and better service to stakeholders(b) Increase corporate value as expressed by Tjager et. al. (2003) theoretically, corporate governance practices can increase the value (valuation) of company to improve their financial performance, mitigate risks that may be done by the council with decisions that benefit themselves (b) Improving investor confidence. As revealed by Newell and Wilson (in essence) stated that the corporate governance practices can run either will be able to increase investor confidence and in contrast,poor GCG implementation will lower the level of their trust (c) The shareholders will be satisfied with the performance of the companies as well as will improve shareholders value and dividends as disclosed by fcgi (2001) and also Nurdin (2003).

Profitability is a measure for the performance of a company, the profitability of a company shows the ability of a company to generate profits for a certain period at the level of sales, assets and certain share capital. Profitability of a company can be assessed through a variety of ways depending on the income and assets or capital that will be compared to one another. To calculate the profitability can be measured in several ways, among others, return on equity or profitability is a measure of income or income available to owners of the company on the capital they invest in the company.

According to Suwardjono (2005) profit is interpreted as a reward for the company's efforts to produce goods and services. This means that profit is the excess of income over expenses (total cost in the production process and delivery of goods / services).

Thinking Framework

According to Solomon and Solomon (2004), there are two points of view for the concept of good corporate governance, namely the narrow viewing angle (narrow view) and broad view. Based on the narrow viewing angle, good corporate governance is defined as equal relationship between the company and shareholders. From the broad point of view, good corporate governance is a web relationship, not only the company with the owners or shareholders, but also between the company and the company with other stakeholders, namely employees, customers, suppliers, bondholders, and others.

The essence of good corporate governance is the company performance improvement for all parties involved in the company indicated through profits, which is a form of fulfillment of the shareholders' interest and the achievement of sustainability which is a form of fulfillment for stakeholders (Daniri: 2005).

According to Sedarmayanti (2012) the actual effort is conceptually how to empower corporations, so that corporate governance can be healthy, trustworthy by the investors, be able to compete and beneficial for all parties concerned, namely through the implementation of Good Corporate Governance as expected. Implementation of Good Corporate Governance is unlikely to be implemented if the corporate environment is bad. The main requirement is to implement good governance.Thus, rational application of good corporate governance practices in good governance environments will give a value of the company in the broadest sense, both in improving financial performance, minimizing the risk that the company will bear, improve competitiveness,and in return can increase the confidence of investors, stakeholders, and the public. Finally, it is an obligation for policy makers in making process of their policies to take good corporate governance into consideration.

Such information will be the same if applied in SMEs, where good corporate governance will be achieved if the creation of good corporate governance environment isbased on mutual support. The implementation of good corporate governance will give a value to SMEs and can improve financial performance, minimize the risk that the company will bear, improve competitiveness, thereby increasing the confidence of the owners, and the community, which finally will encourage them to feel obliged to make the rules simple for the benefit of creating Good Corporate Governance.

Good performance is the main goal of SMEs in achieving its goal of profit but in the long term. The phenomenonis that profits are increased, but is not accompanied by the good performance, so that the profit generated is short-term and not planned carefully. To support good corporate governance (GCG), it should create a good environment in advance, so that the purpose of the increase in profit in the long term will be easily achieved. On this basis, it can be inferred that to improve the long-term profit, good corporate governance (GCG) needs to be embodied by SMEs.

Based on the above framework, the implementation of good corporate governance forSmall Medium Enterprises will have an impact on profits.

Research Methodology

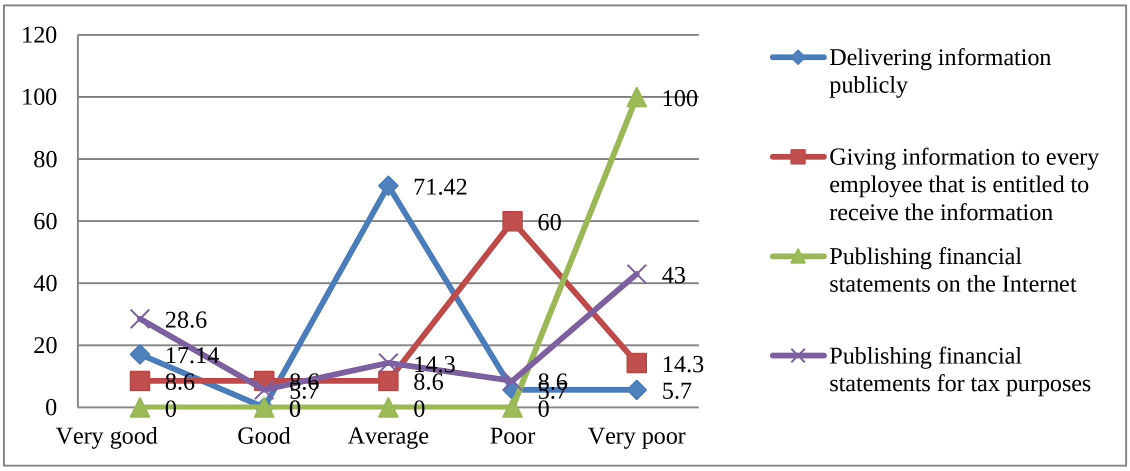
The method used in this research is descriptive method, which will describe and explain the implementation of good corporate governance in the Small Medium Enterprises (SMEs) in order to improve the profit for the period 2014. The population was knitting sectorof SMEs in Kiaracondong which is located in Bandung. The total population is 212 SMEs and from the 212 chosen, it is only SMEs which have an average profit of between 300 million and 500 million per quarter, so that it becomes homogeneous. From these criteria samples taken around 35 SMEs.

Techniques and methods used by the author in collecting data to carry out research is a field research. Then, the operationalization of research variables adopted fcgi and OECD (2002) collaborated with GCG on SMEs. Variabelsof good corporate governance include transparency, accountability, fairness, responsibility, and independence.

Results And Dicussion

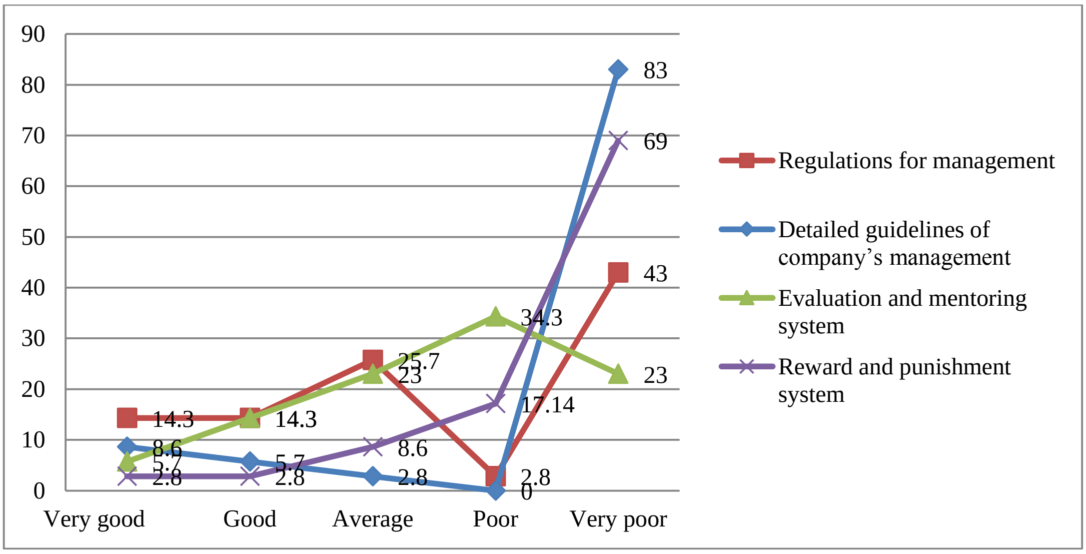
The collection of data by the author is by distributing questionnaires to the respondents, amounting to 35 SMEs. From the results of the questionnaires gathered, researchers conducted the conversion of qualitative data into descriptive quantitative data using Linkertscale. The results of research and discussion, namely:

Figure1: Implementation of transparency on SMEs



Based on the above image (Figure 1), delivering information publicly is generally average with the percentage of 71.42%. Also there is some who say very good but relatively little. Then in terms of providing the same information to every employee who need to be informed, generally expressed poor with the percentage of 60%, which means that quite a lot of SMEs that do not provide the same information to every employee who is entitled to know the information. Also, there are some SMEs who already have provided the same information to every employee that has the right but still relatively few are doing so. Related to publishing financial statements to the internet, in general, SMEs do not ever do that. Similar to that, publishing financial statements for tax purposes is never done by SMEs with a percentage of 43%, there are also some who say have issued financial statements for tax purposes but relatively few are doing so.

Figure2: *The Implementation of Acountabilityon SMEs*



Based on the results of the study (Figure 2) the implementation of the principle of accountability in SMEs, in terms of a detailed guidelines for the management of the company, in general (83%) of SMEs say it isvery poor.Meaning that many SMEs do not have a detailed management guidelines. There are some who say very good which means there are SMEs that have detailed guidelines for the management of the company but relatively little. Regarding the regulations for the management of SMEs, in general (43%) say poor.This means there are many SMEs that do not have regulations for management. In the event of a system of evaluation and monitoring, 34.3% saydo not agree.It means there are many SMEs that do not pass the evaluation and monitoring system, there are also who conductan evaluation system and monitoring albeit slightly. As related to reward and punishment system, 69% say strongly disagree, meaning in general, SMEs do not apply the system of reward and punishment.There are also SMEs which introduce a system of reward and punishment but relatively little.

Figure 3: *The Implementation of Fairness on SMEs*

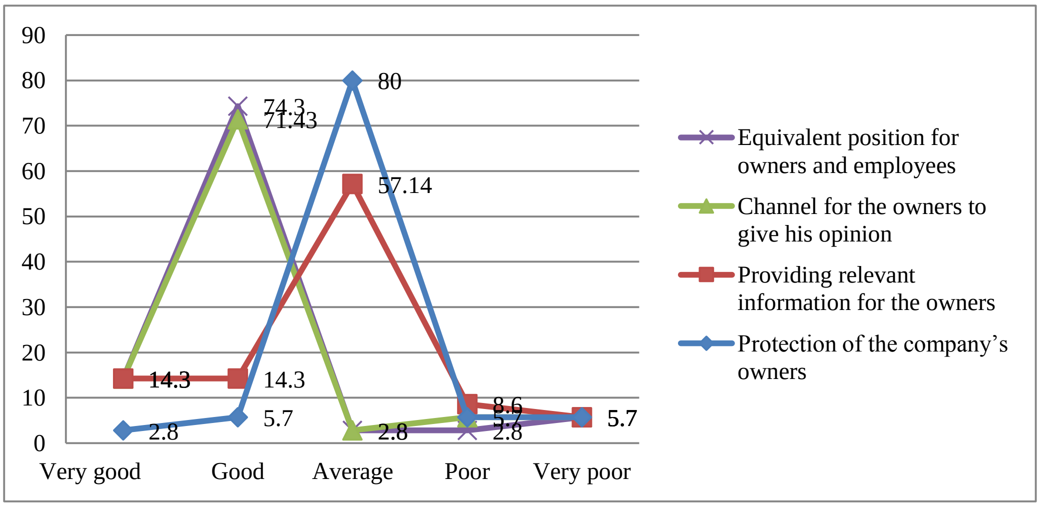
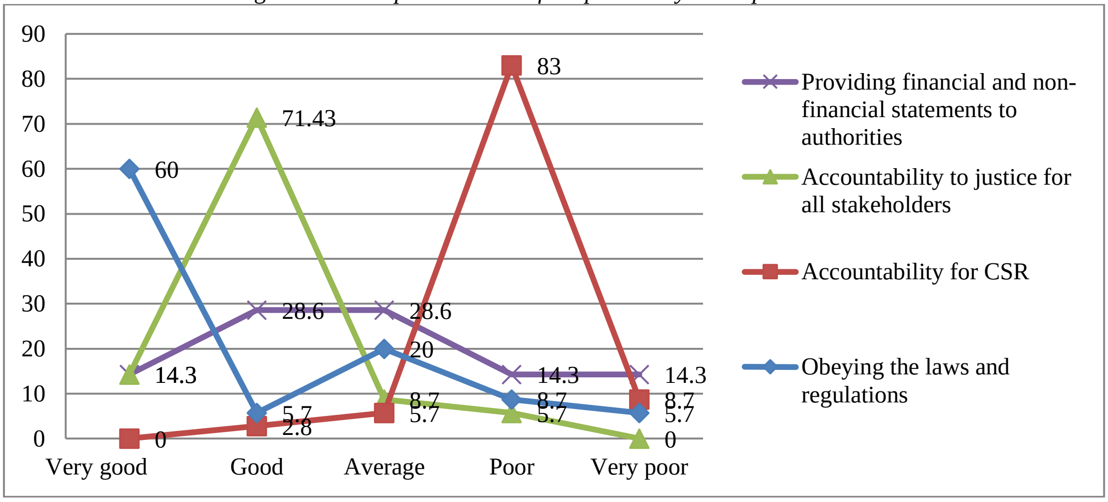


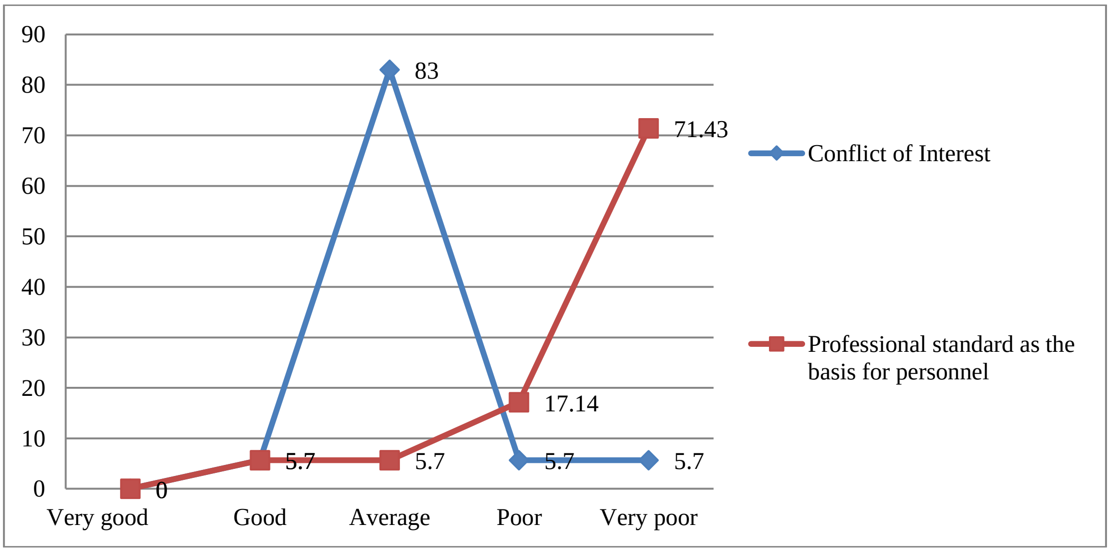
Figure 3 relates to the implementation of the principle of fairness in SMEs, in terms of the protection of the rights of the owners of the company amounted to 80% say average.This means that SMEs generally are sufficient to protect the rights of the owners of the companies.Thereare also some ever doing so but relatively small. Similarly, linked to information given to the owners of the companies, in general (57.14%) of SMEs provide enough relevant information. Then the channel for the owners to give his opinion in general (71.43%) of SMEs say good, this means there are still many who do these things so the owner can easily give their opinions regarding business continuity. As related to the equivalent position to owners and employees 74.3% saygood, and 2.8% say average, meaning that the owners and employees have the same rights and obligations in certain things.

Figure 4: *The Implementation of Responsibility Principle on SMEs*



Based on the results in Figure 4, the implementation of the principle of responsibility in SMEs, the first indicator which is to obey the laws and regulations.In general, they say very good(60%), meaning that the majority of SMEs obey the laws and regulations although they are small companies. A second indicator is accountability for CSR.In general, SMEs say poor (83%), this means that SMEs do not pay attention to CSR activities.It could be because the profits made is not as big as sacrificesthat have been made. The third indicator is accountable to justice for all stakeholders.In general, SMEs say good (71.43%), meaning to be accountable for the rights granted to all stakeholders. The last indicator is to provide financial and non-financial reporting to the authorities.In general, they saygood and average (28.6%), meaning that 10 SMEs are responsible to the authorities by providing financial statements.

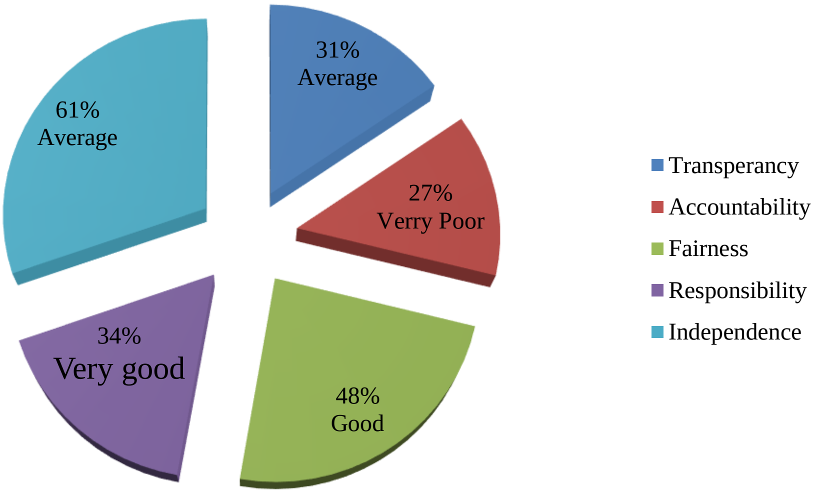
Figure 5:*The Implementation of Independence Principlein SMEs*



The results in Figure 5 on the implementation of the principle of independence in SMEs, with regard to professional standards as the basis for personnel.In general, they say very poor (71.43%), meaning that in the operations there are still not using professional standards, while the use of professional standards are relatively little. And in terms of pressure or conflict of interest, in general they say average (83%), meaning that there is still enough pressure or conflict of interest because their businessesare still run by the employees of the owners.

The overall presentation of the results for each variable tested can be seen in Figure 6 as follows:

Figure 6: *Percentage of The overall Testing Results*



Overall, the implementation of transparency in SMEs has been average in the amount of 31%. This means that in general, SMEs are enough to do the disclosure of material and non-material information regarding the companies, both internal and external.

Overall, the implementation of accountability in SMEs is very poor that it is equal to 27%. This means that in general, SMEs still do not have guidelines, rules and systems that explain the functions, implementation and accountability of the companies'management.

Overall, the implementation of fairness in SMEs is good in the amount of 48%. This means that in general, SMEs are already implementing a system of justice and equality in fulfilling the rights of stakeholders and employees that arise as a result of the agreement and the legislation in force.

Overall, the implementation of responsibility in SMEs isvery good in the amount of 34%. In general, it means that SMEs already obey the laws and regulations, and has been responsible to the stakeholders as well as to the authorities.

Overall, the implementation of independence in SMEs isaverage in the amount of 61%. Meaning, SMEs is managed professionally enough without conflict of interest and influence or pressure from any parties that do not comply with the applicable regulations and the principles of healthy corporate.

Tabel 1 : *The Implementation of Good Corporate Governance in SMEs*

Questions	Very Good	Good	Average	Poor	Very Poor	Aktual Total
1	6	0	25	2	2	111
2	3	3	3	21	5	83
3	0	0	0	0	35	35
4	10	2	5	3	15	94
5	3	2	1	0	29	55
6	5	5	9	1	15	89
7	2	5	8	12	8	66
8	1	1	3	6	24	54
9	1	2	28	2	2	103
10	5	5	20	3	2	113
11	5	25	1	2	2	134
12	5	26	1	1	2	136
13	21	2	7	3	2	142
14	0	1	2	29	3	71
15	5	25	3	2	0	138
16	5	10	10	5	5	110

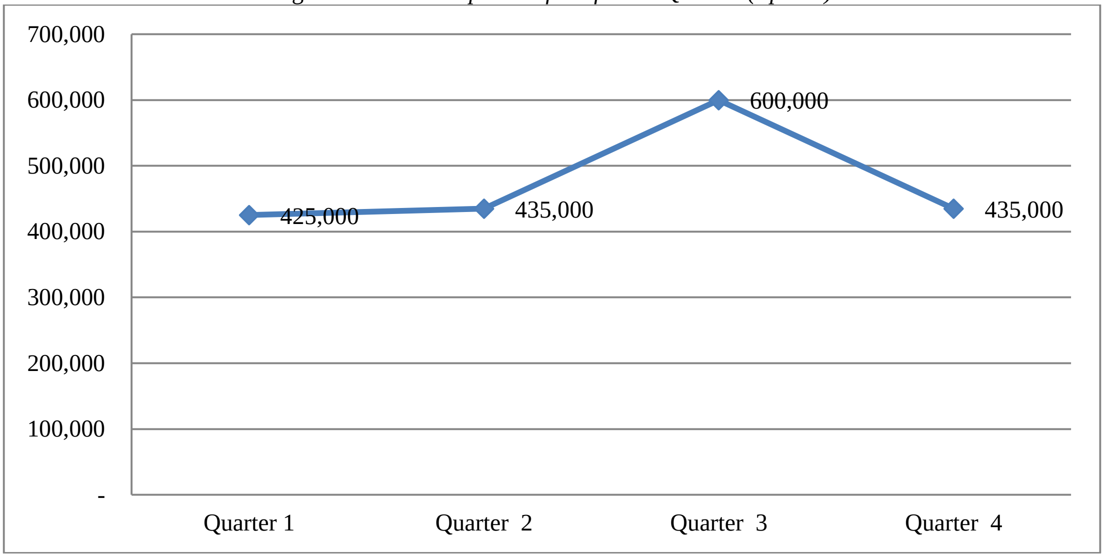
17	0	2	2	6	25	51
18	0	2	29	2	2	101
Total						**1686**
Total Ideal						**3150**
Average						**53,52**

Source: Processed Questionnaire

In the results of the table, it shows that the implementation of Good Corporate Governance in Small Medium Enterprises (SMEs) falls into the category of average. This is evidenced by the average value of the total of the respondents amounted to 53.52% as the average assessment criteria which this score is in the interval of 40% -59% are categorized asaverage. Although it is said to fall into the category of average, but it will soon decrease if there is no real action in implementating good corporate governance because GCG is one of the supporting factors for SMEs in the long term. This category implies that the overall SMEs in Bandung in managing their companies have already been quite open in terms of providing information to the parties entitled to receive the information.

If it is connected with profits receivedby SMEs

Figure 7:*The Development of Profits PerQuarter (Rp.000)*



The graph above describe an increase of profits per quarterly in Q3 amounted to 600,000.This was because the quarter coincided with the national holidayswhere sales and profit increase. And in the next quarter, profit was down due to the sale of SMEs was back to the normal months.

Based on the results of the discussion in the implementation of good corporate governance in SMEs still falls into the cetegory of very poor. Although corporate governance is still very poor, but this does not affect the profit generated.It is evidenced in the chart above. This condition is due to the tendency of most SMEs which are too profit-oriented, while tey do not pay enough attention to the way of how their companies should be managed well and in accordance with the principles of good corporate governance.

Conclussion And Recommendation

Conclusion

Based on the explanation above, it can be concluded that:

1. The implementation of the principle of transparency and the principle of independence in SMEs, in general is average.Meaning that SMEs are good enough in implementing the principles of openness and independence. As with the implementation of the principle of fairness and the principle of responsibility in SMEs, in general are in the categories of very good and good. Ingeneral, it means that SMEs already implement the principles of fairness and the principle of accountability. But in terms of implementation of accountability,generally SMEs are still not applying these principles. But overall, the category is average, so there is still much to be improved, especially transparency and accountability. For example, the SMEs must make a financial report and be held accountable to the owners of the companies.

2. The implementation of good corporate governance in SMEs is categorized as good. Although the company'sgovernance is not good, this does not affect the profit earned, because SMEs are not too concerned with managerial interests.

Recommendations

Some recommendations that the author can give from this research are:

1. SMEs are expected to be more open in the decision making process and disclosure of relevant material information regarding the companies. By making guidelines, rules and systems containing clarity of functions, implementation and accountability of the management of the company, it is believed that company's management will be run effectively and economically. Maintaining and improving the system of justice and equality in fulfilling the rights of stakeholders and employees. Maintaining to obey the laws and regulations, and staying responsible for the stakeholders and the authorities. Managing the companies in a professional manner without any conflict of interest and influence from any parties that is not in accordance with the rules and principles of healthy corporation.

2. All in all, SMEs are expected to manage his company in accordance with the principles of good corporate governance (GCG), so that SMEs will always be able to make profits, both in short-term as well as the long-term.

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