

Owner's Commitment to the Planning and Controlling Processes to Improve Performance in Small and Medium Manufacturing Companies

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Abstract: Owners of small companies usually have the role as the top management that has to commit to the provision of time, cost, and resources. For the top management, the most important aspect to run the business is to develop and to create a value for the company so that the value can increase the performance. Based on the previous researches, good commitment and leadership style from the top management have effects on planning and controlling processes in improving organization performance.

Meanwhile, the survey results from interviewing and collecting questionnaires from 110 practitioners of small manufacturing companies and examining the hypothesis create a fit model which has been thoroughly tested using Partial Least Square (PLS). After the PLS test, the results show that: first, there is a positive effect but not significant commitment from the company owners to the effectiveness of the company planning processes; second, there is a positive effect and significant commitment from the company owners to the effectiveness of the controlling processes; third, planning process conducted by departments inside the company has positive effect and significance to the controlling processes in small companies; fourth, the planning process conducted by companies has positive effect and significance to increase company performance; fifth, the controlling process conducted by companies has positive effect and significance to increase company performance. Further exploration, owners of small companies in East Java have the tendency not to focus on planning process but to stress more on controlling process.

Keywords: Commitment, owners, effectiveness, planning, controlling, performance.

Introduction

Business process is a process that needs resources in terms of energy, time, activities, and so on. The aim of Business Process is to reach the already-planned company performances, therefore the goal of implementing Business Process in the company is clear and understandable procedures, inter-departments controlling systems, all working activity targets, and clear job descriptions. Quoting Syaiful [2005] in Paulus, *et al.*, [2005 p.208], Business Processes are activities that correspond business events or jobs that are done by a system to transform some inputs into some value-added outputs to customers. This is in accordance to Hammer, *et al.*, [2] and Whitten [13], in which they define Business Process (reengineering) as fundamental rethinking processes and radical redesigning business processes. Indrajit [2005] in Paulus, *et al.*, [2005 p.248] defines Business Process as a series of activities creating products or services offered to companies.

Porter [8] states that there are two classifications of Business Processes inside a company: (1) Core

Business Processes, that are series of Business Processes directly related to creating products or services offered to customers. (2) Supporting Business Processes that are numbers of activities in which the company aims to help the implementation of core Business Processes. So, Business Processes are activities to reach a good commercial result. Each Business Process has an input, method, and output. The input is a requirement that enable the method to work. When the method is implemented to the input, it will result the output.

Business Process is the main instrument how the organization reaches its goals. It represents a series of activities and when the activities are connected, they will create values for both internal and external customers. Now, the focus of Business Processes has led to changes in organizational techniques such as continuous improvement and business process re-engineering.

For any organization, designing Business Processes has a major influence on the ability to compete in the

operating environment and satisfy its customers. Business Process may be part of a larger business process or Business Process can include other methods. In this context, Business Processes can be seen in varying levels. There are three levels of Business Processes (Harrington *et al.*, [3]):

1. *Management processes*, processes to operate the company according to the requirements. These management processes cover Corporate Governance and Strategic management.
2. *Operational processes*, processes to distribute customer values. These processes are a part of the core business. A good example is good distributions.
3. *Supporting processes*, process to support other processes. Examples for these processes are accounting, recruitment, and IT supports.

Business Process consists of sub-processes, decisions, and activities. Sub-process is a part of higher-level processes that have objectives, owner, input, and output. Activities are a part of the Business Process that does not include decision-making. Business processes in small and medium manufacturing companies are determined directly by the owners of the companies. Coordination of departmental functions is also determined directly by the owners. This is in contrast with business development proposed by Tiejun and Jin [12] that the renewal of the products through adaptation and creation, services and production processes and deliver to the customer in a small company in China is determined by the company management, in which the owner of the company is not in the management structure anymore. Management is responsible for the implementation of scanning, running strategic objectives, determining strategies to cope with the customers, determining the relationship with suppliers, determining the use of technology for the company, and building networks with external parties for product and market development. However many companies in East Java are largely determined by the owner of the company till the company's operation stages.

This research has three purposes to investigate the operational processes in small and middle companies; they are:

1. Are the owners of the companies doing the good planning processes to improve the performances in small and medium size enterprises?
2. Are the owners of the company conducting a rigorous controlling process to improve the performance of small and medium enterprises?
3. Are the planning and controlling processes simultaneously affecting the performance of small and medium enterprises?

Owner's Commitment

Top management in small and medium size enterprises is usually under the direct control of the owners, and the owners will allocate the company's resources to support the already-planned projects. The success factors in implementing the projects rely on strong leadership, commitment and participation from top management, in this case is the owners. The key indicators that measure the commitment of the top management or the owners include:

Reliable communication (Rodriguez, *et al.* [9])

Implementing process is the responsibility of all components in the company, yet during the real process, the execution of the plan will be given to a certain department in that company. The management has to be able to communicate clearly the importance of each process to the company. The support from the management in the form of communication to the assigned department will align the planning and controlling processes to the management expectation. Therefore, this reliable communication is considered as one of the indicators because the planning and controlling processes take long time to execute. Besides, management competencies are needed to sort which internal and external information is being communicated to each department.

Coordination (Rodriguez, *et al.* [9])

Coordination is an effort which is conducted by the top management to execute the planning and controlling process between departments in a company. Developing coordination can be done by coordinating internal and external factors, integrating data and information into company's information system, and developing long term cooperation.

Creative thinking (Rodriguez, *et al.* [9])

The success of a company is strongly supported by its top management, in which creative thinking in developing effectiveness and efficiency should be enforced through the best implementation processes. The thinking process done by the top management always implements the best management practices.

Effective leadership (Holland and Kumar, [1995], Zairi and Sinclair, [1995]).

Effective leadership will result good implementations in completing projects. The key success is to run the process promptly with suitable time schedules, money allocation, and adequate human resources. Effective leadership is measured by the promptness of planning, implementing, and controlling in each process.

Planning and Controlling Processes

Planning is the process of developing and maintaining collaboration between the company's goals and capabilities with the existing and changing opportunities. This plan relies on the development of a clear institutional mission, goals and objectives, correct strategy, and proper implementation. Planning is done by taking into account the external and internal conditions. External conditions are related to the company's internal environment, the products' market environment, the competitive environment, the public and the macro environment associated with the threats and opportunities. The internal planning is related to personnel, funds provided by the company, infrastructure facilities and the well-being of the company's system.

The managerial long term business forecasting plan include, among other things, the evaluation of politics, economics and technology, the competitive factors that create market demands. Meanwhile, product and sales planning includes planning to offer products that fulfill the market demand. Production planning uses the forecasting of product and sales planning for the aggregated production planning (overall); anticipating the production capacity limitation and planning the equal amount of production each period to anticipate the varied level of demand. Resource requirement planning relates the type of product, sales, and output levels to the availability of facilities, equipments, and human resources. Finally, financial planning ensures the financial viability in the implementation of long term planning (Jacobs *et al.*, [6]).

Medium-term planning of the company is associated with the preparation of aggregated production levels and inventory levels with respect to facility limitations. Also, this plan deals with adding capacity that is limited to the addition of labor or shift, overtime, subcontracting, or additional machines that are available within the period of about 1-2 months. Other things within this medium-term planning are taking into account the time to meet the needs of raw materials or finished goods from the intermediaries warehouse, the number of request in a certain time period, the types and the amounts of products that are produced at any given time, and the commitment to meet market demand based on the total usage of the existing production capacity.

Short-term planning is associated with planning and controlling the priority of due date and production capacity day by day; the configuration of the final products to be assembled along with the schedule; the control of input/output material based on the sequence of orders, production performance reports,

appropriate corrective action and plan, and priorities on raw materials to be purchased.

The key indicators of controlling process that are related to the measurement of the company are productivity, quality, capacity, delivery time, and cost of production. The key indicators used for measuring production planning includes clear road maps on the tasks and assignments given to every department, clear timetables concerning the market demand for products, targets for each employees in completing the work, and provision of adequate infrastructure and facilities to employees in completing the work.

Research Framework

Company owners in the top management tend to be authoritarian and usually exercise power to the employees (Hofstede, G, [4]). Top management has a function in planning for the company's long term and medium term, but in the short term, top management tends to submit to the department head or manager (Kallunki *et al.*, [5]). To monitor the effectiveness of planning implementation, middle management level needs to check the daily progress (Monostori *et al.*, [7]). Planning and controlling in the production process are required by the company to improve the competitiveness of enterprises through the company's performance. Based on the explanation above, the conceptual framework can be described as follows:

Based on the conceptual framework above, it can be obtained some relationships or influences between one research variable with others:

- H1: Increase "commitment of the owner of the company" will be able to improve the planning process in the company.
- H2: Increase "commitment of the owner of the company" will be able to improve controlling process and impact for the company.
- H3: Planning process conducted business owners gives a direct impact to the controlling process for the company.
- H4: Planning process conducted business owners gives a direct impact on the company performance.
- H5: Controlling process by company owner makes a direct impact on the company performance.

Research Methodology

This research describes the reciprocal relationship between the variables through hypothesis testing (Singarimbun, [10]).

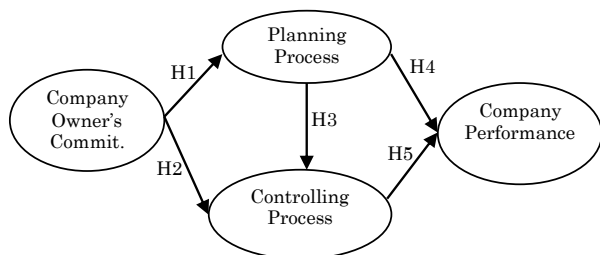


Figure 1. Research framework

This research was conducted at the small and medium size manufacturing companies. The top management (CEO) the company is the owner of the factory. Data collection was distributed to some factory owners using the convenience sampling technique (Cooper, [1]), in which the sampling is done by distributing questionnaires to the companies that are easily found and willing to fill in the questionnaire.

Data for this research are collected through the questionnaire; that is a data collection technique using questions to ask the owners of the company in order to obtain information or on personal knowledge or belief based on self-report done by the subject or informant. This questionnaire is intended to obtain descriptive data in order to test the hypothesis and research models. To obtain the data, the questionnaire is using closed questions in which the respondents are given the answers already. The respondents choose one answer only. This technique limits the respondents to give some alternative answers. After collecting the data, they are tested the validity and reliability, so that they are reliable and representative for this research. A total of 167 questionnaires are distributed and the obtained data that can be processed further as many as 110, at a rate of 65.86%. This indicates that the data are good and are able for further processed. To test the hypotheses and produce a decent model (fit), the analysis used in this research is using the Partial Least Square (PLS) with the assistance of PLS java web start application for the calculating process. The reasons for using this model are that there is a tiered structure of relationship among variables and there is an unobservable relationship among variables.

Results

PLS does not assume any particular distribution for estimating the parameter so that parametric technique to test the significance of the parameters is not required. Measurement model or outer model with reflexive indicators is evaluated by convergent and discriminate validity for the indicators and composite reliability for the indicator blocks. Meanwhile, the outer model with formative indicators are evaluated based on its substantive

Table 1. Result for outer loading

Indicator	original sample estimate	mean of sub samples	Standard deviation	T-Statistic
Owner				
X11	0.796	0.782	0.497	2.999
X12	0.645	0.623	0.440	2.466
X13	0.554	0.603	0.468	1.984
X14	0.615	0.736	0.433	2.127
Plan Pros				
X21	0.689	0.701	0.135	5.103
X22	0.633	0.623	0.139	4.559
X23	0.543	0.471	0.208	2.605
X24	0.709	0.673	0.126	5.642
X25	0.599	0.584	0.169	3.550
Con. Pros				
X31	0.735	0.736	0.077	9.502
X32	0.532	0.561	0.120	4.444
X33	0.646	0.649	0.100	6.477
X34	0.781	0.776	0.067	11.695
X35	0.705	0.703	0.089	7.904
Kinerja				
X41	0.776	0.772	0.079	9.834
X42	0.799	0.796	0.052	15.401
X43	0.554	0.437	0.164	2.760
X44	0.801	0.787	0.056	14.304
X45	0.765	0.761	0.063	12.167
Comm.				
X31	0.777	0.785	0.080	9.673
X32	0.788	0.798	0.068	11.577
X33	0.627	0.588	0.136	4.619
X34	0.696	0.696	0.110	6.355

Table 2. Result for inner weight

Relation	original sample estimate	mean of sub samples	std	T-Statistic
Owner> Plan Pros	-0.162	-0.04	0.307	0.821
Owner> Con. Pros	0.538	0.609	0.09	6.419
Plan Pros -> Con. Pros	0.281	0.276	0.103	2.492
Plan Pros ->Kinerja	0.499	0.497	0.102	4.869
Con. Pros ->Kinerja	0.615	0.628	0.125	4.392

content, that is by comparing the relative weight and observing the significance of the size of the weight (Solimun, [11]).

As for the correlation between the scores of reflexive indicator and the score of latent variables, individual indicator is considered reliable if it has a value of correlation or loading above 0.5 (Table 1).

Data processing results from the result for the inner weight is obtained as follows:

Based on the analysis of data in Table 2 above, it shows that the owner's commitment to small and medium enterprises towards the planning process is not significant with t-statistic value of 0.821, below 1.96 (5% significance). This result is caused by the company owners. In the beginning of the month, based of the consumer demands for certain products, the owners set the plan to give a clear work plan for each department and to provide a clear timetable to every relevant department. The company provides a

Table 3. Hypothesis summary

Start variable	End variable	Result
Owner commitment	Planning process	-
	Controlling process	++
Planning process	Controlling process	++
	Organization performance	++
Controlling process	Organization performance	++

Note : - (not significant), ++ Significant at 0,01

tentative schedule for the employees to finish the task. Along with that time frame, the company provides adequate infrastructures and facilities to employees in completing the work. However, during the progress, the owner often makes changes to the already stated plan, so it gives a direct impact to the work processes. This rescheduling can happen in average 4.3 times in a month.

Based on the analysis of data in Table 2 above, it shows that the owner's commitment to small and medium-sized enterprises to controlling process is significant. It is seen from the value of t-statistic is 6.419, above 1.96. The companies do controlling based on productivity, quality control, production capacity, the delivery accuracy, and production costs. Owners even ask daily reports in order to control processes at the company.

Based on the analysis of data in Table 2 above, it shows that the planning process in small and medium-sized companies has a significant impact on the controlling process with the t-statistic value 2.492, above 1.96. This tells that the indicators used in the planning of the company increase the controlling processes in small and medium-sized enterprises in East Java.

Based on the analysis of data in Table 2 above, it shows that the planning process in small and medium-sized enterprises has a significant impact on organizational performance with the value of t-statistic 4.869, above 1.96. This proves that the planning process of the company gives good impacts for improving company's organizational performance. The result in Table 2 can be summarized into table 3:

Conclusion

Based on the results of five hypotheses, it can be concluded that:

1. The increased owner commitment, in fact, is not able to improve the planning process for the company.
2. The increased owner commitment is able to improve the controlling processes for the company.
3. The increased planning process has an impact on the control of continuous improvement process for the company.

4. The improvement planning process that has an impact on the improving performance provides increased competitiveness for the company.
5. The improvement controlling process that has an impact on the improving performance provides increased competitiveness for the company.

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