Business environment as an intervening variable of market orientation and business performance of Batik Jambi SMEs

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Abstract

Batik Jambi is a unique product of Jambi Province, but the performance of batik Jambi SMEs business is still low. The purpose of the research is to analyze the role of the business environment on the relationship of market orientation, entrepreneurship orientation and business performance. The research method used is qualitative and quantitative with interview approach, observation, documentation and sample survey. The sample of this research is Batik Jambi SMEs. Sampling used judgment sampling method. The analysis tools used are FGD and PLS (partial least square). The results show that the business environment is a variable between the relationship of market orientation and business performance, but not the intermediate variables on the relationship of entrepreneurial orientation and business performance.

Keywords: Business Environment, Market Orientation, Entrepreneurial Orientation, Business Performance.

INTRODUCTION

Batik Jambi become one of superior product which is expected to be able to compete in domestic and foreign competition market. SMEs Jambi batik spread evenly and raised the local wisdom of Jambi to be introduced to the target market. However, there is a decrease in the number of craftsmen each year because of their inability to maintain business performance.

The success of a business can be seen from the achievement of business performance (Westerberg and Wincent, 2008), including business groups with small and medium category. Business performance is an important factor in mapping the competitive position within the market (Whellen *et al*, 2015). To improve business performance is strongly influenced by several factors. According to Hermann *et al* (2010) and Ginta (2014) entrepreneurial orientation is an important factor in influencing business performance in addition to other factors. There is a positive relationship between entrepreneurial orientations to business performance. Together with management capabilities and business strategy, entrepreneurship orientation can improve business performance of UMKM (Ibrahim, 2013). Kreiser and Davis (2010) suggests an effort to foster entrepreneurship within small and medium-sized businesses and encourage them to have ability to innovate, risk taking and being proactive . If small and medium entrepreneurs have entrepreneurial spirit plus it has orientation to market and competition, then business performance will be positive. This is in accordance with the opinion of Baker and Sinkula (2009) and Felgueira and Rondrigues (2012).

The orientation of entrepreneurship can have an indirect effect on business performance through market orientation (Octavia, 2006). Cadogan and Dimantopoulus (1995) define market orientation as alignment to consumer orientation, competitor orientation, inter-functional coordination and profit orientation. The market orientation directly influences business performance as proposed by many research results, among others by Ali *et.al* (2005), Matanda (2009), Asgar *et.al* (2013) and Moghaddam *et. al* , (2013). But also found a contradiction of the results of these studies. In some studies it shows the opposite. Han *et al.* (1998) and Kohli and Jaworski (1990) shows no relationship between market orientation and marketing performance. It is interesting to examine further which of these two perspectives is supported by empirical data for small and medium industries especially in Indonesia, given the different business and cultural characteristics of other countries .

Generally SME entrepreneurs in Indonesia still focus on the aspects of production and sales, applying customer-oriented concepts, competitors and inter-organizational coordination (market orientation) has not been a *grand strategy* to produce high business performance. Hafeez *et.al* (2011) stated that market orientation and entrepreneurship orientation can improve business performance for small and medium enterprises. Jordan, Moses. A. (2004) found that market orientation and entrepreneurial orientation were factors that influenced banking performance. With a sample of 950 banking managers, researchers found that national culture is not a moderating variable that reinforces the relationship between entrepreneurial orientation and business performance. This is quite interesting where some researchers actually connect between national cultures with entrepreneurial orientation. William and James (2009) conducted a study on SMEs found that entrepreneurial orientation and market orientation directly to affect profitability. There are findings of contradiction with other findings that suggest that entrepreneurial orientation and market orientation complement each other to increase profitability. Baker and Sinkula (2009) found that entrepreneurial orientation is a market-oriented antecedent factor and has an indirect relationship to profitability through innovation variables. Lee and Tsai (2005) found a positive relationship between market orientation and entrepreneurial orientation. In contrast to Baker and Sinkula (2009), Lee and Tsai (2005) conclude that market orientation is the antecedent variable of the entrepreneurial orientation, through which both variables will affect the organization's business performance.

To generate high business performance small and medium enterprises should focus on the business environment and have highly experienced human resources (Haris *et al.*, 2014). In its research in Malaysia for small and medium sized agribusiness sector, Aziz and Yassin (2010) found that market orientation has a significant effect on business performance, but the business environment is not a moderating variable between market orientation and business performance. The results of this study differ from the research Kohli and Jaworski (1990) who found that the business environment is a moderating variable between market orientation and business performance. While Milovanovic and Wittine (2014) state the business environment is a moderating variable of entrepreneurial orientation relationships and business performance. There is a difference of opinion about the two variables as an amplifier of the relationship between market orientation and performance. Unlike previous studies, the novelty of this research is to examine the business environment as an *intervening* variable between the relationship of market orientation, entrepreneurship orientation and business performance. This research will test the antecedent and intervening variables of market

orientation and business performance in small and medium industries.

SME Batik Jambi in the free competition market can successfully win the competition. The government is optimistic that the intensive development of SMEs Jambi batik can produce products with high competitiveness and contribute positively to the state revenue. Even the increasing number of SMEs and their ability to absorb high workforce play a major role in poverty alleviation. However, in reality there are still many SMEs that fail to improve their business and have high business performance, due to their inability to produce products favored by the market with a high level of innovation. In connection with the implementation of free trade, most of Indonesia's products are feared will be unable to compete with products from other countries. The ability of SMEs Jambi batik to innovate, proactive and courage to face the risk is absolutely necessary. Under these circumstances the role of the business environment is expected to be strong for business performance improvement. Thus an empirical study of the relationship of market orientation, entrepreneurship orientation and business environment to business performance is required. Based on the description, then the research problem is: 1) Is the business environment variable an *intervening* variable between the relationship of entrepreneurship orientation and business performance?; 2) Is the business environment variable an *intervening* variable between the relationship of market orientation and business performance?.

RESEARCH METHODS

Research design

The purpose of research in the first year is to explore and develop research models, therefore the selected research design is a qualitative study. After the model is formulated, then further testing of the model by a quantitative approach. this research is used qualitative design with interview approach, observation, FGD and documentation. the research used quantitative approach with *sample survey*. The data source consists of primary data and secondary data. Primary data required are respondents' perceptions of the business environment, entrepreneurship orientation, market orientation and business performance. Secondary data required include data on the number of SMEs, superior product data, SME product group data, SME business development data and research related to the research topic. Primary data collection techniques by means of observation, interview, *Focus Group Discussion* (FGD) and questionnaire distribution. For secondary data collection by documentation and literature study.

Population and sample

The population in this research is SME batik entrepreneur Jambi in Jambi Province. The sample was taken by *nonprobability sampling* method through *judgment sampling* procedure . Selection of respondents on the consideration of age, length of business, location, attitude and motivation. The determination of the number of samples using the Malhotra approach. For the use of SEM PLS analysis tool is suggested the number of samples 100-200 respondents.

Analysis tool

Analysis tool used is SEM by using PLS software (*partial least square*). Measurement of SEM with Smart PLS uses *outer model* and *inner model*. Evaluation of measurement model or *outer model* is performed through *Confirmatory Factor A nalysis (CFA) ,* by testing the validity by looking at the value of *Loading Factor,* Average Variance Extracted (AVE), Communality , and testing model reliability by

looking at Cronbach's Alpha and Composite Reliability values . Evaluation of structural model or inner model aims to predict the relationship between latent variables by looking at the percentage of variance explained by looking at the value of R-Square, as well as significance testing to see the value of T-statistics in Table Path Coefficient s (mean, STDEV, T-Values). Evaluate the model by looking at the value of significance T-statistics to determine the influence between variables, through jackknifing or bootstrapping procedures first.

RESULTS AND DISCUSSION

Micro business is a business sector which is 98.90% of economic actors in Indonesia and contributed significantly to Gross National Income (32.05%). This sector also helps overcome the problems faced by the government related to the absorption of manpower especially in using local resources and rural economic development.

Batik Jambi become one of superior product which is expected to be able to compete in domestic and foreign competition market. Jambi batik SMEs spread evenly and raised the local wisdom of Jambi to be introduced to the target market. However, there is a decrease in the number of craftsmen each year because of their inability to maintain business performance.

In fact, there are still many SMEs that fail to improve their business and have high business performance, because of their inability to produce products favored by the market with high innovation. In connection with the implementation of free trade, most of Indonesia's products are feared will be unable to compete with products from other countries. The ability of SMEs Jambi batik to innovate, proactive and courage to face the risk is absolutely necessary. Under these circumstances the role of the business environment is expected to be strong for business performance improvement. Thus an empirical study of the relationship of market orientation, entrepreneurship orientation and business environment to business performance is required.

However, in reality there are still many SMEs that fail to improve their business and have high business performance, due to their inability to produce products favored by the market with a high level of innovation. In related to the implementation of free trade, most of Indonesia's products are feared will be unable to compete with products from other countries. The ability of SMEs Jambi batik to innovate, proactive and courage to face the risk is absolutely necessary. Under these circumstances, the role of the business environment is expected to be strong for business performance improvement. Based on the test result there is significant influence of business environment to business performance with p-value equal to 0,020, likewise on market orientation relation to business performance and business environment.

Table 1. Effect between variables

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	t tabel (df =n-k=40-4=36), =5%	P Values	Remarks
LB -> KB	0,356	0,354	0,153	2,325	2,028	0,020	Accepted
OP -> KB	0,517	0,522	0,143	3,623	2,028	0,000	Accepted
OP -> LB	0,579	0,542	0,150	3,866	2,028	0,000	Accepted
OP -> OW	0,642	0,570	0,210	3,057	2,028	0,002	Accepted
OW -> KB	0,098	0,077	0,122	0,808	2,028	0,420	Rejected
OW -> LB	0,271	0,251	0,147	1,836	2,028	0,067	Rejected

Source: Primary data,2017

The different results seen in testing the effect of entrepreneurial orientation on

business performance and business environment, where there is a value above 0, 05, which means there is a significant difference between the two variables. However, market orientation has a significant effect on the entrepreneurial orientation. The results of statistical calculations show that the business environment is the intermediate variable for the relationship of market orientation-business performance. This means that if SME batik Jambi has orientation to market supported by supportive business environment then business performance of SME will increase.
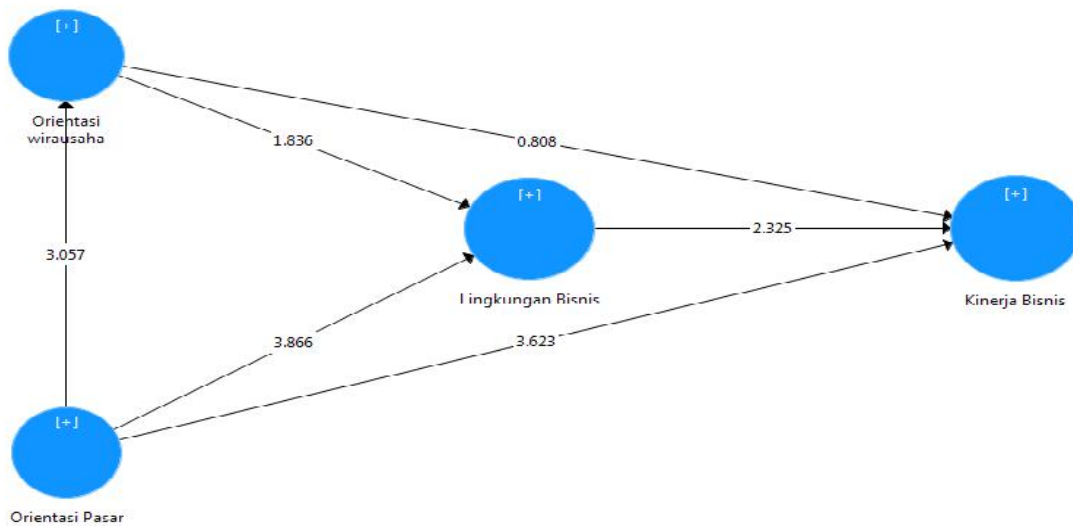

Figure 1. Model of SME's Jambi Batik business performance.

There are some perspectives if about market orientation that are (1) perspective of strategic approach, (2) perspective of decision making, (3) customer orientation perspective, (4) perspective of market intelligence, (5) cultural perspective (Teck, 2012). Some results research has proven a strong relationship between market orientation with performance (Matsuno et al., 2002), whereas other research results do not support there is a positive relationship between market orientation and organizational performance (Han et al., 1998; Jaworski and Kohli, 1990). The results of this study support the opinion of Matsuno et al (2002); Bhuian, 1997; Deshpande et al., 1993; Jaworski and Kohli, 1990 . In the opinion of Felguirea and Rondigrues (2012) and Octavia (2006), orientation was entrepreneurship and market orientation has a positive relationship to environment business performance. The results of this study differ from the results of previous studies.

Generally SME entrepreneurs in Indonesia still focus on aspects of production and sales, but not yet oriented entrepreneurship such as courage to take risks, innovative and creative. Based on the addressing of SMEs Batik in Jambi City is a type of business that is hereditary and is a family business so that the tendency of SMEs Batik entrepreneurs to develop entrepreneurship orientation still lower. The ability of SMEs Batik Jambi to innovate, proactive and courageous to face the risk absolutely necessary. Plus that some batik SMEs have not fully become the main business, but still a side business. Under these circumstances the role of the business environment is expected to be strong for business performance improvement. To improve the competitiveness of superior products Batik Jambi hence required role government, private and SME's owner

themselves. The following outlines the roles that can be done by each party. Small and medium industries desperately need the role of government for improving business performance. Limitations of knowledge about market access, access to capital and information make SMEs find it difficult to market their products. Although government programs was launched to help SMEs like training programs and business assistance, but the performance is still relatively low (Octavia, Haryadi, Yulmardi and Rahayu, 2010). Basically competitive advantage will be an important asset for the business in a sustainable manner. Competitive advantage is not it just a name/brand that has been widely known in the community, but the competitive advantage is the extent to which the value of the product or value of the company is perceived both in the minds of consumers. Private role in strengthening SME's Batik Jambi the great, especially to support the government. One of the weaknesses of Batik Jambi is the availability of limited coloring materials, marketing channels and technology used. In this case, the government can cooperate with private parties to facilitate this weakness. The government should also facilitate the marketing channel of jambi batik. It needs to make policies to encourage the marketing of batik to the region and other countries, by way of private ak PIH cooperating as partners. The existence of this networking can help entrepreneur to improve business performance. Private parties can become partners in doing socialization about Batik Jambi. The involvement can also be seen in the form of fashion show activities, fashion design, Jambi Batik industrialization and provide outlets special outlet Batik Jambi.

CONCLUSIONS AND RECOMMENDATION

Conclusions

Business environment variable is intervening variable between market orientation and business performance and business environment variable is intervening variable between entrepreneurship orientation and business performance. Market orientation variables show a positive and significant impact on the business performance of the business environment while the entrepreneurial orientation variables have no effect on business performance and business environment. To improve the competitiveness of SMEs Jambi Batik required three parties in synergy namely the government, the private sector and strengthening the performance of SMEs batik Jambi itself.

Recommendation

Jambi Batik is the flagship of Jambi city for it needs to be strengthened and improved its competitiveness. In Jambi Batik artists must be strengthened to entrepreneurial oriented by having a culture to understand the needs of customers and pass on to everyone who is in the company to also oriented to the customer. The government should formulate programs aimed at strengthening the competitiveness of SMEs. The program is not only related to providing equipment, technical and management support, but also strengthening motivation in SME's to develop in particular be orienta i to the desire shown by the market. For example, the demand to produce modern motives, but still able to maintain the characteristic. A re-examination of the entrepreneur-oriented business-performance relationship is required in other small industry types.

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