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## Financial Information Quality to Bank Accessibility and Performance of SMEs in Asean Economic Community

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### ABSTRACT

SMEs comprise of majority of registered small medium enterprises in the developing countries. They play an important economic role by generating income and employment by contributing significantly to export earnings. Unfortunately SMEs are not bankable, banks tend to prioritize lending to large companies because of higher risks and high transaction and monitoring cost of SME lending activities. This research observed access to finance support to tourism travel industry in Indonesia. Research location was in Borobudur Temple which located in Magelang City. The temple has attracted many visitors both domestic and international visitors. The temple has become one of the world's seven wonders and visitor attractions that bring the values of religious harmony and natural human beauty surrounded by towering mountains visited by local and foreign visitors. It was concluded that Financial Information Quality to Bank Accessibility and Performance of SMEs in Asean Economic Community.

**Keywords:** Finance support, tourism travel industry and SME.

### 1. BACKGROUND

Tourism industry is one of sector that has sustainability and most dynamic in business. This sector becomes one of the backbones of the country in creation income resource and employment of country Yiu et. al., (2013); LAK Tourism Department 2013:i). Data from Tourism Department showed the impact of tourism to national GDP in 2013 amounted to 347.35 trillion or 3.88% from national GDP. This sector also create high devisa. In 2013, tourism sector gives devisa amounted to US \$ 10.05 billion, increase from 9.12 billion in 2012 (LAK Kemeparekraf, 2013: 11). The growth indicates that beside the number of tourists increase, it also means that businesses around the sector is also experiencing growth. When tourists visit the site to see the landscape, heritage, as well as arts and culture, the tourists will not be separated from the tour and

accommodation services, culinary and shopping on local products. Availability of tour or accommodation services, culinary, and local products are often provided by local residents who are members of, Small and Medium Enterprises (SMEs). The quality of the tourist experience is very influenced by the quality of such business. Thus, it is undeniable that SMEs play an important role in the determination of a tourist destination competition (Thomas, 2007). (Faeni, 2015) and (Faeni, 2016) (Boediman, 2017).

SMEs plays a very important sector for the economy of a country. Study of Beck et. al., in Ardic et. al., (2012) proved that there is a strong relationship between SMEs and economic growth. In Indonesia, in 2011, Depkop's data stated that SMEs were the most business with 99.99% of the total national business with a number of business units as much as 55.21 million units (Depkop, 2012 : 7). While at the ASEAN level, Small and Enterprises (SMEs) are an important engine of growth and competitive in all member states. This is because 92-99 % of commercial enterprises in the form of SMEs , in addition to the 77-97 % of SMEs employ domestic workers in Indonesia, Thailand, and Vietnam, and 58-62% in other ASEAN countries (US - ASEAN & ASWG , 2014: 12), as shown in the following graphic:

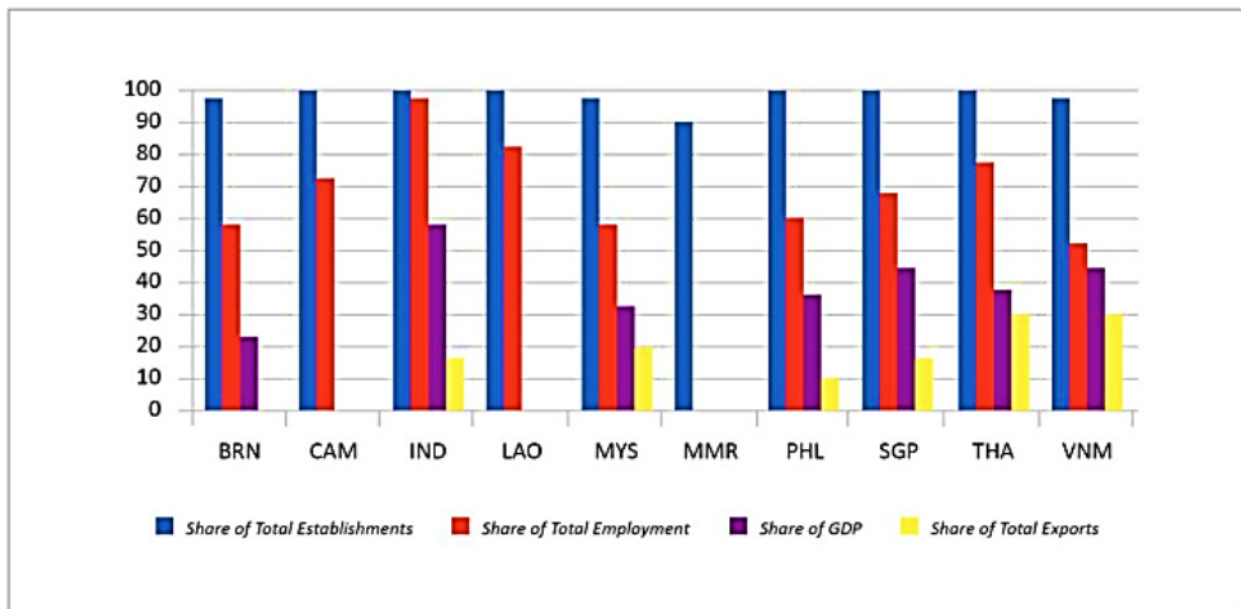


Figure 1.1: Relative Economic Importance of SMEs in ASEAN (in various years and percentages)  
 Source: (US-ASEAN & ASWG, 2014:12)

Although SMEs are considered competitive in the business in Indonesia and other countries, but SMEs face greater challenges in 2015. This is because by 31 December 2015 Indonesia entered ASEAN Economic Community (AEC). It is an opportunity and challenge to the products produced by SMEs in Indonesia (Susilo, 2010). The challenges are increasingly keen included in obtaining resources. Based on the report of Global Competitiveness Index 2014-2015, Indonesia conditions to implement competitive investment is insufficient, as shown in the table below (Mulya, 2017).

In ASEAN, Indonesia is ranked 4 or 34 global ranking. Thus, to bring investment, Indonesia must compete with three other countries that are in the top ranking (Rahardian, 2014). The Global Competitiveness Report 2014-2015 states factors that cause barriers to starting a business in Indonesia as shown in the following figure:

**Table 1**  
**The Global Competitiveness Index 2014-2015**

No.	Country	Rank	Score
1.	Singapore	2	5.6
2.	Malaysia	20	5.2
3.	Thailand	31	4.7
4.	Indonesia	34	4.6
5.	Laos	93	3.9
6.	Philippines	52	4.4
7.	Vietnam	68	4.2

Source: [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf)

**The most problematic factors for doing business**

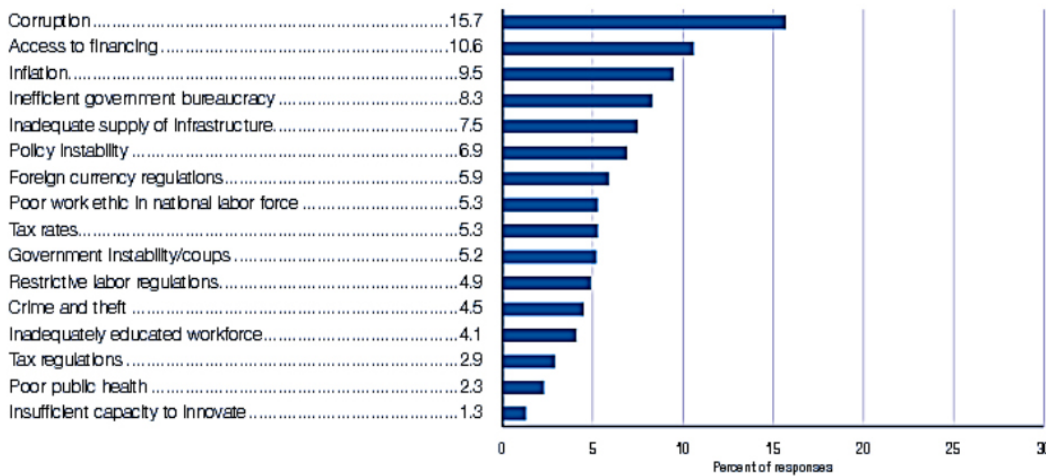


Figure 2: Source: [http://www.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2014-15](http://www.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15)

From the picture above, access to finance presence at number two for doing business in Indonesia. Study of Purba and Simanjuntak (2010) identified that only 3.3% of SMEs were able to obtain commercial bank loans, while the remaining 95.4% came from its own capital. 77.8% of the 90 respondents need a loan. But it was only 45.5% had ever submitted to the bank, while the rest did not. Many SMEs have succeeded in obtaining a loan from a bank, but not more than once. (Faeni, 2015) (Faeni, 2016).

In the face of the ASEAN Economic Community (AEC) in the end of year 2015, SMEs must prepare because tourism sector will have high competitiveness. To compete in this market, SMEs as supporter of tourism sector must increase quality and quantity of production. The financial needs for the development of SMEs can not be supported only from own capital but also financing from banks. According to Deputy Head of Resource Assessment of SMEs, special challenges in access to finance such as banks are still hesitant to lend to SMEs, especially for entrepreneurs and innovative SMEs. SMEs is considered by bank not ready yet to received investment (Sarapaivanich, 2006). This is because the debtor SMEs can not meet the requirements demanded of the banks and the lack of formal documents to comply with (Purba and Simanjuntak, 2010). The occurrence of problems due to the lack of accuracy of the information or the record of financial statements less proper. Though Bank base on the information before making a decision to fund or not to invest in SMEs (Shahabi, Hosseinpour, and Shoela, 2014). Accounting information

inaccuracies caused SMEs are less able to access external financing, making financial decisions that are less accurate, and can even lead to business failure (Matovu, 2005; Shahabi, Hosseinpour, and Shoeila, 2014) so it is very impact on the performance of SMEs directly (Sarapaivanich and Kotey, 2006) like their sales, profitability, decision for addition of human resource, branch, production capacity and etc.

The study wich research about the effect of financial information quality to bank financial accessibility and performance has extended done (Sarapaivanich 2006), (Ediraras, 2010), (Matovu, 2011). This study sought to describe the SMEs access to bank financing (where the source of capital, whether they have been submitted to the bank, how many times never did submission to the bank, and the bank financing filing barriers), examines the quality of financial information SMEs whether the information they provide in an effort acquisition financing is sufficient and can affect the SMEs to take decisions on their performance (Laksmiwati and Rolando, 2017).

### **Statement of the Problem**

- What is the quality of financial information of SMEs affects access bank financing?
- What is the quality of financial information affects the performance of SMEs?

### **Objective of the Study**

Based on the description in background study, the study aims to:

- (A) Describe the SMEs access to finance either own or bank financing;
- (B) Prove that the quality of financial information affects SMEs access bank financing;
- (C) Prove that the quality of financial information SMEs affects performance

## **2. LITERATURE REVIEW**

### **2.1. The Challenges for SMEs Facing ASEAN Economic Community**

ASEAN Economic Community (AEC) is one of three pillars of the ASEAN Community. In AEC blueprint, is explained that there are four pillars that aim to transform ASEAN into a single market production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy. Impending AEC establishment will bring about many opportunities and challenges for SMEs (The ASEAN Secretariat Jakarta, November 2013). Tambunan (2008 and 2010) explained that theoretically trade liberalization (in this context is AEC) could impact positively or negatively local firms by four major ways (Mudjijah, 2017).

1. Increasing competition in domestic market. Lower or zero import tariffs, quotas and other non-tariff barriers increase foreign competition in domestic market. This is expected to force inefficient or unproductive local firms to eliminate waste, exploite external economies of scale, and adopt more innovative technologies in order to raise their productivity; if they cannot, the pressure is expected to force them to shut down. So, greater economy openness to international trade leads to larger enterprises, because local firms adopt efficient technologies and exploit economies of scale;

2. Lowering production costs through cheaper imported inputs. Because of non tariff barrier, it could make local firms feel benefit from lower input costs, which allow them to compete more effectively in domestic markets;
3. Increasing export opportunities. Opening up to international competition will not only induce increased efficiency in domestic firms but will also stimulate their exports;
4. Reducing availability of local inputs. Eliminating export restrictions on unprocessed raw materials will increase export of the items at the cost of local industries. This is the negative impact because it could make domestic firms has shortage of raw material.

From explanation above, it can conclude that the increases foreign competition will threat some inefficient or uncompetitive SMEs, while benefiting efficient or competitive SMEs (Tambunan, 2008). It is caused the efficient SMEs can use the opportunities of wider market with use lower cost policy.

AEC that will start at the year end of 2015, make more tourist will come to Indonesia. Appropriate with vision of ASEAN tourism strategic plan, ASEAN will provide an increasing number of visitors to the region with authentic and diverse products, enhanced connectivity, a safe and secure environment, increased quality of services, while at the same time ensuring an increased quality of life and opportunities for residents. So, the SMEs has special challenges such as in financial access, market access, and technology and innovation as explained by Deputy Head of Resource Assessment of SMEs as follow:

1. *Financial access:* (A) Banks are still hesitant to lend to SMEs, especially for entrepreneurs and innovative SMEs; (B) The obligation to use collateral in loans; (C) High interest rates for micro enterprises; (D) Credit guarantee institutions do not exist or limited; (E) Most of SMEs depend on the informal financial institutions/illegal non bank institutions.
2. *Market access:* (A) SMEs are not really aware about the impact and benefit of Free Trade ASEA; (B) No promoting supports activities provided by the government/limited; (C) The use of E-channel and E-commerce not extensive; (D) High cost for international certifications.
3. *Technology and innovation:* (A) SMEs investment for R&D still low impact low productivity and efficiency remain low. (B) The plan for doing R&D very minimum because the uncertainty of demand, market and cash flow and (C) The promotion for innovative SMEs not rapidly developed yet.

The root of those challenges are availability of capital and human resource. Those are remains a significant concern for many small business. The quality of human resource have to be improved so can get information and use technology to market the product, make innovation of product, prepare financial report properly and etc. The opportunities about wider market can raised if they have enough capital. So, the good preparation of financial report is very important because it can use to propose loan to bank. But, the fact shows that management of SMEs not really understand how to make and use financial report. So, they need to train about prepare good financial report (Narsa, Widodo and Kurnianto, 2012).

## **2.2. Qualitative Characteristics Information of Financial Statements**

Accounting is an information system that generates reports for the parties interested in the economic activity and the condition of the company (Warren, Reeves, Fess, 2005). According to Kieso, Weygandt, and Warfield (2011: 5), the importance of accounting is to identify, measure, and communicate financial

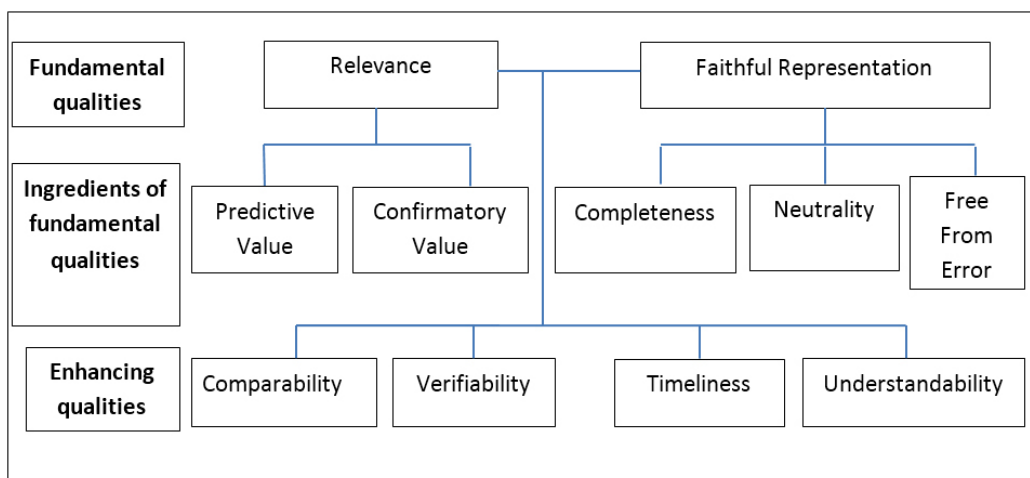


information about economic entities to interested parties. Accounting information is usually displayed in the form of financial statements comprise of the balance sheet, income statement, cash flow statement and statement of changes in equity (Kieso, Weygandt, and Warfield (2011: 5)). Accounting information is used to assess the profitability of the various activities of the entity, measuring performance, and evaluate the position of the entity in terms of profitability, liquidity, activity and leverage. Such information can be used by the SMEs, especially in terms of financial decision making (Sarapaivanich 2003 in Matovu 2011).

Each financial statements prepared should reflect the qualitative characteristics of financial information. IASB identified the qualitative characteristics of accounting information that distinguish better information from inferior information for decision-making purposes (Kieso, Weygandt, Warfield, 2011:43). Qualitative characteristics are divided into fundamental qualitative characteristics and enhancing qualitative characteristics (Mackenzie, et. al., 2013: 29). The fundamental characteristics consist of (relevant) and presenting honestly (faithfulness representation), while enhancing characteristics consist of comparability, verifiability, timeliness, and understandability. Here are explanations of qualitative characteristics according to Mackenzie, et. al., (2013: 29)

- (a) Relevant: is capable of making difference in decision making. Financial information is called to make a difference when it has predictive value, and the value of the confirmatory or both. Predictive value associated with the ability to predict the outcome in the future, while the confirmatory value associated with having feedback regarding the evaluation. Relevant is also associated with the materiality because the disclosure that removes material values can influence decision-making.
- (b) Faithful representation: it consists of three things: complete, neutral and free from error. Complete means that all of the information necessary to understand the phenomena in the financial statements are fully presented. Neutral means that the presentation is free from bias. And error-free means no error in the reporting process and the results. Free from error will be a more accurate representation of a financial item. Faithful representation sometimes also called reliable.
- (c) Comparability: the use of accounting policies and procedures are the same in the period of the next period so that the inter-period comparability.
- (d) Verifiability: other independent observation could reach the same measure or conclusions.
- (e) Timeliness: the information provided in a timely may affect decision-making, so that the old information presented will be less useful.
- (f) Understandability: means when classifying, characterizing and presenting information, can be clearly understood by the user.

According to Accounting Financial Standards for Entity Without Public Accountability (SAK ETAP), SMEs can implement the standards to make financial statements. Financial statements of entity consist of balance sheet, net income statement, statement of equity changes, cash flow, and notes of financial statement (SAK ETAP par. 3.12). But, if the entity only have equity changes which come from profit or loss, dividen, error correction, or changes of accounting policy, financial statement can present income statement and retained earnings for replace income statements and statement of equity changes. It means, presentation of 4 statements can conclude as minimal statements that must be.



**Figure 2.1: Hierarchy of Qualitative Characteristics**  
*Source: Kieso, Weygandt, Warfield (2011:44)*

## 2.2. Definition of Small Medium Enterprises

One of the main challenges in performing a cross-country analysis of SME data is the absence of a universal definition of what constitutes an SME (Ardic et. al., 2012). In many foreign countries with a market economy the main criterion for selection of a small business is the number of employees. In European countries have the following classification: micro-the number of employees is not more than 9 persons, small businesses-the number of employees from 10 to 49 people and medium-50 to 249 people (Doroshenko, et. al., 2015). In Vietnam, SMEs criteria also use the number of employees but for some sector are different amount (ADB, 2014). In sector agriculture, forestry, and fishery and also sector industry and construction define micro-the number of employees 1-10, small 11-200, and medium 201-300. While commerce and services define micro - the number of employees 1-10, small 11-50 and medium 51-100 billions rupiah (Faeni & Faeni, 2016).

In Indonesia, definition of SMEs is explained in laws of No. 28 of 2008 use assets and omzet as measure of size, as follow:

- (a) Micro Enterprise is productive enterprise owned by individual and/or individual business entity which has asset maximal until Rp 50 million and omzet maximal until Rp 300 million.
- (b) Small Enterprise is productive economic enterprise that stand alone, conducted by an individual or business entity that is not a subsidiary or branch company nor owned, controlled, or be a part either directly or indirectly, of a medium or large business that has asset more than Rp 50 million until Rp 500 million, and omzet more than Rp 300 million until Rp 2,5 billion.
- (c) Medium Enterprise is productive economic activities that stand alone, which conducted by an individual or business entity that is not a subsidiary or branch company nor owned, controlled, or be a part either directly or indirectly, of a medium or large business that has asset more than Rp 500 million until Rp 10 billion, and omzet more than Rp 2,5 billion until Rp 50 billion.

### 2.3. Financial Information Quality and Bank Financial Accessibility

Bank Indonesia survey's 2005 on SMEs stated that access to finance becomes increasingly problematic as the scale of business decreases (Mourougane, 2012). Large amount of capital is provided by self-financing or informal sources such as loans from individual and family (Mourougane, 2012). This is also supported with result study of Purba and Simanjuntak in Kabupaten Simalungun North Sumatra as follow:

**Table 3.1**  
**Source of SMEs Capital**

<i>Business Goup</i>	<i>Self-Capital (%)</i>	<i>Bank Loan(%)</i>	<i>Others (%)</i>
Micro	30 (33,3)	–	–
Small	44 (48,8)	–	1 (1,1)
Medium	12 (13,3)	3 (3,3)	–
Total	86 (95,4)	3 (3,3)	1 (1,1)

*Source:* Purba and Simanjuntak (2010)

77.8 % of respondent stated that they need loan, but there was only 45.5% had ever submitted to bank, while the rest did not. Many SMEs have succeeded in obtaining a loan from a bank, but not more than once. From 45.5%, only 26.8% were able to obtain bank loan twice, 14.6% three times, and the rest amount 58.5% get bank loan only once.

From the above conditions, it can conclude that the probability SMEs reluctant to propose bank loan is caused of some factors. They do not know when and where to access capital, how much is required and how best to present a case to funding organization for capital (Sarapaivanich, 2006). Whereas, SMEs has to be able to communicate to bank about their needs (NSW Business Chamber, pg 41). Communication is represented in financial infomation. Bank very detail examine and aks the financial information because there are asymmetric information between SMEs as borrower and bank as lender (Indrabudiman & Handayani, 2017).

Asymmetric information exist in situations in which bank officers will not have perfect information on funding proposals (Deakins, Whittam, and Wyper 2010). If borrowers are unable to communicate their intentions and the needs of their projects, bank are less likely to lend due to uncertainty in how the funds will be used (NSW Busnisess Chamber, pg 41). Lean and Tucker (2000) in Deakins, Whittam, and Wyper, 2010) found that financial provider had a lack of knowledge about the nature of client's business, and on the other many lender had a lack of knowledge about lending criteria and procedures of the bank. Small firm manager often suffer from a lack of financial sophistication as they are product or service specialist. Thus, the information asymmetry problem is partly one relating to difficulties in the spheres of communication and credibility (Lean and Tucker 2001).

NSW Business Chamber (pg 27) states that restricting access to credit is a rational way for bank to deal with imperfection information about borrowers and avoid investments with a low chance of success. Borrower providing collateral or paying higher interest rates compensates lenders for the risks associated with imperfect information. Nonetheless, there still may be potentially profitable investments that do not



proceed because borrowers lack collateral. Collateral can help bridge information, but 37% of rejections are due to lack of collateral (NSW Business Chamber (pg 6).

Financial information gives SMEs capital access by providing information to owner/managers for identifying their financial blind spots and in determining how much financial resource is needed, when it is needed and the most suitable resources from which to access finance (Sarapaivanich, 2006). So, when the information prepared properly, which contain characteristic qualitative information it can facilitate clear needed information to bank and make bank decide loan easily. SMEs with quality information will exhibit greater confidence in their ability to access bank loan. The study of Jaffar et. al., (2012) stated that financial reports of SMEs were important in lending decision of banks, in which banks were the main source of an external finance to them. Study of Sarapaivanich (2006) also stated that production of accurate and complete financial information enhances their confidence in approaching capital providers.

**H1:** Quality of SMEs financial information relates positively bank financial accessibility.

## **2.4. Financial Information Quality and Performance**

The uses of financial information could be based on the “decision-usefulness” theory. The usefulness of financial information is estimated by how it aids the users in making rational decisions, and the users’ perspectives of the objective of the financial reporting also make it easier to choose accounting treatment (Son et. al., 2006 in Jaffar et. al., 2012). Financial information can be the most important element of success because, through the information manager can plan and manage their operation (Lalin and Sabir). Accounting is the key indicator of performance because information in financial report useful for decision making about (Ediraras, 2010):

1. Basic consideration about purchase raw materials for production and tools that will be used.
2. Decision on pricing.
3. Apply for funding to banks
4. For the development of business
5. Addition and development human source and assets.

Performance is achievement can raised by an organization in spesific accounting term which measured by standards (Sudiarta, 2014). Based on SAK ETAP par 2.20 performance can be measured from financial side. That is the relationship between income and expense of entity which represented in net income statement. The study of Jaffar et. al., (2012) found SME’s means of usefulness for net income are ranked one, indicating that net income is the most useful information to them.

## **3. RESEARCH METHODOLOGY**

### **3.1. Population and Sample of Research**

Population of this study is SMEs in Magelang City, Jawa Tengah. The reason chosen of Magelang City is because there is Borobudur as one of the most attractive tourism object in Jawa Tengah. Borobudur is the biggest temple which contained much spiritualism for Budhist. For other religion, Borobudur considered as one of seven wonder in the world which contained many art, culture and uniqueness. The presence of

Borobudur make many business increased in Magelang. The business usually is grouped into SMEs. The sample of this study is chosen with purposive sampling with criterion as follow: A. Registered SMEs in the Regional Department of Tourism; B. SMEs which supported tourism sectors (travel agents, hotels, restaurants, souvenirs, tour guides, batik producers, informal workers and home industries).

### **3.2. Source of Data**

Primary data was collected using a questionnaire. The spread of questionnaire is for owner of SMES. The reason of chosen of owner SMEs is to obtain perceptions of respondent about their financial information that represented in financial report. Beside that, the user of financial report is owner to decision making. A questionnaire is used to collect primary data about quality of accounting information. The numbers of respondents are 388 representing 9399 registered tourism industries personnel.

As a basic knowledge of core competencies, people must know how to implement the dimensions of competence which observed in this study. Oliver (1997) and Barney (1991) argued that competence must be valuable, rare, difficult to imitate, and hard to replace. This study also used a causality approach which examined the relationship between the phenomenon of employee and organisation as variables to explain the learning organisation and competitive advantage in SMEs in Indonesia. In addition, this study also takes quick process works, narrow, and reductionistic (reduction means to perform surgery on something into parts that parts can be tested quantitatively especially on the characteristic of the variables).

## **4. ANALYSIS AND CONCLUSIONS**

As a basic knowledge of core competencies, people must know how to implement the dimensions of competence which observed in this study. Oliver (1997) and Barney (1991) argued that competence must be valuable, rare, difficult to imitate, and hard to replace. This study also used a causality approach which examined the relationship between the phenomenon of employee and organisation as variables to explain the learning organisation and competitive advantage in SMEs in Indonesia. In addition, this study also takes quick process works, narrow, and reductionistic (reduction means to perform surgery on something into parts that parts can be tested quantitatively especially on the characteristic of the variables).

### **4.1. Analysis**

The combination with structural model testing and measurement testing allow the researchers to test the measurement error as an integral part of SEM and analysis factor in the conjunction with hypothesis testing. In the measurement of test results, it obtained Chi-square values 0,000, with the degree of freedoms 60 and probability level 0,000 measurement that results can be seen in Table below.

Confirmatory analysis factor is a technique to measure multivariate analysis to test hypothesis by implementing several indicators. This study has resulted confirmatory analysis factor to be fitted as shown in Figure 4.1 Confirmatory analysis has rejected the model purposed and therefore has proposed the accepted model as shown in Table 4.1. The proposed model has been tested the values factors of variant and covariant using Goodness of Fit model by using SEM tested by several valued factors to fit goodness of fit model analysis. The results are as shown at Table 4.1.

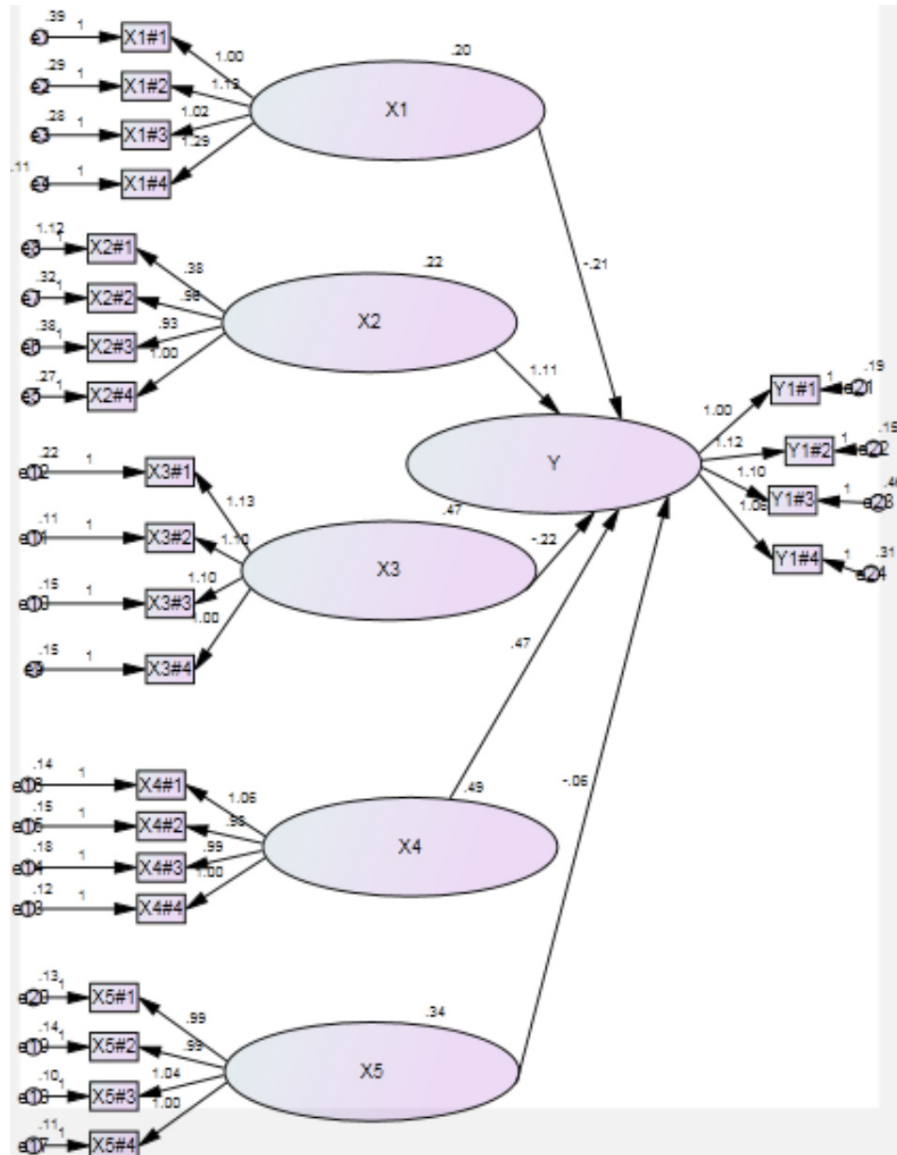


Figure 4.1: Confirmatory Goodness-of-Fitted Model  
 Source: Primary Data, 2016

Table 4.1  
 Goodness of fit model

Goodness-Of-Fit (GOF)	Analysis	Cut off Value	Evaluated Model
Chi-square	$\chi^2 = 563$ P = 0,000	Probabilitas $\geq 0,05$	Poor
TLI	0,770	TLI > 0,95	Poor
GFI	0,579	GFI > 0,90	Poor
AGFI	0,491	AGFI > 0,90	Poor
CFI	0,795	CFI > 0,95	Poor
RMSEA	0,129	RMSEA $\leq 0,08$	Poor

Source: Primary Data, 2017.

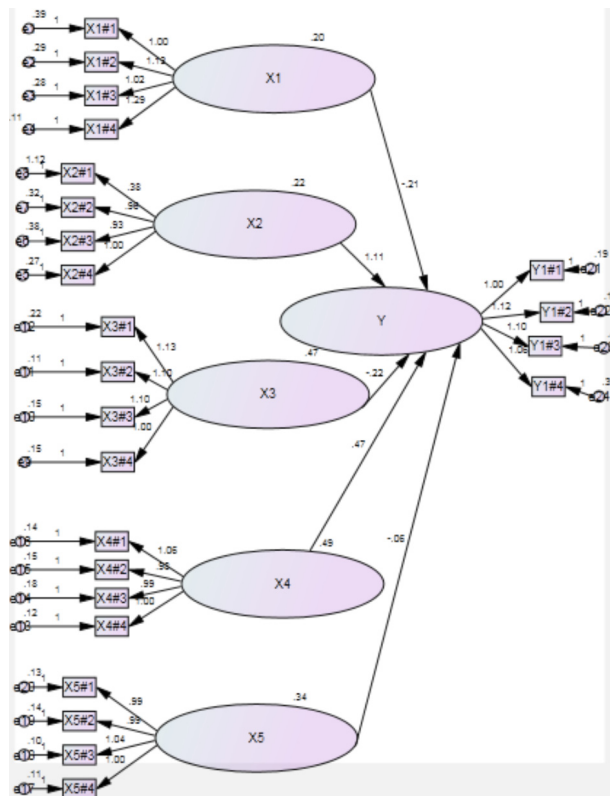
Based on the Table 4.1. Valued factors of probability Chi-square is  $0,000 < 0,05$ , values factors of Goodness of fit index (GFI)  $0,579 < 0,09$ , values factor of Adjusted Goodness of Fit Index (AGFI)  $0,491 < 0,90$ , value factors Comparative Fit Index (CFI)  $0,795 < 0,95$ , value factors of Tucker-Lewis Index (TLI) is  $0,770 < 0,95$  and values factors Root Mean Square Approximation (RMSEA) is  $0,129 > 0,08$ . The results of confirmatory of fit model analysis resulted poor evaluated model values factors which determined that the proposed model considered unfitted. Therefore, proposed a new model goodness of fit model that was accepted as shown in Table 4.2. The first proposed model rejected due to large values factors of measurement errors with indicators modification indexes.

**Table 4.2**  
**Accepted Goodness Fitted Model**

<i>Variable</i>	<i>Indicator</i>	<i>Loading Factor</i>
Personal Mastery	IQ Score	0,80
Buidling Shared Vision	Business Target	1,03
Mental Model	Decision Making Scores	1,00
Team Learning	Group Decision Numbers	1,02
System Thinking	Applied Theoroes	0,97
Competitive Advantage	Rank Survey	1,03

Source: Primary Data, 2017

Table 4.2 shown accepted goodness fitted model modified by using recommended AMOS calculation with considerations as shown in Table 4.2 with summary of tested goodness of fit analysis as shown below.



**Figure 4.2: Modified Goodness-of-fit model**

Source: Primary Data, 2017

After modified model has been accepted, all value factors from criteria of Goodness-of-fit model improved results have been developed. CFI value factors results are positive compared to the proposed model previously. Criteria of CFI improved, with valid evaluated results, TLI results also positive and RMSEA approached the value factor valid almost approaching standard goodness-of-fit index, even though value factors of chi square, GFI dan AGFI poor as shown in Table 4.3.

**4.2.1. Validity and Reliability Test**

Validity and reliability test were being used to measure which indicators explains the biggest correlation among variables in the study (Hullang, 1999). Validity and Reliability tests were being used in the study such convergent validity and critical reliability.

**Table 4.3**  
**Goodness-of-fitted Model Accepted**

<i>Goodness-Of-Fit (GOF)</i>	<i>Hasil Analisis</i>	<i>Cut Off Value</i>	<i>Evaluasi Model</i>
Chi-square	$\chi^2 = 388$ P = 0,000	Probabilitas $\geq 0,05$	Valid
TLI	0,897	TLI > 0,95	Valid
GFI	0,703	GFI > 0,90	Poor
AGFI	0,618	AGFI > 0,90	Poor
CFI	0,913	CFI > 0,90	Valid
RMSEA	0,086	RMSEA $\leq 0,089$	Valid

Source: Primary Data, 2017

**4.2.2. Convergent Validity Test**

Convergent validity will be show correlation among indicators and latent variables. Value convergent validity can be observed from loading factors of each indicators toward their construct. Indicators can be analyzed valid if loading factor of each indicators has loading factors > 0,50. Indications of loading factors will be emphasize as shown in Table 4.4. According to Table 4.8 value factors of all variables shown in CR and VE as stated CR > 0,70 and VE > 0,5. Based on these questions statement in questionnaires were related and proved to be valid and reliable.

**Table 4.4**  
**Loading Factors of must fitted the Criteria stated in Reliability Validity Test**

<i>Variable</i>	<i>CR</i>	<i>VE</i>
Personal Mastery	0,970	0,884
Buidling Shared Vision	0,928	0,867
Mental Model	0,961	0,835
Team Learning	0,978	0,902
System Thinking	0,838	0,511
Competitive Advantage	0,962	0,837

Source: Primary Data, 2016

### 4.2.3. Hypothesis Coefficient Test

Hypothesis coefficient test done to determine causal analysis correlation among variables to what degree exogenous and endogenous variables related. Exogenous variables is positively correlated to endogenous variables if  $p$  is  $= < 0,5$ . Hypothesis test against the model shows that this model fit the data used in this study. The Chi-square value is big enough, e.g., 0.05 since the value is affected by the degree of freedom. In this study, the degree of freedom is 60, if the value is smaller than the degree of freedom, the chi-square value will be reduced. Structural model above show the chi-square is 0,05 and the degree of freedom is 60 in Table 4.4, it showed that the value or CMI/DF matched with the criteria. Although the value of RMSEA, TLI, CFI, GFI, And AGFI are at less than standardized value, the value of TFI , GFI, NFI is closer to the recommended values and then the model is still viable to continue to be used. This means that the model is quite fit for use.

### 4.2.4. Normality Test Data

Evaluation is done by using the data normally critical ratio value of skewness values equals  $> 0,70$  at a significant level of 0,76 (76%). Data is said to be normal distribution if the skewness value of the critical ratio value below  $< 0,50$ . The results indicated that the proposed model are acceptable. The value of RMSEA was 0,086 which indicated a good structural equation model. Although the index measuring RMSEA, GFI and AGFI are in poor condition, CFI and TLI were accepted marginally. From the feasibility testing, the model is said feasible if at least one testing method are fulfilled.

### 4.2.5. Parameters Evaluation

**Validity discriminant test:** The size of individual reflexive if valid if it has value loading with latent variables to be measured  $> 0.05$  if one indicator has a loading value more than 0,000 than the indicators should be discarded or dropped because is shows the indicators are not good enough to measure latent variables. Here are the results of AMOS Structural diagram to measure latent variable. Here are the results of AMOS structural diagram output using IBM AMOS software 22.00 as shows in the Table 4.5. With validity test.

**Table 4.5**  
**Critical Ratio and Validity Evaluation**

<i>Indicator</i>		<i>Variable</i>	<i>Estimate</i>	<i>S.E</i>	<i>C.R</i>	<i>p</i>
Personal Mastery	<---	Competitive Advantage	-0,002	0,130	-0,019	0,985
Building Shared Vision	<---	Competitive Advantage	0,436	0,218	2,004	0,045
Mental Model	<---	Competitive Advantage	0,502	0,150	3,342	0,721
Team Learning	<---	Competitive Advantage	0,871	0,264	3,294	0,823
System Thinking	<---	Competitive Advantage	-0,203	0,135	-1,507	0,132

Source: Primary Data, 2016

The discriminant validity test used AVE is done by comparing the values of the AVE root of each construct and correlation among constructs it is recommended AVE value must be greater than 0,50 (Hair, et.al., 1998). Based on Table 4.5 it that AVE roots had larger constructs with the correlation among constructs. It can be concluded that the model has good discriminant validity.



#### **4.2.6. Reliability Test**

Generally, reliability indicate the extent to which a measuring tool that can provide relatively similar results when measuring the returns on the same subject. Reliability test in the SEM can be obtained through the following formula (Ferdinand, 2002). Standard loading obtain from standardize loading for each indicator were obtained from the computer estimation can be described as follow. Sigma Eg., is a measurement error of each indicator. Measurement error can obtained from: 1. Indicator liability. The variable is said to be reliable if it has alpha coefficient of 0,5 or higher. Table 4.5. Showed the reliability test of the observed variables. Based on Table 4.9. It showed no reliable construct with value 0,5 then all construct in the study are fitted for use.

#### **4.2.7. Hypothesis Analysis**

Goodness-of-fit area estimated structural models to be met. It became a foundation for the next step of the hypothesis as shown in Table 4.5.

Relationships between construct in the hypothesis are indicated by regression weight. The analysis result of the influence personal mastery, building shared vision, team learning, system thinking, mental model and competitive advantage are given in Table 4.5.

Based on the background and the discussion above it can be concluded that the influence of personal mastery, building shared vision, team learning, mental model and system thinking and competitive advantage resulted CR value of  $-0,019 < 2,00$   $p = 0,985 > 0,005$ , than H0 is rejected and H1 accepted meaning that there are positive influence between personal mastery and competitive advantage, for Hypothesis H1 : personal mastery has a positive influence on the competitive advantage. Each individual posses ability, skills, capability and knowledge for enhancing their own performance. Hence, learning organisation empower individuals to improve their performance from their personal mastery based on their ability to learn, their capability to adopt new knowledge or skills and overall improve organisation advantage in SMEs to be ahead compared to other insurance companies.

**H1:** Quality of SMEs financial information relates positively bank financial accessibility.

From he statistical calculation using SEM AMOS 22.00, the influence of financial information obtained CR  $2,004 > 2,00$  where  $p < 0,045 < 0,005$  it has a meaning that it has a positive influence to bank financial accessibility. H0 is definitely declined whereas hypothesis H2 of mental model is accepted. It means mental model has positive influence to competitive advantage.

**H2:** There is influence of mental models on the competitive advantage in Sun Life Indonesia.

Based on Table 4.5 correlation between building shared vision and competitive advantage resulted  $p = 0,0001$  with value of  $p < 0,005$  and CR value. Of  $3.342 > 2,00$  where CR value  $\geq 2,00$ . So that H0 was rejected and it means building shared vision has positive influence with competitive advantage. This correlation is 5,402 positive impact toward competitive advantage.

**H3:** There is influence of building shared vision on the competitive advantage in Sun Life Indonesia.

Based on Table 4.5 team learning has correlation toward competitive advantage value of  $p$  is  $<$  than 0,001 with result  $p < 0,005$  with CR value  $3,294 > 2,00$  (tolerated CR  $\geq 2$ ). This means H0 will be automatically

rejected which means team learning has positive correlation with competitive advantage. Estimated value team learning has 0,871 impact to competitive advantage

**H4:** There is influence of team learning on the competitive advantage in Sun Life Indonesia.

Based on Table 4.5 team learning has correlation toward competitive advantage value of  $p$  is  $<$  than 0,001 with result  $p < 0,005$  with CR value  $-1,507 > 2,00$  (tolerated  $CR \geq 2$ ). This means  $H_0$  will be automatically rejected which means team learning has positive correlation with competitive advantage. estimated value system thinking has  $-0.203$  toward competitive advantage.

**H5:** No influence system thinking against a competitive advantage in Sun Life Indones

H4 and H5 refers to learning theory that emphasizes on better learning climate for higher competitive advantage (Stone, 2012), Senge, 1998) and (Barney, 1991).

## 4.2. Conclusions

From the analysis results, that Sun Life has applied Learning Organisation in the management context which has positive impact on the quality of human resources practices. A high performance as result to learning organisation where personal mastery, building shared vision, team learning, mental model are the keys to an advanced competitiveness advantage, system thinking has low impact on the competitive advantage (Senge, 1998). This study has proved that learning organisation that has been applied in Sun Life, which ranked Sun Life higher compared to other life insurance companies. As a result Sun Life is elevated their performance throughout the years by winning market competition. In 2016 proven that Sun Life Indonesia has became the top 3 performer in the life insurance business.

With the new trend of knowledge-based economy and sector competitiveness, the Sun Life has done its transformation of their tangible and intangible assets (Kaplan, 2004). The success of Sun Life as an organisational transformation is determined by their ability to operate in the global business environment through several aspects such as human resources (HR) transformation of their skill and knowledge (Lege, 1995). This needs suitable leadership of personal mastery as a concept builds from the development of organisational capacity and transformed steps that organisation can achieve in reliable situation (Schein, 2010).

Achievement of higher employee performance is the role of human resources in the company. The employee who acts as the sales agent is a business partner to support the performance achievement. To reach the achievement goal and higher performance, the company has conducted many programmes to train them to master the intended knowledge, skills, and behavior emphasized in human resource development programme and to apply them to their workplace.

## 5. SUGGESTIONS

Sun Life Indonesia is one example of successful Learning Organization implementation. Since the implementation of Organisational Learning, there has been numerous changes of improvements in the organisation. Some of the improvements can be seen on the achievements made in 2016 by the team, such as “The Best in Marketing Campaign”, “Best Takaful Company Indonesia”, “Very Good” rating by Infobank magazine and the “Bronze Award” at The annual Global CSR Awards 2016 to name a few.

Despite all of the achievements from PT Sun Life Indonesia, we would like to present our suggestions as follows:

1. The organisation should maintain its organisational stamina in order to attain various sustainable improvements,
2. The organisation should increase their performance acceleration to achieve better results,
3. The organisation should continuously exercise Learning Organisation by utilising updated training formats,
4. The organisation should implement total continuous improvements in the area were HR Learning Organisation is implied,
5. Conduct a continuation of the study in the area of unexplored variables.

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### **Suggestions**

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