

Factors Influencing The Business Performance of SMES Convections in Kudus

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Abstract

Business performance can be viewed as a concept used to measure the success extent of business management influenced by entrepreneurship orientation, market orientation, business innovation, and competitive advantage. The objective of the research is to analyze and describe the influences among the tested variables directly and indirectly. The research methods used quantitative methods with path analysis. The subjects of the study are SMEs Convection in Kudus Regency. The results of the study (1) There is positive significant influence of entrepreneurship orientation to business performance directly and indirectly through competitive advantage (2) There is positive significant influence of market orientation to business performance directly and indirectly through competitive advantage (3) There is positive significant influence of business innovation on business performance directly and indirectly through competitive advantage (4) There is positive significant influence of competitive advantage on business performance. It is suggested for future research generalize the performance of SMEs more broadly, can be done cross-district. Also that SMEs should keep control of organizational behavior with the theory of planned behavior, more attention to innovation business aspects, utilize information technology for knowledge exchange with other SMEs. It is recommended to use the questionnaire with interviews and observation of business activities.

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INTRODUCTION

Economic development in Indonesia can not be separated from the existence of Small and Medium Business (SMEs). Economic structure of mostly region in Indonesia is supported by SMEs that professes the democracy economic system and democracy business.

SMEs has contributed to Gross Domestic Product (GDP) of 57-60% and the employment rate of about 97% of the entire national employees. The absorption of employees from SMEs sector which was built by Dinas Koperasi dan UMKM Central Java in 2016 was recorded as 791.757.

Business performance is one of achievement measurements of a business gained through the overall production and marketing activities that come from business organizations. Business performance can be viewed as a concept used in measuring up to where market achievement has been achieved by a product produced by a business organization.

There are many factors that can influence business performance. According to (Matsuno & Mentzer 2002) that entrepreneurship orientation is a factor that contributes in improving business performance. According to (Maydeu-olivares & Lado, 2003) that market orientation is capable to give influence directly through mediating business and economic performance. Innovation is also an important factor in the formation of optimal performance (Price et al., 2013). In addition to entrepreneurship orientation, market orientation and innovation, optimum business performance must also be supported by competitive advantage (Abiodun 2014).

The orientation of entrepreneurship, market orientation, business innovation and competitive advantage become very important variables to be studied with regard to the influences on business performance. This is because the entrepreneurship orientation found in the business organization can determine the direction of its competitive orientation (Weerawardena & Mavondo 2011). While market orientation is important to be studied and examined in relation to business

performance because market orientation is an important element affecting competitive advantage and achieving high profitability (Narver & Slater 1990). Innovation is one of the main concerns in this research because innovation is about how to get additional value to achieve competitive advantage and good business performance. Innovation is how we can abandon old habits to change into more favorable new habits (Heidi M. McLaughlin: 2002)

The number of conventional SMEs in Kudus Regency which are still active in bookkeeping business performance during the last three years is 274 SMEs convection managers. Some of the problems that can be identified in SMEs convection of Kudus Regency are as follows: 1) The lack of bravery of SMEs convection in Kudus for risk taking in making or designing their own thoughts for their convection product which will be spread to the market, 2) The lack of owners or managers of SMEs in this Regency actions against existing opportunities, 3) Convection industry in this regency still lack of innovative, 4) The result of convection in terms of quality, the product is still below the competitors, 5) Due to low product quality, the target market shared only in the middle to lower class in traditional market, 6) The lack of knowledge of SMEs that should have been gotten about innovation or good business management, 7) SMEs has not analyzed what kind of product becoming desire and requirement of customers, so that their product can not satisfy customers optimally, 8) SMEs has not been able to create an analysis about their competitive conditions on similar businesses, even in a simple way.

The characteristics of those SMEs are (processed from various sources): 1) Having a net worth of at most Rp 10,000,000,000, excluding land and business place building, 2) Having annual sales up to a maximum of Rp 50,000. 000.000, 3) Types of goods or commodities generally still in static, 4) The location where the business is generally settled

Performance is the result achieved from the behavior of the organization members (Gibson in Soedjono, 2005). According to Umar (2005: 155), the company's performance is in terms of how the company's management responds to external and internal conditions, with a certain measurement can be known how the level of disturbance and how much the company is able to anticipate. According to (Baird, 1986) defines performance as action (verb) not as an event (noun). Performance is an action that consists of several elements and it is not instant results.

Camison in Sanchez & Marin (2000) measures SME's performance by referring to three aspects: profitability, productivity, and market. The profitability aspect sees business performance from the point of reaching the financial target as planned by the company.

Grand theory of this research is using theory of planned behavior and resource based view. Theory of Planned Behavior is a further development of the Theory of Reasoned Action. This theory contains a conceptual framework that aims to explain the causal relationships of certain behaviors. According to (Ajzen, 1991), there is a main factor influencing the behavior intention to the particular behavior. In the individual intention, there are three components that can influence it, namely (1) attitude, (2) subjective norm and (3) perceived behavior control.

While Resource Based View (RBV) is one theory that can be used to predict and understand the influence of the resource use practice on the function of business organizations. The experts that work on the RBV theory stated that excellence is competitive and performance.

Porter (2008) defines entrepreneurship orientation as a corporate benefit strategy to be able to compete more effectively within the same market place. The entrepreneurship orientation refers to processes, practices, and decisions making that lead to new inputs and have five aspects of entrepreneurship, namely autonomy, risk-taking, proactive, aggressive and always innovative (Lumpkin and Dess, 1996). Being

brave to take risks is an entrepreneur attitude that involves their willingness to bind resources and dare to face challenges by exploiting or engaging in business strategies with uncertain results. (Keh et al., 2002).

Presented by Covin and Slevin (1991); Smart and Conant (1994); Wiklund (1999), stated that the higher entrepreneurship orientation can improve the company's ability to market its products to better business results. Therefore, companies that are innovative, proactive, and courageous to take risks tend to be able to improve better business results.

Market-oriented companies are companies that make customers a center for companies to run their business. The definition of market orientation popularized by (Kohli & Jaworski 1990) is defined as the collection of market intelligence to meet current and future customer needs, the deployment of market intelligence to the various divisions and functions in the company and how the company responds. Market orientation is the focus of companies that treat marketing as a cross-functional responsibility whereby the company strives to meet customer needs that are top priority for the entire organization. The market orientation consists of three behavioral components: customer orientation, competitor orientation and inter functional coordination and two decision criteria including profit targets and long-term focus (Narver & Slater 1990).

Crawford & De Benedetto (2000: 9) defined business innovation as an innovation used in the overall operations of companies in which a new product or service is created and marketed, including innovation in all functional processes or the use. According to Suwarno (2008: 23), the innovation indicators are: 1) New knowledge obtained by SMEs on raw materials, production process and marketing of convection production results, 2) New ways that have been done SMEs convection in obtaining raw materials, ways in production and marketing the product 3) New technology used in obtaining raw materials, production methods and marketing methods 4) Discovery of new ideas done by owners, SMEs managers or employees,

5) New products produced by SMEs, both new from the side Design, usability, benefits, quality and price.

According to (Bharadwaj et al. 1993), it is explained that competitive advantage is the result of implementing strategies that utilize various resources of the company. Unique expertise and assets are as the source of competitive advantage. Sandy D. Jap, (1999) says competitive advantage can be met if the customers obtain a consistent difference in the important attributes of the resulted product compared to competitors, where the difference is a direct impact of the deliberate ability between producers and customers. Some indicators used to measure competitive advantage are unique, rare, not easily imitable, not easily replaced, and competitively priced (Bharadwaj et al., 1993). The objective of the research is to analyze and describe the influence of entrepreneurship orientation, market orientation, business innovation directly or indirectly through competitive advantage and analyze and describe the influence of competitive advantage to business performance.

In this study the authors formulated the initial hypothesis that is based on the formulation of the problem and framework of thinking as follows:

1. There is positive and significant influence of entrepreneurship orientation on the performance of SMEs Convection in Kudus Regency.
2. There is positive and significant influence of market orientation on the performance of SMEs Convection in Kudus Regency.
3. There is positive and significant influence of business innovation on the performance of SMEs Convection in Kudus Regency.
4. There is significant influence of competitiveness on the performance of SMEs Convection in Kudus Regency.
5. There is positive and significant influence on entrepreneurship orientation on the performance of SMEs through competitive advantage in Kudus Regency.
6. There is positive and significant influence on market orientation on SMEs performance

through competitive advantage in Kudus Regency.

7. There is positive and significant influence on business innovation on the performance of SMEs through competitive advantage in Kudus Regency.

METHODS

This research is quantitative approach research that is a confirmatory approach of a research method testing the hypothesis based on the theory that has been explained previously. The samples in this study are the managers of SMEs Convection in Kudus Regency still active in conducting their business activities. The number of target population is 274 with the number of samples of 163 SMEs Convection managers in Kudus regency obtained based on Slovin formula calculation. Because the samples of conventional SMEs in this study are considered homogeneous, the sample technique that will be used is simple random sampling, which takes samples from the population in a random way. The population is given a serial number to be drawn then whichever number comes out to be sampled. Data collection techniques used in this study is using questionnaire (questionnaire).

Descriptive analysis is used to describe the variables used in the study. While Inferential Analysis in the form of path analysis is used to test hypothesis in order to draw the conclusion. Significance of indirect influence between variables used Sobel test. Based on the test results, it is obtained calculation results kolmogorov-smirnov Asymp value. Sig of Unstandardized Residual is 0.201. So it is stated based on the results of this test that residual equation data in this regression is normally distributed. Based on the image that has been obtained, there are visible dots formed does not form an irregular and random pattern, so it can be expressed that the regression model does not contain heterokedastisitas. Based on statistical test, it is obtained the value of tolerance > 0.10 and VIF value of each independent variable < 10. Then it can be expressed that among

independent variables do not contain multikolonieritas.

RESULTS AND DISCUSSION

The findings of the research show that (1) there are positive influence and entrepreneurship orientation significance toward business performance directly or indirectly through competitive advantage with total influence of 18.22%. (2) There is positive and significant influence of market orientation significance on business performance directly or indirectly through competitive advantage with total

influence of 14.89% (3) There is influence of business innovation on business performance directly or indirectly through competitive advantage with total influence of 51.24% (4) There is positive influence and competitive advantage significance to business performance amounted to 12.18%.

Based on the results of research that has been done, it is found that there is positive and significant influence directly or indirectly on the variables tested.

The following table summarizes the results of this study:

Table 1. Summary of Research Findings on Direct Influence Variables

Hypotesis	Statements	DE (%)	Count	Sig	Decision
H ₁	There is positive and significant influence of entrepreneurship orientation on the performance of SMEs Convection in Kudus Regency.	21.7	2.984	0.003	Accepted
H ₂	There is positive and significant influence of market orientation on the performance of SMEs Convection in Kudus Regency.	14.4	2.190	0.030	Accepted
H ₃	There is positive and significant influence of business innovation on the performance of SMEs Convection in Kudus Regency.	31.3	3.036	0.003	Accepted
H ₄	There is significant influence of competitiveness on the performance of SMEs Convection in Kudus Regency.	19.7	2,030	0.040	Accepted

Source: Conducted Primer Data (2017)

Based on the above table, it is gained regression equation as follows:

$$X_4 = 0,252X_1 + 0,210X_2 + 0,797X_3 + 0,634$$

Tabel 2. Summary of Research Findings on Indirect Influence Variables

Hypotesis	Statements	IE %	Sobel	P	Decision
H ₅	There is positive and significant influence on entrepreneurship orientation on the performance of SMEs through competitive advantage in Kudus Regency.	4.96	5.04	0.00	Accepted
H ₆	There is positive and significant influence on market orientation on SMEs performance through competitive advantage in Kudus Regency.	4.14	3.62	0.00	Accepted
H ₇	There is positive and significant influence on business innovation on the performance of SMEs through competitive advantage in Kudus Regency.	15.70	9.43	0.00	Accepted

Source: Conducted Primer Data (2017)

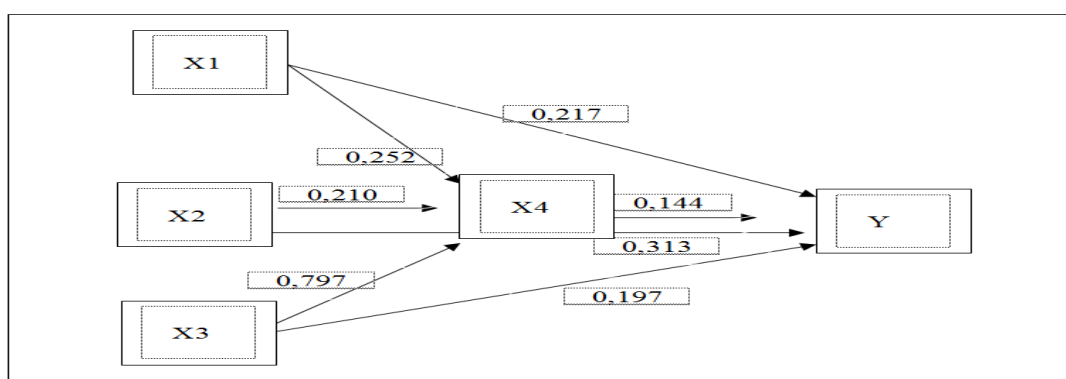
Based on the above table, it is gained regression equation as follows:

$$Y = 0,217X_1 + 0,144X_2 + 0,313X_3 + 0,197X_4 + 0,774$$

Evidence that there is influence of entrepreneurship orientation on business performance through significant competitive advantage is the coefficient of Sobel test statistic calculation of 4,873 with probability 0,000. The significance of the market orientation influence

on business performance through competitive advantage is shown by Sobel test statistic calculation of 4,236 with probability 0.000. The influence of business innovation on business performance through competitive advantage is shown by the significance of Sobel test statistic calculation of 3.906 with probability 0.000

Based on the summaries of the two regressions that have been done, it is gained path analysis model as follows:



Picture 1. Gained Path Analysis Model

The Influence of Entrepreneurship Orientation on Business Performance

Variable of entrepreneurship orientation (X1) has an influence on business performance. This means that risk-taking based on the knowledge and experience gained by SMEs managers thus deciding to enter the business

world of the convection has brought success with optimal financial gain. According to (Ajzen & Ajzen 2011) with the success of orientation influencing the business performance, then this Stated that the behavior they do really comes from the attitude to manage SMEs convection as the best choice.

The results of this study support the research that has been done also by (Mahmood 2013; Venter 2014). This research is evidence that supports the theory presented by Miller (1983), who argued that with entrepreneurship orientation, entrepreneurship will show its existence in the form of courage in taking risks, making changes and exploiting aggressive behavior to gain competitive advantage and business performance. The theory can predict that risks that may be accepted by the company are an integral part of environmental change. Therefore, the power of SMEs in taking risks will encourage companies to work so harder that the level of business profits can be achieved.

The influence of Market Orientation on Business Performance

The influence of market orientation (X2) on business performance directly indicates that the behavior in the considerations of determining the target market has been appropriate or has become a concern for SMEs convection in Kudus Regency. On average, they are oriented to one segment, such as especially in uniforms, especially in veil, especially Moslem cloths and others. By choosing only one of these segments they can quite easily deliver the goods to the targeted customers. They are also quite easy to predict their financial gain because it only counts the total of one item sold minus its variable cost. In functional coordination among members of SMEs management is also quite good, due to the easy coordination made by managers, marketers and suppliers.

Resource-based view management of SMEs managers in Kudus Regency has good information sources to be exchanged with interested parties. The majority or 73.2% of SMEs convection in Kudus Regency has high and very high market orientation. The results of this study have also proved that market orientation indicators formulated by (Narver & Slater 1990) which include customer orientation, competition orientation and inter functional coordination are reliable indicators used time by

time and are applicable to various types of business.

The influence of Business Innovation on Business Performance

Business innovation variables (X3) do not have positive influences on business performance, this means that available resources, especially human resources proven to be able to change the work system to get the best profitability results. There are good considerations for business innovation, such as the use of new sewing machines and computer embroidery machines to support the manufacture of accessories in apparel, especially for Moslem fashion. So the products generated from SMEs began to have a diversity of motives and began to dare to compete through internet marketing. The results of this study support the research (Rosli & Sidek 2013, Lertpachin & Wingwon 2014)

The Influence of Competitive Advantage on Business Performance

Competitive advantage is proved positively affects directly on business performance. This means that according to the theory of resource based view, the products that have been marketed by SMEs convection in Kudus Regency assessed by the customer have own advantages compared with similar products from other areas. These advantages can be various models, attractive and unique designs, relatively cheap prices and have not been found somewhere else or where customers are domiciled.

The influence of Entrepreneurship Orientation on Business Performance through Competitive Advantage

Based on the calculations that have been done, it is proven that competitive advantage can be a mediator of the influence between entrepreneurship orientation on business performance. The evidence that this mediation relationship is significantly exposed is the Sobel test statistic coefficient of 4.873 with probability 0.000. Since the value of indirect effect is less

than its direct influence ($0.088 < 0.307$), it can be explained that there is partial mediation of entrepreneurship orientation on business performance through competitive advantage. The results of this study support the research that has been done by (Mahmood 2013). According to (Mahmood 2013) that the mediation of the competitive advantage influence on the relationship between entrepreneurship orientation and performance is due to the entrepreneurship orientation within an organization can place the organization in a better competitive position. The results of this study at SMEs convection also reinforce Barney's (1991) finding stated that competitive advantage is not dependent on natural resources, technology, or economics scale, but on things that are valuable, rare and difficult to replicate. The findings illustrate the importance of the source of competitive advantage of SMEs Convection products that have been generated as channels in improving the relationship between entrepreneurship orientation and performance of SMEs.

The Influence of Market Orientation on Business Performance through Competitive Advantage

Based on the calculations that have been done, the results obtained that the competitive advantage to mediate the influence of market orientation on business performance. Evidence that this mediation relationship is significantly proven is the coefficient of calculation Sobel test statistic of 4,236 with probability 0.000. Since the value of indirect influence is less than its direct influence ($0.073 < 0.275$), it can be argued that there is partial mediation of market orientation on business performance through competitive advantage. These results support the research that has been done by (Maydeu-olivares & Lado, 2003). Market orientation can be defined as a strategy used to achieve sustainable competitive advantage based on generation and use of information in business and economic models. Market orientation is able to give effect directly or through mediation on business and economic performance. According to research

(Zheng et al. 2009) also, it is mentioned that the better the services provided to the customers, will provide the quality of increasing market orientation so that the company has a high competitive advantage and implicate in high performance companies as well. This research takes sample on hospitality service industry.

The results of this study also support the research (Jogaratham 2017). According to Jogaratham, market orientation based on human resource excellence (Resource Base View / RBV) can provide confidence in the company to defend itself in a superior position in the competition. This competitive advantage has helped to hinder incoming competitors to do product imitations.

The Influence of Business Innovation on Business Performance through Competitive Advantage

Based on the calculations that have been done, it is found that competitive advantage can be a mediator of the influence between business innovations on business performance. The proof that this mediation relationship is significantly proven is the Sobel test statistic coefficient of 3.906 with probability 0,000. Since the indirect influence value is less than its direct influence ($0.278 < 0.484$), it can be explained that there is partial mediation of business innovation on business performance through competitive advantage.

The final results of this study are supported by (Weerawardena & Mavondo 2011) that sated there is general agreement from experts that in order to improve the company performance. The innovations can be either technical or nontechnical.

Thus, the business innovation done is considered to make SMEs convection in Kudus Regency has a significant advantage than similar products from other regions. They have been able to take advantage of existence technology advances such as the use of sewing machines, cutting machines and embroidery machines to support the manufacture of apparel accessories. This is proven with the quality of business innovation perceived by the respondents that

50.3% of respondents have high business innovation categories, while 10.4% innovation level is very high.

CONCLUSIONS

The conclusions of this research is 1) There is positive and significant influence of entrepreneurship orientation on Performance of SMEs Convection in Kudus Regency, 2) There is positive and significant influence of market orientation on performance of SMEs Convection in Kudus Regency, 3) There is positive and significant influence of business innovation on performance of SMEs Convection in Kudus Regency, 4) There is significant influence of competitive advantage on performance of SMEs Convection in Kudus Regency, 5) There is positive and significant influence of the entrepreneurship orientation on the performance of SMEs through competitive advantage in Kudus Regency, 6) There is positive and significant influence of market orientation on the performance of SMEs through competitive advantage in Kudus Regency, 7) There is positive and significant influence of business innovation on the performance of SMEs through competitive advantage in Kudus Regency.

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