THE EFFECT OF COST REDUCTION STRATEGY ON IMPROVING BUSINESS PERFORMANCE IN COFFEE MSMES IN PASURUAN REGENCY

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ABSTRACT

This study investigates the effect of cost reduction strategies on the business performance of coffee micro, small, and medium enterprises (MSMEs) in Pasuruan Regency, East Java, Indonesia. The cost reduction strategy is one of the strategies that is widely applied by MSME managers when facing a recession due to the Covid-19 pandemic. The implementation of this strategy aims to ensure that the business is run, can survive, and still generate profits. However, the implementation of cost reduction that is carried out without consideration will also affect business performance, therefore this study is important to find out the effect of cost reduction on business performance. So that MSMEs that implement this strategy can improve their business performance. This study uses a quantitative method using a structured questionnaire to collect data from 50 coffee SME owners/managers. The data was analyzed using SmartPLS to test the hypothesis that cost reduction strategies have a positive impact on business performance. These findings show a significant positive correlation between cost reduction and business performance, which shows that cost reduction strategies are effective in improving business performance in coffee SMEs in Pasuruan Regency. The study concludes that coffee SMEs should prioritize effective cost reduction strategies to improve their business performance, especially in aspects such as production costs, labor costs, and overhead costs.

Keywords   :   Cost Reduction; Business Performance; Mico, Small and Medium Enterprises (SMEs).

I. INTRODUCTION

Small and Medium Enterprises (SMEs) refer to an important pillar of the Indonesian economy (Sarfiah et al., 2019). Indonesian SMEs on May 5, 2021 were recorded at 64.2 million with a contribution of 61.07% to GDP. SMEs also contribute to Indonesia's economy, empowering 97% of the available workforce and covering up to 60.4% of total investment. Coffee SMEs are the most developed businesses in Indonesian society today which include coffee shops and coffee producers.

ICO (International Coffee Organization) stated that coffee consumption in Indonesia was recorded as many as 5 million bags measuring 60 kilograms or equivalent to 300 thousand tons in the 2020/2021 period and has increased with an average value of 2% every year since 2015-2021 (DataIndonesia. phone number, 2022).

The number of coffee shops in Indonesia since August 2019 has reached more than 2,950 shops, an increase of almost three times compared to 2016 which was no more than 1,000 (Toffin, 2020). The number of business opportunities does not guarantee that a business is able to compete and develop, especially in the field of SMEs. This refers to the internal and external problems faced by SMEs. Sari & Kusumawati (2022) stated that the internal problems of SMEs include low human resources, limited capital, and expensive raw materials and machines used. Meanwhile, external problems faced by SMEs are product competitiveness, suboptimal use of technology, marketing and tight business competition (Sugiarto, 2018).

Fierce competition in the business sector encourages entrepreneurs to find the right strategy to compete ideally. Strategy selection plays an important role as one of the factors in achieving success related to improving the performance of an entity (Hariyati & Wibowo, 2020). Based on Hambrick (1981) in Hariyati & Tjahjadi (2018). Successful performance requires a strategy as a determination pattern related to performance targets.

One of the strategies that is often applied to SMEs is cost reduction, by reducing costs, business actors can reduce costs that do not bring profits to their businesses so that they have more efficient expenses and have a competitive advantage (Gosal et al., 2021). Cost reduction can be categorized into various main cost items, including: payroll cost area, sales and marketing cost area, and production cost area.

The production cost area is an area that is often the focus of SMEs to achieve competitive selling prices. Encouraging SMEs to apply cost reduction in the field of production costs, the application of cost reduction can be analyzed using cost variance analysis (Bragg, 2010).

This cost variance analysis method is used to measure the difference that occurs between the standard cost that has been set and the actual cost that has been incurred. With this analysis method, business actors can optimize the costs incurred in their business activities so that business actors do not incur costs that do not bring profits to their business activities. The cost variance analysis method is carried out by measuring the difference that occurs in these costs, including: (1) Raw material costs, (2) Direct labor costs, (3) Overhead costs.

In many cases, not all cost reductions can have a positive impact on business activities. Cost reductions made without careful consideration can have a negative impact on the quality of the products and services offered, thereby reducing customer satisfaction and even damaging the business image. Therefore, cost reduction must be done carefully and pay more attention to various factors that affect business performance (Bragg, 2010).

Measuring business performance is known to be crucial for a business. This measurement can help business actors know various forms of information that are important in the decision-making process. To state that a performance has good results, Hariyati & Tjahjadi (2018) stated that the performance of an entity can be assessed based on financial and non-financial aspects. Kaplan and Norton (2000) in (Hariyati & Wibowo, 2020) revealed that performance measurement can be carried out comprehensively using a Balance Scorecard (BSC) which includes financial and non-financial perspectives.

The cost reduction strategy is one of the strategies that is widely applied by SMEs when facing a recession due to the Covid-19 pandemic. The implementation of this strategy aims to ensure that the business run can survive and continue to generate profits during the period. This is also supported by (Hastuti, 2021) and (Purnamasari et al., 2022). The right and good strategy will have a positive influence on the performance of business entities (Hariyati & Wibowo, 2020).

Based on the description above and the author's motivation to find out the influence of cost reduction strategies on improving the business performance of SMEs, especially coffee SMEs in Pasuruan Regency, the author hopes that with this research SMEs can.

II. RESEARCH METHOD

A. RESEARCH DESIGN

The research method applied by researchers is a quantitative methodology. A quantitative method is used to collect empirical data that can be measured objectively and can be calculated using statistical analysis techniques. The quantitative method also allows researchers to test hypotheses and make generalizations about larger populations (Sugiyono, 2012:14).

B. POPULATION

The population chosen by the researcher in his research is coffee SMEs in Pasuruan Regency. Based on BPS East Java, (2018) food and beverage SMEs stalls in Pasuruan Regency were recorded at 351 stalls.

C. SAMPLE

In determining the sample size used, Roscoe (1975) said that the appropriate sample size for research is between 30 and 500 respondents. According to Sekaran and Bougie (2016), a larger sample size does not always guarantee an increase in the accuracy of research results. Conversely, a smaller but representative sample can provide more accurate results than a large, unrepresentative sample. With this in mind, in this research the researcher decided to take 50 samples.

D. DATA COLLECTION METHODS

The data source used in this research is primary data, primary data is data obtained directly by researchers. (Sugiyono, 2016 : 137) To obtain the data, researchers distributed questionnaires which were a collection of questions that had been prepared to find the necessary information. The target of this questionnaire is the owner or manager of the SMEs.

The questionnaire in this research will use a Likert scale. The Likert scale is basically an ordinal scale because the weighting of assessments on the Likert scale is only a tool to make it easier to determine levels. (Sugiyono, 2016 : 137) The Likert scale consists of a minimum of five or odd codes: Strongly Disagree = 1, Disagree = 2, Neutral = 3, Agree = 4, and Strongly Agree = 5.

In this study, the variables are divided into two variables, which is independent variable which will be occupied by Cost Reduction and the dependent variable which will be occupied by Business Performance, both variables have their own characteristics.

The independent variable in this research is a latent variable. Latent variables are known as variables that cannot be measured individually, therefore this variable requires another variable as a benchmark indicator, and the

independent variable in the research is Cost Reduction with indicators (a) Production Cost Variance, (b) Labor Cost Variance, and (c) Overhead Cost Variance (Bragg, 2010).

The dependent variable in this research is a latent variable. Latent variables are known as variables that cannot be measured individually, therefore this variable requires another variable as a benchmark indicator, and the dependent variable in the research is Business performance which will be measured comprehensively using the Balance Scorecard (BSC) including: (a) Financial Perspective, (b) Consumer Perspective, (c) Internal Business Processes, and (d) Learning and Growth.

E. DATA ANALYSIS METHODS

The data analysis technique in the research uses statistical data whose processing is assisted by the SmartPLS application with the method Structural Equation Models (SEM). This analysis method is used because the variables in this research are latent variables, to process various variables and look for the influence of these various variables on an object simultaneously. In PLS-SEM, various tests need to be carried out, namely: (1) Outer Model Test, (2) Inner Model Test, and (3) Goodness of Fit Model Test.

III. RESULTS AND DISCUSSION

The data results from this study have been processed through three test stages, among others: **A. Outer Model Test**, **B. Inner Model Test, and C. Goodness Of Fit Model Test** which will be conveyed through pictures, tables and descriptions below.

A. OUTER MODEL TEST

Outer model test is known as a measurement model testing stage which is intended to provide evidence of validity and estimate the reliability of indicators and constructs. Various conditions need to be met, namely: (a) Loading factor indicators are required to exceed 0.7 (b) AVE of reflective constructs exceeds 0.5 (c) Cronbach Alpha exceeds 0.7 and composite reliability exceeds 0.7 (Muhson, 2022).

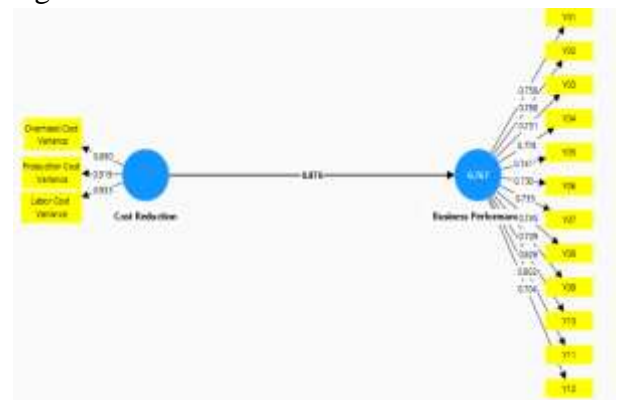The results of the validation test are seen through this table and figure:

Image 1. Loading Factor Value
Source: Results of Analysis Using SmartPLS

Table 1. Outer Loading Value of The Whole

Variables	Indicator	Outer Loading Value	Term	Description
Cost Reduction (X)	(Xa) Production Cost Variance	0.919	> 0,7	Valid
	(Xb) Labor Cost Variance	0.933	> 0,7	Valid
	(Xc) Overhead Cost Variance	0.690	> 0,7	Valid
Business Performance (Y)	Y01	0.758	> 0,7	Valid
	Y02	0.788	> 0,7	Valid
	Y03	0.731	> 0,7	Valid
	Y04	0.778	> 0,7	Valid
	Y05	0.741	> 0,7	Valid
	Y06	0.730	> 0,7	Valid
	Y07	0.735	> 0,7	Valid
	Y08	0.745	> 0,7	Valid
	Y09	0.709	> 0,7	Valid
	Y10	0.826	> 0,7	Valid
	Y11	0.802	> 0,7	Valid
	Y12	0.704	> 0,7	Valid

Variable

Source: Results of Analysis Using SmartPLS

Table 2. MarkAverage variance extracted (AVE)

Variable	Average variance extracted(AVE)
Cost Reduction (X)	0.836
Business Performance (Y)	0.570

Source: Results of Analysis Using SmartPLS

Tabel 3. Reliability Value

Variable	Cronbach's alpha	Composite reliability (rho_a)
Cost Reduction (X)	0.902	0.903
Business Performance (Y)	0.931	0.932

Source: Results of Analysis Using SmartPLS

The results that have been presented in the tables 1, 2, and 3 and image 1. have met the terms and conditions for a study in order to be declared valid and reliable. Because **this research is valid and reliable**

B. INNER MODEL TEST

Inner Model Test is carried out through a review of the Coefficient of Determination. The value of the determination coefficient is found to be between 0 and 1. The value of the determination coefficient (R^2) almost touches the value of 1.

The R^2 value describes how much the independent variable can explain the explanation related to the independent variable. Chin (1998) explained the criteria for limiting the R^2 value into three groups, namely R^2 value = 0.67, 0.33, and 0.19 as weak, moderate, and strong.

Table 4. Value of R Square (R^2)

Variabel	R Square	R Square Adjusted
Business Performance (Y)	0.767	0.762

Source: Results of Analysis Using SmartPLS

The relationship between constructs based on the R-square value of Business Performance (Y), which is 0.769, shows that 76.9% of the Business Performance (Y) variable can be affected by the Cost Reduction (X) variable while the remaining 23.1% is affected by other variables outside the studied.

In this study, hypothesis testing was carried out through bootstrap resampling calculations assisted by SmartPLS software with the condition that if the t test value with a value at t of 1.96 with a significance level (α) of 0.05. then the hypothesis is accepted and if it does not meet these conditions then the hypothesis is not accepted.

Table 5. Mark Path Coefficient, t-Statistics, and P-Values

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Cost Reduction (X) ->Business Performance (Y)	0.876	0.876	0.037	23,598	0,000

Source: Results of Analysis Using SmartPLS

Referring to the results presented in table 5, the research hypothesis "Cost Reduction has a

positive effect on Business Performance" is **accepted**.

C. GOODNESS of FIT MODEL (GoF) TEST

The Goodness of Fit Index (GoF) test is intended to validate the performance of the combination between the measurement model (outer model) and the structural model (inner model) which is known through the calculation below:

$$GoF = \sqrt{AVE \; x \; R^2}$$
$$GoF = \sqrt{0.703 \; x \; 0.767}$$
$$GoF = \sqrt{0.539}$$
$$GoF = 0.734$$

Information:
$$AVE = (0.836+0.570)/2$$
$$= 0.703$$
$$R \; square = 0.767$$

The results of the Goodness of Fit Index (GoF) calculation showed a value of **0.767.** According to Ghazali's (2014) perspective, the value of small GoF = 0.1, medium GoF = 0.25 and large GoF = 0.36. Referring to the results of the calculation the value of the Goodness of Fit Index (GoF) exceeds 0.36 (large GoF scale).

Table 6. SRMR Values

	Saturated model	Estimated model
SRMR	0.074	0.074
d_ULS	0.660	0.660
d_G	0.695	0.695
Chi-square	166.157	166.157
NFI	0.738	0.738

Source: Results of Analysis Using SmartPLS

Reviewing table 6 of the relationships between constructs based on the SRMR value of the Model is 0.074 which is less than 0.1 in this regard, it shows that the model as a whole is declared good or fit.

Based on the results of hypothesis testing, it was found that:

Cost Reduction (X) has a significant positive effect on Business Performance (Y) of 87.6%. This means that the more effective Cost Reduction is implemented, the more efficient the business performance of coffee SMEs in Pasuruan Regency will be. This finding is in line with the theory which reveals that an effective Cost Reduction strategy can improve a company's Business Performance. This is also in line with what was conveyed by (Muliani et al., 2022), (Murtanto & Utama, 2019) and (Nikmatullah & Widarsono, 2014).

Overall, the findings of this research show that the Cost Reduction strategy which includes savings on Production Costs, Labor Costs and Overhead Costs has a significant positive effect on Business Performance in coffee SMEs in Pasuruan Regency. Therefore, coffee SMEs in Pasuruan Regency need to implement Cost Reduction strategies effectively in order to improve their Business Performance.

IV. CONCLUSION

Referring to the research findings and discussion previously described, it can be concluded that Cost Reduction has a significant positive effect on Business Performance in coffee SMEs in

Pasuruan Regency. This means that if Cost Reduction is implemented effectively, Business Performance will also increase.

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