



The determinants of smes' firm performance in lampung province, indonesia

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ABSTRAK

This study aims to study the influence of the Strategic Orientation of Entrepreneurship and Organizational Culture on Innovation, and its implications for the performance of Micro, Small and Medium Enterprises. This research is a conclusive research conducted through data collection using descriptive and causality surveys. This research was conducted with a sample of 420 micro, small and medium enterprises in Lampung Province, Indonesia. The results of this study are the Effect of Mediation on Innovation Increasing the Effect of Entrepreneurship Strategic Orientation and Organizational Culture on the Performance of Small and Medium Enterprises. The results of this study generally have an influence on the Strategic Orientation of Entrepreneurship and Organizational Culture on the Performance of SMEs. The seven hypotheses proposed in this study are all acceptable. Organizational Culture as an independent variable has the strongest influence on SME Innovation and Performance. This dissertation also provides a discussion of the findings and limitations, theoretical and practical contributions, theoretical and managerial implications of research, and suggestions for future research.



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INTRODUCTION

Performance can be characterized as the company's ability to create results and actions that can be accepted by all stakeholders (Gharakhani & Mousakhani, 2012). For many organizations, achievement of performance improvement depends not only on the successful application of tangible assets and natural resources but also on their entrepreneurial orientation, (Lumpkin & Dess, 1996 in Zahra & George, 2017). Entrepreneurship is considered as a key in promoting economic growth, innovation, competitive advantage, and job creation (Johnson et al., 2015), apart from that it was also found that entrepreneurship is the skills needed by an entrepreneur to achieve success. Entrepreneurship is a process of value creation by combining a unique set of resources to exploit its entrepreneurial opportunities (Omisakin et al., 2016).

The importance of entrepreneurship activities in the community has been recognized by various entrepreneurial literature (Omisakin, 2016), where it is suggested that entrepreneurial strategies, especially in the case of entrepreneurial orientation, can contribute greatly to entrepreneurship performance (Ramos-Rodríguez et al., 2015). The success of a company depends on Entrepreneurial Orientation and various other factors including age, gender, culture, education, managerial knowledge, length of time, company size, capital, and network connections (Omisakin, 2016). Entrepreneurial orientation is an entrepreneurial aspect that summarizes success strategies.

Covin & Wales (2012) concluded that Entrepreneurial Orientation represents policies and practices that provide a basis for entrepreneurial decisions and actions. Lumpkin and Dess (1996) (in Zahra & George, 2017) describe Entrepreneurial Orientation as a multi-dimensional process consisting of five dimensions, namely risk taking, aggressive competitiveness, autonomy, proactiveness, and innovativeness. Innovativeness which is one dimension of entrepreneurship is the ability of companies or individuals to engage in new ideas or to innovate and create processes that can produce new products (Omisakin, et al. 2016). Innovativeness is the tendency to support and engage in new ideas, experiments, research and development. Innovative companies or individuals usually try to improve existing products and develop new products or processes that result in the creation of new markets (Edison et al., 2013). Hughes and Morgan (2007) report a positive relationship between positive innovation and firm performance. Rauch, et al. (2009) (in Covin & Miller, 2014) suggests that for companies to make

progress among similar companies in this industry, the company must be innovative in all areas of its existence.

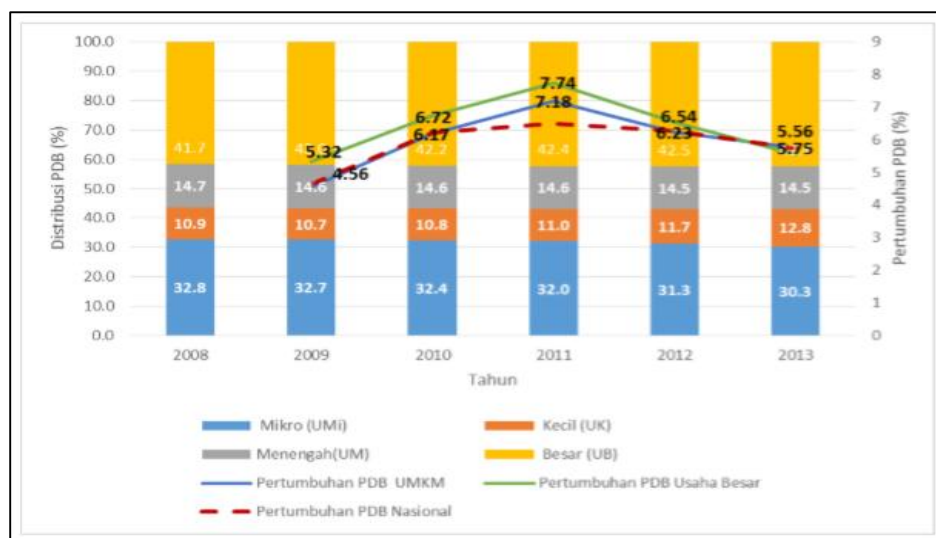
From the above definition, it is clear that entrepreneurial behavior is the main and essential element in the entrepreneurial process. In other words, entrepreneurial strategic orientation refers to how companies act in the area of risk-taking, innovating, proactive, autonomous, and competitive aggressiveness. Entrepreneurial researchers agree that Entrepreneurial Strategic Orientation has the potential to be important in measuring the performance of Small Medium Enterprises (Omisakin, et al. 2016). SMEs have an important role in the local and national economy, not only because of their contribution to national income but also have a role in reducing poverty and creating jobs. Compared to large companies (corporations), SMEs have unique characteristics (Ghobadian, & Gallear, 1997 in Eriksson, 2013), namely:

1. Management with individual characteristics.
2. Having limitations in terms of good resources related to human resources, management capabilities, and financial resources.
3. Has high innovation potential.
4. Depends on the relatively small number of customers.
5. Operates in a limited market with a simple and flexible structure.
6. Reactive.
7. The strategies used are informal and dynamic.

Small Medium Enterprises conducted research in Indonesia, therefore the definition of Small Medium Enterprises in this study refers to the Law Number. 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), namely Micro Small and Medium Enterprises which have a maximum asset of 10 billion rupiah and a maximum turnover of 50 billion rupiah. In economic development in Indonesia, MSMEs are the largest group of economic actors that contribute significantly to the national economy, with 587 thousand units of MSMEs providing employment for more than six million local residents located around the place of business (SMEs, 2015).

Given the rapidly changing business development and strategic planning of companies that give great attention in anticipating the changes that will occur in the future, strategic implementation in the corporate environment is an urgent need. On the other hand, MSMEs also face many problems, namely limited working capital, low human resources, and lack of mastery of science and technology. Another obstacle faced by MSMEs is the relationship with unclear business prospects and weak organizational culture, both unstable visions and missions, values, and actions that are not united between owners and employees. This happens because generally MSMEs are income gathering, namely increasing income, with the following characteristics: is a family owned business, using technology that is still relatively simple, lacking access to capital (bankable), and no separation of business capital from personal needs.

The following below are data from the Ministry of Cooperatives and MSMEs, MSME data comparisons (2015) which analyze mapping and strategies for improving the competitiveness of MSMEs in the face of the 2015 Asian Economic Community and the Post-Asian Economic Community 2025.



Graph 1. GDP Distribution and Growth by Business 2008–2013

Source: Ministry of Cooperatives and SMEs, Comparison of MSME data, 2015

In general, in Graph 1. over a 5-year period, from the period 2008-2013, the contribution of MSMEs to national GDP has decreased, from 58.3 percent in 2008 to 57.6 percent in 2013. This phenomenon is due to the contribution of micro-enterprises which is decreasing. MSME's growth in value added growth shows an increase from 4.6 percent in 2009 to 7.2 percent in 2011, and decreased to 5.75 percent in 2013. Despite experiencing a slowdown, the MSME GDP growth value is still relatively higher, namely 0, 02 percent of national GDP growth.

Table 1. MSME Data by Region in Lampung Province.

Number	District/Town	Sector			Total MSME
		Micro	Small	Medium	
1.	West Lampung	1044	35	0	1079
2.	South Lampung	7943	467	152	8562
3.	Centre Lampung	891	0	0	891
4.	East Lampung	34636	6616	122	41374
5.	North Lampung	8924	2116	30	11070
6.	Mesuji	2827	151	5	2983
7.	Pesawaran	511	232	48	791
8.	Pesisir Barat	378	55	0	433
9.	Pringsewu	3076	770	42	3888
10.	Tanggamus	626	0	0	626
11.	Tulang Bawang	2392	239	2	2633
12.	Tulang Bawang Barat	1375	0	0	1375
13.	Way Kanan	5432	211	23	5666
14.	Bandar Lampung	6369	0	0	6399
15.	Metro	6426	907	85	7418
Total		82850	11799	509	95158

Source: The UMKM cooperative service in June, 2021

Table 2. MSME Data Based on Business Types.

No	Business Type	Micro	Small	Medium	Total
1.	Culinary	8025	217	12	8254
2.	Fashion	1424	87	3	1514
3.	Education	208	40	2	250
4.	Outomotive	1331	145	26	1502

No	Business Type	Micro	Small	Medium	Total
5.	Agribusiness	5946	446	53	6445
6.	Internet Technology	923	34	0	957
7.	Etc	65104	10729	403	76236
	Total	82961	11698	499	95158

Source: The MSMEs cooperative service in June, 2021.

There are large gaps that affect Organizational Culture, and entrepreneurship orientation - leading to fundamental changes, where employers need supporting facilities to turn ideas into business and create jobs as an engine for job creation in Indonesia. This study is intended to examine the effect of the three variables Entrepreneurial Strategic Orientation, Organizational Culture both individually or together (simultaneous) on the Organization Performance, and to test whether Innovation is an intervening variable that strengthens the relationship between Organizational Culture and Entrepreneurial Strategic Orientation towards Performance UMKM.

METHODS

Sekaran & Bougie (2016) define the population as *the entire group of people, events or things of interest that researcher wishes to investigate*. Meanwhile, the sample is a small part taken from the population, strived to represent the entire important component of the population. The sample in this study consisted of two groups, namely the sample of the instrument testing group and the sample of the research data source group.

The instrument test sample was set 30 people aiming to test the quality of the questionnaire whether the questionnaire is valid and reliable so that it can be used in research. The testing of this instrument was carried out before the actual research was carried out.

The population in this study according to its nature is a homogeneous population. The population in this study is limited to MSMEs in Lampung Province which is 95,158 MSMEs which consist of Micro Enterprises which amount to about 82,850 units, followed by Small Businesses which are around 11,799 units, and Medium Enterprises 509 units (The MSMEs Cooperative Service in Lampung, 2017). The model used in this study is a causality model or influence relationship. To test the hypothesis that will be proposed in this study, the analytical technique that will be used is SEM or Structural Equation Modeling that uses linear statistical software Structural Relations (LISREL) 8.8.

RESULTS AND DISCUSSION

Entrepreneurial Strategic Orientation Affects Innovation

Based on the results obtained, it is known that the Entrepreneurial Strategic Orientation has a direct effect on Innovation with a t-value of 3.09 (t-value > 1.645), which means that hypothesis 1 is accepted. The influence of Entrepreneurial Strategic Orientation on Innovation is positive and significant. It means that the higher/positive Entrepreneurial Strategic Orientation, the higher/positive Innovation. The partial effect of Entrepreneurial Strategic Orientation on Innovation is 0.19.

Entrepreneurial Strategic Orientation consists of dimensions: Risk Taking, Competitive Aggressiveness, Autonomy, Proactiveness and Innovativeness. Innovation consists of dimensions: Level of Innovation and Kind of Innovation. The influence of Entrepreneurial Strategic Orientation on Innovation is positive and significant. This means that the higher/positive Entrepreneurial Strategic Orientation, the higher/positive Innovation means that the more respondents feel brave to take risks to remain innovative even though they have to spend more; the product/service created has a uniqueness that does not yet exist in the market; and employees must be innovative, the more respondents feel that management has new knowledge in producing new goods/new services and management uses good knowledge to increase efficiency. The dimensions of the Entrepreneurial Strategic Orientation that have the most significant influence are proactiveness, with a path coefficient of 0.98. While the ESO 9 indicator is the most significant influence, namely when making decisions, I cannot be influenced by anyone (Autonomy) with a path coefficient of 0.65.

Confirmatory Factor Analysis & Second Order Confirmatory Factor Analysis

Table 3. Reliability Test of *Entrepreneurial Strategic Orientation*

Construct	Indicator	Std Loading	Error	Std Loading ²	CR	VE
Risk Taking	EO1	0.78	0.4	0.61	0.84	0.64
	EO2	0.84	0.29	0.71		
	EO3	0.78	0.39	0.61		
Competitive Aggresiveness	EO4	0.77	0.41	0.59	0.85	0.65
	EO5	0.84	0.29	0.71		
	EO6	0.8	0.36	0.64		
Autonomy	EO7	0.73	0.46	0.53	0.83	0.62
	EO8	0.79	0.37	0.62		
	EO9	0.83	0.31	0.69		
Proactiveness	EO10	0.71	0.49	0.50	0.77	0.53
	EO11	0.77	0.41	0.59		
	EO12	0.71	0.5	0.50		
Innovativeness	EO13	0.65	0.58	0.42	0.83	0.62
	EO14	0.83	0.32	0.69		
	EO15	0.87	0.25	0.76		

Source: Processing Results with LISREL 8.80

Organizational Culture Affects Innovation

Based on the results obtained, it is known that Organizational Culture has a direct effect on Innovation with a t-value of 10.16 (t-value > 1.645), which means that hypothesis 2 is accepted. The influence of Organizational Culture on Innovation is positive and significant. It means that the higher/positive Organizational Culture, the higher/positive Innovation. The partial influence of Organizational Culture on Innovation is 0.68.

Organizational Culture consists of dimensions: Process-oriented versus results-oriented, Job-oriented versus employee-oriented, Professional versus parochial, Open systems versus closed systems, Tight versus loose control and Pragmatic versus normative. Innovation consists of dimensions: Level of Innovation and Kind of Innovation. The influence of Organizational Culture on Innovation is positive and significant. It means that the higher/positive Organizational Culture, the higher/positive Innovation means that the more respondents feel that the most important issue is how employees feel about how to be educated in matters relating to roles and responsibilities; the most important issue is how the employee feels about the position; and motivated to do quality work if the system supports it, the more respondents feel that management has new knowledge in producing new goods/new services and management uses good knowledge to increase efficiency. The dimensions of Organizational Culture that have the most significant influence are the Open Closed System with a path coefficient of 0.95. While the most significant indicator is OC6, namely I always focus on company goals and not on employees.

Table 4. Reliability Test of Organizational Culture

Construct	Indikator	Std Loading	Error	Std Loading²	CR	VE
Process-oriented versus results-oriented	OC1	0.95	0.1	0.90	0.89	0.73
	OC2	0.94	0.12	0.88		
	OC3	0.63	0.6	0.40		
Job-oriented versus employee-oriented	OC4	0.64	0.59	0.41	0.80	0.58
	OC5	0.79	0.37	0.62		
	OC6	0.83	0.3	0.69		
Professional versus parochial	OC7	0.8	0.37	0.64	0.84	0.63
	OC8	0.75	0.43	0.56		
	OC9	0.83	0.31	0.69		
Open systems versus closed systems	OC10	0.55	0.7	0.30	0.84	0.64
	OC11	0.92	0.15	0.85		
	OC12	0.88	0.22	0.77		
Tight versus loose control	OC13	0.82	0.33	0.67	0.76	0.52
	OC14	0.54	0.71	0.29		
	OC15	0.78	0.39	0.61		
Pragmatic versus normative	OC16	0.68	0.53	0.46	0.83	0.63
	OC17	0.86	0.26	0.74		
	OC18	0.82	0.33	0.67		

Source: Processing Results with LISREL 8.80

Table 5. Reliability Test of *Innovation*

Construct	Indikator	Std Loading	Error	Std Loading²	CR	VE
<i>Level of Innovation</i>	IN1	0.89	0.21	0.79	0.95	0.87
	IN2	0.96	0.08	0.92		
	IN3	0.95	0.09	0.90		
<i>Kind of Innovation</i>	IN4	0.91	0.16	0.83	0.95	0.86
	IN5	0.94	0.11	0.88		
	IN6	0.93	0.14	0.86		

Source: Processing Results with LISREL 8.80

Table 6. Reliability Test of *Firm Performance*

Construct	Indikator	Std Loading	Error	Std Loading²	CR	VE
<i>Financial performance</i>	FP1	0.6	0.63	0.36	0.86	0.56
	FP2	0.76	0.43	0.58		
	FP3	0.53	0.72	0.28		
	FP4	0.9	0.18	0.81		
	FP5	0.87	0.24	0.76		

	FP6	0.76	0.43	0.58		
	FP7	0.86	0.26	0.74		
<i>NonFinancial</i>	FP8	0.88	0.22	0.77	0.91	0.66
	FP9	0.89	0.22	0.79		
	FP10	0.66	0.56	0.44		

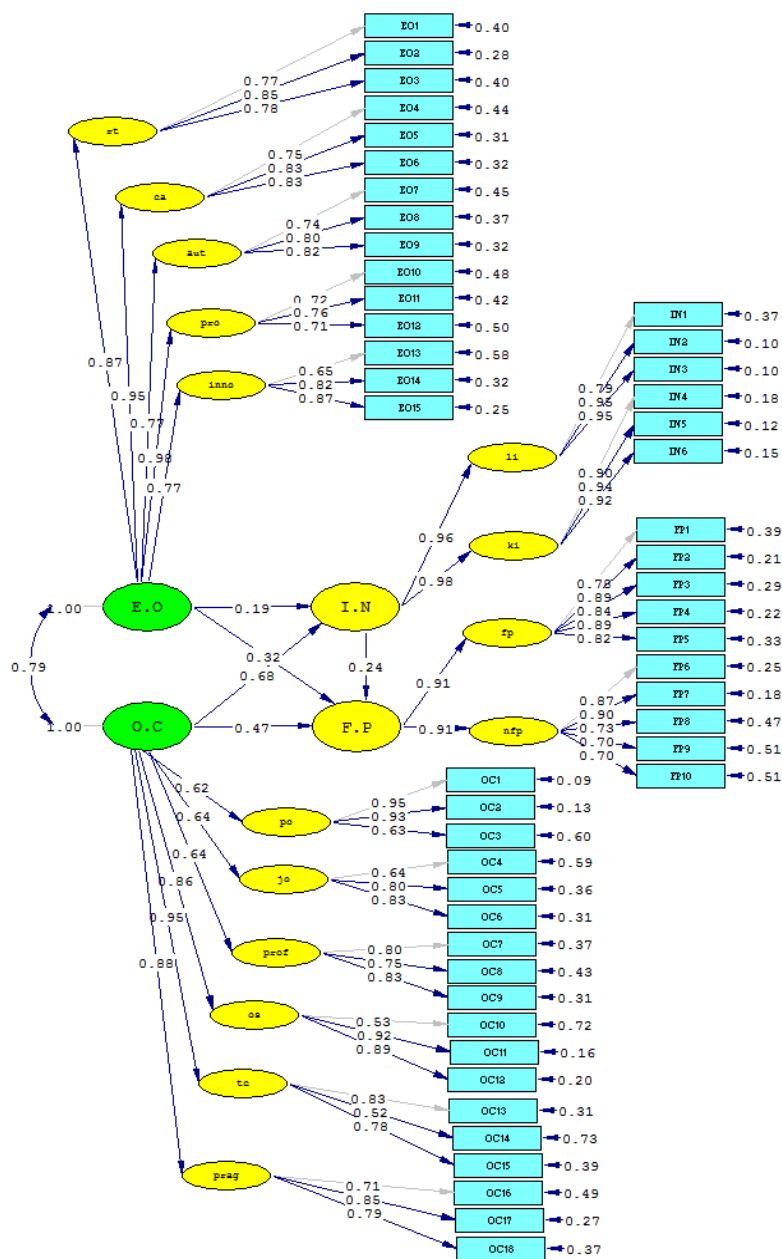
Source: Processing Results with LISREL 8.80

The CR value of the five latent dimensions of the latent variable Entrepreneurial Strategic Orientation is greater than 0.70 and the resulting VE value is greater than 0.50. This illustrates that the two latent dimensions of the Entrepreneurial Strategic Orientation variable have met reliability requirements.

Entrepreneurial Strategic Orientation affects Firm Performance

Based on the results obtained, it is known that the Entrepreneurial Strategic Orientation has a direct effect on Firm Performance with a t-value of 6.23 (t-value > 1.645), which means that hypothesis 3 is accepted. The influence of Entrepreneurial Strategic Orientation on Firm Performance is positive and significant. It means that the higher/positive Entrepreneurial Strategic Orientation, the higher/positive Firm Performance. The influence of Entrepreneurial Orientation on Firm Performance is 0.32.

The influence of Entrepreneurial Strategic Orientation on Firm Performance is positive and significant. This means that the higher/positive Entrepreneurial Strategic Orientation, the higher/positive Firm Performance, meaning that the more respondents feel brave to take risks to remain innovative even though they have to spend more; the product/service created has a uniqueness that does not yet exist in the market; and employees must be innovative, the more respondents feel that management has a significant market share; apply the principles of good financial governance; and management has a good ROA. The dimension of Entrepreneurial Strategic Orientation that most influences is proactiveness with a path coefficient of 0.98. While the most significant indicator is When making a decision, I can't be influenced by anyone, with a path coefficient of 0.68.



Chi-Square=6145.60, df=1108, P-value=0.00000, RMSEA=0.074

Figure 2. Standardized Solutions

Source: Processing Results with LISREL 8.80

Organizational Culture Affects Firm Performance

Based on the results obtained, it is known that Organizational Culture has a direct effect on Firm Performance with a t-value of 6.73 (t-value > 1.645), which means that hypothesis 4 is accepted. The influence of Organizational Culture on Firm Performance is positive and significant. It means that the higher/positive the Organizational Culture, the higher/positive the Firm Performance. As for the influence of Organizational Culture on Firm Performance, it is 0.47.

The influence of Organizational Culture on Firm Performance is positive and significant. It means that the higher/positive Organizational Culture, the higher/positive Firm Performance means that the more respondents feel that the most important issue is how employees feel about how to be educated in matters relating to roles and responsibilities; the most important issue is how the employee feels about the position; and motivated to do quality work if the system supports it, the more respondents feel that management has a significant market share; apply the principles of good financial governance; and management has a good ROA. The dimensions of Organizational Culture that most influence are tight

loose control, with a path coefficient of 0.95. The most significant indicator is OC6, namely I always focus on company goals and not on employees.

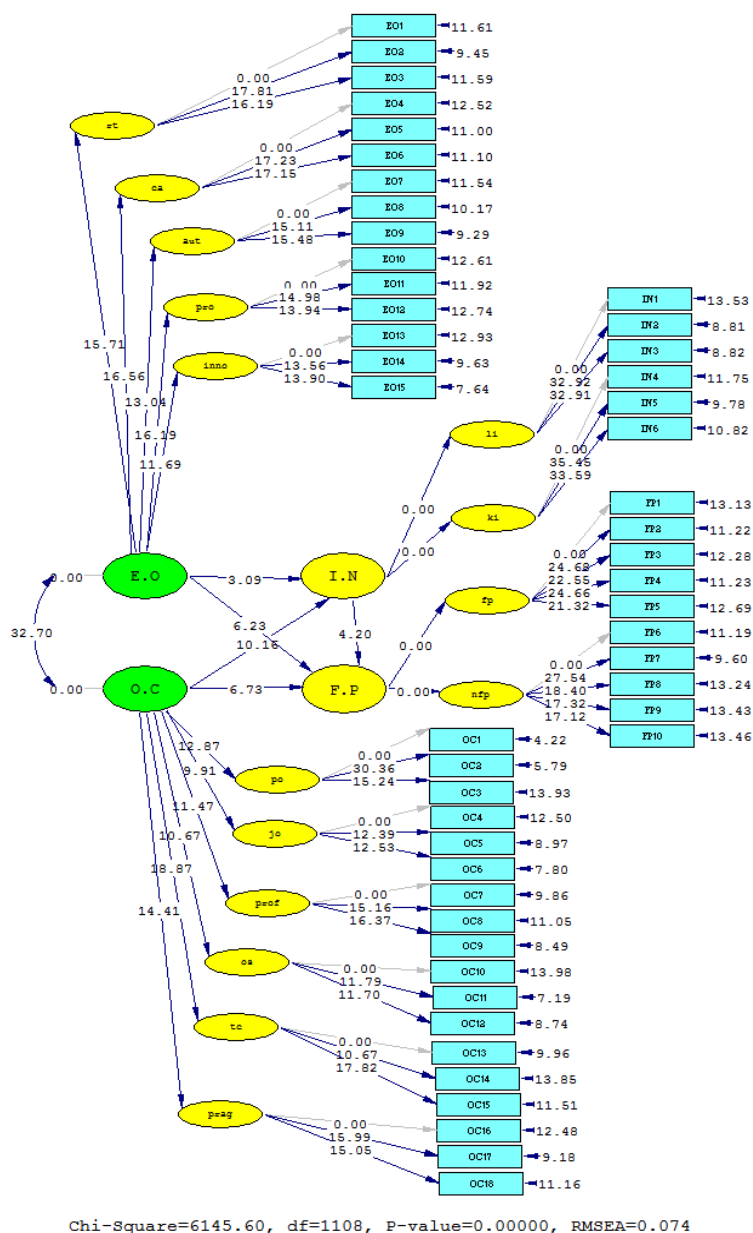


Figure 4. *t* Values.

Source: Processing Results with LISREL 8.80

In the results of data analysis using the Structural Equation Model (SEM) method and by using the LISREL 8.80 application software processing tool, a summary of the model suitability index is obtained as shown in Table 8. below:

Table 7. Model of Suitability Index

Indicator GOF	Expected size	Estimation Results	Conclusion
<i>Absolute Fit</i>			
RMSEA	RMSEA < 0,08	0,074	Good Fit
<i>Incremental Fit</i>			
NFI	NFI > 0,99	0,94	Good Fit
NNFI	NNFI > 0,90	0,95	Good Fit

Indicator GOF	Expected size	Estimation Results	Conclusion
CFI	CFI > 0,90	0,95	Good Fit
IFI	IFI > 0,90	0,95	Good Fit
RFI	RFI > 0,90	0,94	Good Fit
GFI	GFI > 0,90	0,93	Good Fit
AGFI	AGFI > 0,90	0,91	Good Fit

Source: Processing Results with LISREL 8.80

Innovation Affects Firm Performance

Based on the results obtained, it is known that Innovation has a direct effect on Firm Performance with a t-value of 4.20 (t-value > 1.645), which means that hypothesis 5 is accepted. The influence of Innovation on Firm Performance is positive and significant. It means that the higher/positive Innovation, the higher/positive Firm Performance. The partial effect of Innovation on Firm Performance is 0.24.

The influence of Innovation on Firm Performance is positive and significant. This means that the higher/positive Innovation, the higher/positive Firm Performance means that the more respondents feel that management has new knowledge in producing new goods/new services and management uses good knowledge in increasing efficiency, the more respondents feel that management has a significant market share; apply the principles of good financial governance; and management has a good ROA. The dimension of Innovation that most influences is Kind of Innovation with a path coefficient of 1.78. while the most significant indicator is Management uses good knowledge in increasing efficiency, with a path coefficient of 0.64.

Table 8. Structural Equations Direct and Indirect

<i>Structural Equations</i>			
Direct			
I.N = 0.19*E.O + 0.68*O.C, Errorvar.= 0.087 , R ² = 0.71			
(0.035)	(0.037)	(0.0093)	
3.09	10.16	9.39	
F.P = 0.24*I.N + 0.32*E.O + 0.47*O.C, Errorvar.= 0.018 , R ² = 0.93			
(0.051)	(0.026)	(0.035)	(0.0053)
4.20	6.23	6.73	3.36
Indirect			
Indirect Effects of X on ETA			
	E.O	O.C	
	-----	-----	
I.N	--	--	
F.P	0.02	0.08	
	(0.01)	(0.02)	
	2.43	4.04	

Source: Processing Results with LISREL 8.80.

Entrepreneurial Strategic Orientation and Organizational Culture simultaneously Affect Innovation

Based on the results obtained, it is known that Entrepreneurial Strategic Orientation and Organizational Culture together have an effect on Innovation with an F value of 192.851 (Fcount > Ftable), which means hypothesis 6 is accepted. The joint influence of Entrepreneurial Strategic Orientation and Organizational Culture on Innovation is positive and significant. means the higher/positive Entrepreneurial Strategic Orientation and Organizational Culture, the higher/positive

Innovation. as for the joint influence of Entrepreneurial Strategic Orientation and Organizational Culture on Innovation is 0.71.

The influence of Entrepreneurial Strategic Orientation and Organizational Culture together has a positive and significant effect on Innovation. It means that the higher/positive Entrepreneurial Strategic Orientation and Organizational Culture, the higher/positive Innovation means that the more respondents feel brave to take risks to stay innovative even though they have to spend more; the product/service created has a uniqueness that does not yet exist in the market; and employees must be innovative, and the most important issue is how employees feel about how to be educated in matters relating to roles and responsibilities; the most important issue is how the employee feels about the position; and motivated to do quality work if the system supports it, the more respondents feel that management has new knowledge in producing new goods/new services and management uses good knowledge to increase efficiency.

Entrepreneurial Strategic Orientation, Organizational Culture and Innovation simultaneously Affect Firm Performance

The results of empirical research found that Entrepreneurial Strategic Orientation, Organizational Culture and Innovation together have a direct effect on Firm Performance, it is stated that the contribution of Entrepreneurial Strategic Orientation, Organizational Culture and Innovation together to Firm Performance is 93%, while 7% influenced by other factors besides Entrepreneurial Strategic Orientation, Organizational Culture and Innovation. Partially, the most dominant factor influencing Firm Performance is the Innovation factor, which is 0.93.

The influence of Entrepreneurial Strategic Orientation, Organizational Culture and Innovation together has a positive and significant effect on Firm Performance. It means that the higher/positive Entrepreneurial Strategic Orientation, Organizational Culture and Innovation, the higher/positive Firm Performance means that the more respondents feel brave to take risks to stay innovative even though they have to spend more; the product/service created has a uniqueness that does not yet exist in the market; and employees must be innovative; and the most important issue is how employees feel about how to be educated in matters relating to roles and responsibilities; the most important issue is how the employee feels about the position; and motivated to do quality work if the system supports it; and management has new knowledge in producing new goods/new services and management uses good knowledge in increasing efficiency, the more respondents feel that management has a significant market share; apply the principles of good financial governance; and management has a good ROA.

Based on the results obtained, it is known that Entrepreneurial Strategic Orientation, Organizational Culture and Innovation jointly affect Firm Performance with an F value of 203,218 ($F_{count} > F_{table}$), which means hypothesis 7 is accepted. The joint influence of Entrepreneurial Strategic Orientation, Organizational Culture and Innovation on Firm Performance is positive and significant. It means the higher/positive Entrepreneurial Strategic Orientation, Organizational Culture and Innovation, the higher/positive Firm Performance. The large influence of Entrepreneurial Strategic Orientation, Organizational Culture and Innovation together has an effect on Firm Performance is 0.93.

CONCLUSION

The influence of Organizational Culture on Innovation is positive and significant, that is equal to 0.68. Means that the higher / positive Organizational Culture, the higher / positive the Innovation means the more respondents feel the most important problem is what the employee feels about how to be educated in matters relating to roles and responsibilities; the most important problem is what employees feel about the position; and motivated to do quality work if the system supports, the more respondents feel management has new knowledge in producing new goods / new services and management uses good knowledge to improve efficiency. the higher / positive Entrepreneurial Strategic Orientation and Organizational Culture, the higher / positive Innovation means more respondents feel brave to take risks to remain innovative even though they have to pay more; the product / service created has a uniqueness that does not yet exist in the market; and employees must be innovative, and the most important issue is what employees feel about how to be educated in matters relating to roles and responsibilities; the most important problem is what employees feel about the position; and motivated

to do quality work if the system supports, the more respondents feel management has new knowledge in producing new goods.

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