

## THE EFFECT OF GOVERNMENT AS A MODERATING VARIABLE IN THE RELATIONSHIP BETWEEN ORIENTATION ENTREPRENEURSHIP, INNOVATION, AND MARKET ORIENTATION ON BUSINESS PERFORMANCE (CASE STUDY: TUTUL VILLAGE, JEMBER, EAST JAVA)

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### ABSTRACT

*The purpose of this study was to test and demonstrate empirically the role of government as a moderating variable in the relationship between orientation entrepreneurship, innovation and market orientation on business performance. The population of this study is small and medium enterprises (SMEs) in the village Tutul Balung Jember District of as much as 1,057 SMEs. The research samples of 100 SMEs were selected by Slovin method. Analysis of data using a WarpPLS. These results indicate that a significant difference between entrepreneurial orientation on business performance, and innovation have a significant effect on the performance of the business, and then market orientation relates significantly to the performance of the business. It provides empirical explanation that entrepreneurial orientation, innovation and market orientation can contribute to the improvement of business performance small and medium enterprises (SMEs), while the government's role is not proven moderate the relationship between entrepreneurial orientation, innovation, and market orientation. The findings of this study proves that the government does not have a role in shaping the entrepreneurial spirit, because the entrepreneurial spirit has been formed in their environment and such acts are hereditary.*

Keywords: Orientation Entrepreneurship, Innovation, Market Orientation and Business Performance

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### Introduction

A culture that has an entrepreneurial attitude creates a learning environment that is sourced from the exploration and experimentation are realized in the form of creativity and innovation (Hamel and Prahalad, 1991, P.23). Currently, entrepreneurial orientation has become something of a critical and urgent for the company to face competition and pressure in a growing market (Slater & Narver, 1995, p.65). It is relevant to the business environment was also more dynamic, therefore, managers at every level have to keep looking and keep learning in order to cope with the uncertainty of its strategic function can be more competitive.

As research conducted Chamber of Commerce, the result of several factors that become obstacles for small and medium businesses get ahead (Chamber of Commerce in Zulkieflimansyah and Banu Mohammed H., 2003), among others: (1) weak financial systems and capital support; (2) lack of ability to carry out market access, competitiveness and regulation of marketing domestic and global markets; (3) limited in length information source materials and distribution channels as well as weak in bargaining power; (4) weak in technological capabilities; (5) the quality of human resources is still weak, which includes aspects of competence, skills, work ethic, entrepreneurial insight and standardization of products and services; (6) bureaucratic licensing requires a relatively long time; (7) the existence of guarantee institutions serving SMEs have not been able to optimally; (8) is not well functioning government promotion agencies. Entrepreneurial orientation is one of the important factors that can determine the success of a business (Lee & Peterson, 2000; Gupta, Mcmillan & Surie, 2004; Prieto, 2010).

Research conducted by Daniel et al (2008) states that there is a relationship between innovation and performance, and market orientation and organizational learning is the antecedent of the innovations that have an impact on organizational learning on innovation is higher than the effect of market orientation towards innovation, further Yonggyu Kim (2003 ), states that the market orientation is positively correlated with performance, with a higher degree of correlation to the performance of a quantitative than qualitative, then the strategy is not significant price competition on performance, while market growth is positively correlated but not significant to the performance.

Research Sanjaya, et al (2011), states that there is a positive relationship of market orientation (customer orientation and coordination interfungtion) on the performance of the business, but not a competitor Orientation positive effect on business performance, while resource companies and competitive intensity mediates the relationship between several Subdimension market orientation on performance. Research Monica and Alan (2002), stating that market orientation has no direct effect on the performance, as well as the interaction of the market and the perception of new competitors and then Perception traditional competitors directly affects the performance and interact with market orientation to affect performance. This study shows that there are significant entrepreneurial orientation, innovation and market orientation towards business performance moderated by the role of the government towards the sustainability of SMEs in the Tutul village.

### Theoretical framework

Referring to the empirical and theoretical studies conducted (Delaney, Lewin & Ichniowski, 1989; Cutcher-Gershenfeld, 1991; Pfefer, 1994; in Harel and Tzafirir, 1999), there are six activities that are strategic and universal needs to be done with regard to human resource management practices, namely: recruitment, selection, compensation, employee participation, internal labor market, training.

According to Muchtolifah (2005), entrepreneurial orientation is contributing the creation of organizational capabilities unique organizational resources, positional advantages that affect performance. In this case that entrepreneurial orientation is a company's ability to manage the resources to be able to carry out strategies in entrepreneurship so as to obtain a competitive advantage.

According to Griffin (2004: 397), innovation is the work of an organization's managed to develop a new product or service, or new uses of existing products or services. Kotler and Clarke in P.S Raju, et al. (2000) said that: "Market orientation as a tendency to" determine the needs and wants of the target markets and to satisfy them through the design, communication, pricing, and delivery of Appropriate and competitively viable products and services ".

Delaney and Huselid (1996) in Harel and Tzafirir (1999) suggested that performance can be measured from the perception held by an organization associated with competitors that include several aspects, such as: quality of products or services, new product development, customer satisfaction, product prices, increased sales, profitability and so on.

### Methodology

This study is the kind of research is explanatory namely A study is explanatory generally aims to explain the position of the variables studied and the relationship and influence of one variable to another variable (Sugiyono, 2004). This study examines the effect of government's role as a moderating variable in the relationship between orientation Entrepreneurship, Innovation and Market Orientation on the performance of the business in the village of Tutul district. Cockscomb Kab. Jember that explain causal relationships between variables that have been established by testing the hypothesis (Singarimbun and Effendi (1995). The population in this study is SMEs in Tutul Village district. Balung district. Jember as many as 1,057 people scattered in some effort. The number of respondent employees are 100 respondents which is distributed on each of the SMEs in the village of Tutul district. Balung district. Jember, with sampling done by proportional random sampling technique area.

#### 1. Validity Test

This study uses product moment correlation formula in assessing the validity of the instruments used. Product moment correlation formula proposed by Pearson, as follows:

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2][N \sum Y^2 - (\sum Y)^2]}}$$

#### 2. Reliability Test

Measure used to indicate the statement realibel, if the value of Cronbach Alpha above 0.6 (Arikunto, 1998).

$$r_{11} = \left[ \frac{k}{k-1} \right] \left[ 1 - \frac{\sum \sigma_b^2}{\sigma_i^2} \right]$$

This study uses analysis tools Partial Least Square (PLS), which was first developed by Herman Wold (1985) as the data analysis techniques with software version SmartPLS 2.0.M3. The scale of measurement that will be used in this research is the Likert scale.

**Result**

Tabel 1. Entrepreneur Orientation (X)

Dimensi	Frekwensi Jawaban Responden (F) & Persentase (%)										Rata-Rata Skor
	STS (1)		TS (2)		KS (3)		S (4)		SS (5)		
	F	%	F	%	F	%	F	%	F	%	
Need for achievement (X1.1)	2	2,00	14	14,00	32	32,00	27	27,00	25	25,00	3,59
Internal locus of control (X1.2)	1	1,00	18	18,00	24	24,00	23	23,00	34	34,00	3,71
Self Relience (X1.3)	2	2,00	25	25,00	34	34,00	26	26,00	13	13,00	3,23
<b>Jumlah Frekuensi (%)</b>	<b>20,67</b>		<b>30,00</b>		<b>49,33</b>						
<b>Rata-rata (Mean) Variabel Orientasi Kewirausahaan (X1)</b>											<b>3,51</b>

Perception of entrepreneurial orientation to the indicator Confidence / Self reliance showed the smallest average level is 3.23. compared with the two other indicators. Results of design made by villagers Tutul that they still lack confidence that the need for special attention, especially from the government.

Tabel 2. Inovation (Y<sub>1</sub>)

Dimensi	Frekwensi Jawaban Responden (F) & Persentase (%)										Rata-Rata Skor
	STS (1)		TS (2)		KS (3)		S (4)		SS (5)		
	F	%	F	%	F	%	F	%	F	%	
Inovasi teknis (X2.1)	1	1,00	19	19,00	37	37,00	29	29,00	14	14,00	3,36
Inovasi administratif (X2.2)	2	2,00	16	16,00	31	31,00	28	28,00	23	23,00	3,54
Inovasi manajerial (X2.3)	3	3,00	17	17,00	25	25,00	30	30,00	25	25,00	3,57
<b>Jumlah Frekuensi (%)</b>	<b>19,33</b>		<b>31,00</b>		<b>49,67</b>						
<b>Rata-rata (Mean) Variabel Inovasi (X2)</b>											<b>3,49</b>

Respondents' perceptions of technical innovation shows that the smallest average level of 3.36. This indicator is the lowest compared with the other two indicators. The statement indicates that in general society Tutul Village, Jember have been very satisfied with the innovations that they do.

Tabel 3. Market Orientation (Y<sub>2</sub>)

Dimensi	Frekwensi Jawaban Responden (F) & Persentase (%)										Rata-Rata Skor
	STS (1)		TS (2)		KS (3)		S (4)		SS (5)		
	F	%	F	%	F	%	F	%	F	%	
Orientasi pelanggan (X3.1)	2	2,00	13	13,00	33	33,00	31	31,00	21	21,00	3,56
Orientasi pesaing (X3.2)	2	2,00	21	21,00	30	30,00	29	29,00	18	18,00	3,40
Kordinasi antar fungsi (X3.3)	8	8,00	27	27,00	33	33,00	23	23,00	9	9,00	2,98
<b>Jumlah Frekuensi (%)</b>	<b>24,33</b>		<b>32,00</b>		<b>43,67</b>						
<b>Rata-rata (Mean) Variabel Orientasi Pasar (X3)</b>											<b>3,31</b>

Coordination between the functions of the products produced Tutul Village, Jember shows the smallest average level of 2.98. This fact indicates that the respondent did not perform coordination between the functions of the products they produce, so it is still low.

Tabel 4. Business Performance (Y<sub>3</sub>)

Dimensi	Frekwensi Jawaban Responden (F) & Persentase (%)										Rata-Rata Skor
	STS (1)		TS (2)		KS (3)		S (4)		SS (5)		
	F	%	F	%	F	%	F	%	F	%	
Pertumbuhan penjualan (Sales Growth) (Y1.1)	11	11,00	19	19,00	42	42,00	17	17,00	11	11,00	2,98
Pertumbuhan Keuntungan (Profit Growth) (Y1.2)	12	12,00	12	12,00	18	18,00	26	26,00	32	32,00	3,54
Pertumbuhan Modal (Asset Growth) (Y1.3)	1	1,00	24	24,00	34	34,00	33	33,00	8	8,00	3,23
<b>Jumlah Frekuensi (%)</b>	<b>26,33</b>		<b>31,33</b>		<b>42,33</b>						
<b>Rata-rata (Mean) Variabel Kinerja Usaha (Y)</b>											<b>3,25</b>

Sales growth for our product shows the smallest average level of 2.98. This fact indicates that the respondents or people feel not concerned to sales growth will be more profit oriented and sales growth is still low.

### H1. Entrepreneurial orientation affects the Business Performance

Based on the test results on the effect of entrepreneurial orientation on business performance generates value path coefficient of 0.363 and the value of t-statistic greater than t table ( $2.596 > 1.960$ ) with the value of the P-value of 0.009. These results indicate that entrepreneurial orientation has a significant effect on the performance of the business, so that the entrepreneurial orientation can strengthen business performance of the products produced by Tutul Village community.

### H2. Innovations effect on Business Performance

Based on the test results on the effect of innovation on the performance of the business generates Strip coefficient of 0.366 and the value of t-statistic greater than t table ( $2,534 > 1,960$ ) with a value of P-value of 0.011. The results showed that the innovation have a significant effect on the performance of the business, so the better the innovation made by the local community, the higher the business performance of the products produced by Tutul village, Jember.

### H3. market orientation affects the Business Performance

Based on the test results on the effect of market orientation on Business Performance generates path coefficient value of 0.345 and the value of t-statistic greater than t table ( $4.482 > 1.960$ ) with the value of the P-value of 0.000. The results showed that significantly influence the market orientation of Business Performance, thus the market orientation conducted Enterprises can improve the performance, so that the better market orientation is done, the higher the performance of the business generated by the community of Tutul Village, Jember.

### H4. The effect of entrepreneurial orientation on the role of government moderated Business Performance

Based on the test results on the effect of entrepreneurial orientation on business performance moderated role of government generates path coefficient value of -0.234 and the value of t-statistic greater than t table ( $0.876 < 1.960$ ) with the value of the P-value of 0.381. These results indicate that a significant moderation is not the government's role in the relationship between entrepreneurial orientation with Business Performance, thus it can be said that the government does not have a role in improving the existing entrepreneurship at Tutul Village, Jember.

##### **H5. Influence on Business Performance moderated innovation role of government**

Based on the test results on the effect of innovation on business performance moderated role of government generates path coefficient value of -0.116 and the value of t-statistic greater than t table ( $0.513 < 1.960$ ) with the value of the P-value of 0.608. These results indicate that a significant moderation is not the government's role in the relationship between innovation to Business Performance, thus it can be said that the government does not have a role in the development of innovative products produced by entrepreneurs who exist in Tutul Village, Jember.

##### **H6. The influence of market orientation on the role of government moderated Business Performance**

Based on the test results on the effect of market orientation on business performance moderated role of government resulted in the value of path coefficient of 0.139 and the value of t-statistic greater than t table ( $0.537 < 1.960$ ) with the value of the P-value of 0.591. These results indicate that a significant moderation is not the government's role in the relationship between market orientation with Business Performance, thus it can be said that the government does not have a role in finding a market share of products produced by entrepreneurs who exist in Tutul Village, Jember.

#### **1. The influence of entrepreneurial orientation on Business Performance**

Based on the results of inferential statistical analysis generates path coefficient value of 0.363 and the value of t-statistic of the t table ( $2.596 > 1.960$ ) with a p-value 0.009. These results indicate that entrepreneurial orientation significantly influences business performance. Meaning, entrepreneurial orientation affects business performance in providing products such handycraf Tutul Village, Jember. According to Zahra, 2008; Kellermanns, Edinburgh, Barnet & Pearson, 2008; Lumpkin & Dess, 2001, Orientation Entrepreneurship have a direct and indirect impact on company performance. It depends on different environments.

#### **2. Effect of Innovation for Business Performance**

Results of the analysis of the direct effect of Innovation for Business Performance result inferential statistical analysis generates path coefficient value of 0.366 and the value of t-statistic of the t table ( $2.534 > 1.960$ ) with a value of P-Value 0.011. This shows that innovation significant effect on Business Performance. The results support the theory put forward by Daniel et al (2008) states that there is a relationship between innovation and performance.

#### **3. The effect of market orientation on Business Performance.**

Results of the analysis of the direct influence of market orientation on Business Performance result inferential statistical analysis generates path coefficient value of 0.345 and the value of t-statistic of the t table ( $4.482 > 1.960$ ) with a value of P-Value 0.000. This shows that the market orientation significant effect on Business Performance, meaning that businesses have goal-oriented SMEs on the market so as to improve Business Performance with targeted customer orientation, so that efforts can survive. The results support the theory put forward by Yonggyu Kim (2003), and Tien-Shang Lee & Hsin-Ju Tsai (2005), concluded that market orientation can improve Business Performance.

#### **4. Effects of entrepreneurial orientation on the role of government moderated Business Performance**

Results of the analysis of the effect of moderating variable between entrepreneurial orientation of the Business Performance moderated obtained the government's role is not significant path coefficient value of -0.234 with a p-value of 0.381, indicating that the government's role cannot moderate the relationship between entrepreneurial orientation on business performance. These findings suggest that the association of entrepreneurial orientation on business performance government had no role in the development of SMEs in Tutul Village, Jember, the results of this study is consistent with empirical evidence that government has no role in the development of existing SMEs. The results showed that in general the government does not provide assistance in the form of funding or other forms. These results were confirmed by the results of interviews with the respondents explained that the behavior of the embedded business in themselves an inheritance, so the government set as a village without unemployment.

#### **5. Effect of Innovation for Business Performance moderated role of government**

Results of the analysis of the effect of moderating variable between Innovation for Business Performance moderated obtained the government's role is not significant path coefficient value of -0.116 with a p-value of 0.608, indicating that the government's role cannot moderate the relationship between innovation on the performance of the business. These findings suggest that the relationship of innovation on the performance of the government's efforts to SMEs do not have a role in making the design or model crafts are made, the results of this study is consistent with empirical evidence that government has no role in making crafts but my head the SMEs who see what is needed by the market opportunities or again the trend at the time of making craft.

#### **6. The effect of market orientation on the role of government moderated Business Performance**

Results of the analysis of the effect of moderating variables between market orientation of the Business Performance moderated obtained the government's role is not significant path coefficient of 0.139 with a p-value of 0.591, indicating that the government's role cannot moderate the relationship between market orientation on business performance. These findings suggest that the market orientation relationship to the performance of the government's efforts to SMEs do not have a role in the search

for market opportunities of the output generated by SMEs. The results are consistent with the empirical evidence that government has no role in the search market share of existing craft but the SMEs themselves are looking for the intended market.

### Implications

1. The study was able to build a theoretical model of entrepreneurial orientation obtain any influence business performance, innovations on business performance, and market orientation towards business performance. This model is also able to explain the government's role as a moderating variable relationship between entrepreneurial orientation, innovation and market orientation of the Business Performance.
2. The results of this study demonstrate that the role of moderation is not able to explain the role of the government towards entrepreneurial orientation, innovation and market orientation with Business Performance. That is the role of government is not able to moderate the relationship between entrepreneurial orientation, innovation and market orientation of the Business Performance.
3. The results of this study also prove that the entrepreneurial orientation, innovation and market orientation plays an important role in business performance improvement. This gives the meaning that the entrepreneurial spirit is supported by innovation and market orientation will improve Business Performance of SMEs in the Tutul Village, Jember.

### Conclusion

1. Entrepreneurial orientation can affect business performance in providing products of SMEs in Tutul Village, Jember. Entrepreneurial orientation can increase the productivity of SMEs that will impact business performance improvement.
2. Innovation can affect business performance in this study indicate if the innovations made can improve business performance, and therefore innovation is very important for the sustainability of the existing SME business in Tutul Village, Jember.
3. Business Performance orientation affects the market, meaning that the production generated by SMEs in Tutul Village, Jember should focus on the target market that will be addressed to sustain the efforts undertaken.
4. The role of moderation is not able to give a positive contribution to the relationship between entrepreneurial orientation, innovation and market orientation of the Business Performance, means moderating variable in this case the role of the government is not able to contribute to the sustainability of the existing SME business in Tutul Village, Jember, it is in line with the empirical fact that the government did not contribute to SMEs that either grants or other forms.

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