

Internalization Model

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Internationalization Model for Increasing the Competitiveness of Local Creative Industries in ASEAN Economy Community

Abstract

The main problem in this study is the weak performance of SMEs. This can be caused by business culture factors (market orientation and entrepreneurial orientation) as well as competitive strategy factor in SMEs. The research problem raised was how the effect of market orientation, entrepreneurial orientation, and competitive strategy on SME

performance. The purpose of this study was to analyse the effect of market orientation, entrepreneurial orientation, and competitive strategy on SME performance. The research sample was 100 creative industry SMEs in Special Region of Central Java Province with business field of handicrafts (various handicrafts of silver, natural fibres, earthenware, leather, and wood) and fashion business field (various batik). Hypothesis testing used path analysis. The results show that there is a positive and significant influence between market orientation and entrepreneurial orientation on competitive strategy (differentiation, low cost, and focus strategies). Market orientation and entrepreneurial orientation have a positive effect on SME performance. Competitive strategies (differentiation, low costs, and focus strategies) have a positive effect on SME performance. Entrepreneurial orientation has a higher direct influence than market orientation.

Keywords: *entrepreneurial orientation; competitive strategy; performance.*

1. Introduction

Creative industry SMEs are SMEs that focus on the creation and exploitation of intellectual property works such as art, film and television, software, games, or fashion design and include creative services such as advertising, publishing, and design. The Indonesian government has mapped 14 creative industry sectors namely: (1) advertising; (2) architecture; (3) art and antiques markets; (4) crafts; (5) design; (6) fashion; (7) video; film; and photography; (8) interactive games; (9) music; (10) performing arts; (11) publishing and printing; (12) computer and software services; (13) television and radio; and (14) research and development.

The prospect of the development of the creative industry in the Special Region of Central Java Province is very large due to the very conducive environmental conditions for the development of creative industries, especially fashion, handicraft, and information technology. This is possible because the position of Central Java as a centre of art and culture is also supported as an education centre that able to produce creative workforce in very potential quantities. The creative industry as the main pillar in developing the creative economy sector will have a positive impact on the lives of the Central Java community considering that Central Java is undergoing a social transformation that is so fast from agriculture to semi-industry, especially the creative industry.

The growth of Central Java creative industry SMEs shows a positive trend as indicated by the increasing number of industry players from year to year. In 2015, the creative industry in Central Java was 33,882 business units, in 2016 it increased to 34,977 business units, and in 2017 increased to 36,456 business units (<http://disperindag.jatengprov.go.id/v2/>).

The rapid development of creative industry SMEs in terms of the quantity of business units has not been accompanied by maximum performance due to number of obstacles faced by SMEs. These constraints include, among others, SMEs have not been maximally market-oriented as in carrying out marketing activities that are still conventional and have not maximally utilized information technology to accelerate services and expand market access (Nuvriasari, 2012). Other constraints include

limited production facilities, limited access to capital, HR skills, and the spirit of entrepreneurship (Wicaksono & Nuvriasari, 2012).

Given these limitations and given the important role of SMEs in the Indonesian economy, it is necessary to study efforts to improve the performance of creative industry SMEs by considering number of factors that influence them such as: competitive strategy, market orientation, and entrepreneurial orientation. Market orientation is the most effective and efficient organizational culture in creating behaviours that are needed for the creation of superior value for customers to produce superior business performance on an ongoing basis. Market orientation has three components, namely customer orientation, competitor orientation, and inter-functional coordination (Idar, Yusoff, & Mahmood, 2012). An entrepreneurial orientation reflects the extent to which a company identifies and exploits untapped opportunities as an organizing principle within a company (Baker & Sinkula, 2009). Entrepreneurial orientation is a significant contributor to the success of the company. The concept of entrepreneurial orientation developed a multidimensional construct which includes dimensions of innovation, risk taking, and proactive attitudes (Idar & Mahmood, 2011). Competitive strategies are intended to answer the problem of how companies must compete with competitors in similar

industries. With the existence of a competitive strategy, the company will be able to have competitive advantage compared to its competitors (Rosli, 2012). Business performance can be demonstrated through the company's success in the market. Company performance is the study of vocal phenomena in business studies but is complex and multidimensional. Performance can be characterized as a company's ability to produce acceptable outcomes (Chittithaworn, Islam, Kaewchana, & Yusuf, 2011). SME performance can be measured through: financial performance, customer loyalty, customer satisfaction, customer sustainability, and perceived performance (Mahmmod & Hanafi, 2013). The important role of market orientation and entrepreneurial orientation in influencing competing strategies and efforts to improve the performance of SMEs can be shown from the amount of previous research results. Based on the results of the study, it is explained that market orientation and entrepreneurial orientation affect the competitive strategy of SMEs (Afsharghasemi, Zain, Sambasvian, & Imm, 2013; Lechner & Gudmundsson, 2014; Mahmmod & Hanafi, 2013; Wingwon, 2012). Market orientation influences SME performance (Amario, 2008; Baker & Sinkula, 2009; Dubhilela & Dhurup, 2014; Hassim, Nizam, Talib, & Bakar, 2011; Idar & Mahmood, 2011; Olivares & Lado, 2008). Entrepreneurial orientation influences the performance of SMEs (Arshad, Rasli, Arshad, & Zain, 2014; Baker & Sinkula, 2009; Mahmmod & Hanafi, 2013; Poudel, Carter, & Lonial, 2012; Runyan, Droge, & Swinney, 2008). Competitive strategies affect the performance of SMEs (Al-Alak & Tarabieh, 2012; Chadamoyo & Dumbu, 2012; Husnah, Aisjah, & Djumadli, 2013; Yan, 2010). From number of studies, it is shown that there is a research gap which found differences in the effect of market orientation and entrepreneurial orientation on competitive strategies and SME performance.

This research is expected to provide more comprehensive results based on research gap from the results of previous research and phenomena gap that show the importance of the role of creative industry SMEs in economic activities in Indonesia that have not been accompanied by maximum performance.

The purpose of this study was to analyse the effect of market orientation and entrepreneurial orientation on the competitive strategy and performance of creative industry SMEs and examine the effect of the implementation of competitive strategies on the performance of creative industry SMEs. Besides that, the results of this study can provide recommendations for strategies to encourage the improvement of the performance of creative industry SMEs.

2. Literature Review

2.1. Market Orientation

Market orientation reflects the extent to which a company creates satisfaction by meeting customer needs and desires as an organizing principle in the company (Baker & Sinkula, 2009). Market orientation is very valuable, rare, not interchangeable, and cannot be replicated perfectly, which is considered as one of the internal capabilities and resources that have the potential to create competitive advantage (Zhou, Brown, & Dev, 2008). Market orientation contains three dimensions, namely customer orientation which consists of customer analysis and response to customers, competitor orientation which consists of competitor analysis and challenging competitor reactions, and interfunctional coordination consisting of information dissemination, data collection, and information utilization (Taleghani, Gilaninia, & Talab, 2013).

Indicators of measuring market orientation include focusing on customer satisfaction, focusing on meeting customer needs, systematic actions to create satisfaction, paying attention to after-sales services, oriented to increasing value for customers and reducing costs, and emphasizing product quality. Competitor orientation is measured through the ability to respond

quickly to competitor activities, disseminate competitor information to company elements, provide information on competitors' strengths and strategies, and ownership of competitive advantage. Inter functional coordination is measured through client data ownership on operational services, answering client needs on an inter functional basis, all service functions contribute to providing superior value to customers, all staff are aware of the importance of market data, and staff in marketing and sales play a role in new product development (Liu, Lie, & Xue, 2011). Market orientation is the principle ability and basic culture of the organization. The main purpose of market orientation is to deliver superior value to customers based on knowledge derived from customer and competitor analysis, where this knowledge is obtained and disseminated to all elements of the organization. Market orientation promotes an experimental culture and focuses on continuous improvement in corporate processes and systems (Kumar, Jones, Venkatesan, & Leone, 2011). Market orientation is an organizational perspective that encourages three main aspects, namely: (1) efforts to systematically collect market intelligence with the main sources of customers and competitors, (2) dissemination of market intelligence to all units or departments in the organization, and (3) coordinated and comprehensive organizational response to market intelligence. Market orientation is a strategy used to achieve sustainable competitive advantage based on the creation and use of information in the organization and the selection of markets to be satisfied (Oliver & Lado, 2008). Market-oriented business shows the extent to which the company is committed to responding, market intelligence dissemination, and market intelligence gathering that can be

applied to meet the needs and desires of current and future customers, competitor strategies and steps taken, and the broad business environment (Afsharghasemi et al., 2013).

2.2. Entrepreneurial Orientation

Entrepreneurial orientation is a strategic resource of organizations with the potential to produce competitive advantages.

The potential for entrepreneurial orientation and its impact on business performance depends on the role of entrepreneurial orientation as a driving force or pioneer for organizational capabilities and innovation (Poudel et al., 2012). Entrepreneurial orientation is the key to organizational success and achievement of profitability. Companies that adopt an entrepreneurial orientation will have better performance than those who do not adopt (Taylor, 2013).

Entrepreneurial orientation is very important for improving performance and competitive advantage of the company. Companies must innovate to meet the needs of potential customers, engage in new exploration, support new ideas, test and simulate creatively. All of them are efforts to produce new products, services or technological processes, and changes in technology and existing practices (Liu et al., 2011).

Entrepreneurial orientation reflects the extent to which organizations are able to identify and exploit untapped opportunities. A company is said to have an entrepreneurial orientation spirit if it is able to be the first in innovating new products in the market, having the courage to take risks, and always being proactive in changing demands for new products. Number of studies show that entrepreneurial oriented companies must have three main characteristics, namely innovation, risk taking, and a proactive attitude (Fairoz, Hirobumi, & Tanaka, 2010; Taylor, 2013).

Innovation reflects the company's tendency to engage in new ideas and creative processes to produce new products. Proactive refers to the extent to which a company becomes a leader or follower in being aggressive towards competitors. Risk takers are the extent to which companies are willing to make big and risky commitments.

Entrepreneurial orientation in SMEs can be studied based on 5 (five) dimensions, namely: innovation, proactive attitude,

risk taking, competitive aggressiveness, and autonomy (Arshad et al., 2014). Competitive aggressiveness shows the intensity of SMEs to increase their position beyond or defeat competitors. Autonomy is an individual or team action in convincing ideas and concepts that are being carried out until they are finished. Autonomy provides opportunities for employees to perform effectively with independence and creativity.

2.3. Competitive Strategy

Competitive strategies can be realized through low cost and differentiation strategies (Husnah et al., 2013). Low cost strategy focuses more on seizing the market at a low price through reducing production costs. Differentiation strategy is carried out by utilizing the peculiarities of the best models or qualities that are not found in other companies so that they attract buyers or markets.

A company can differentiate in various ways, such as offering innovative features, launching effective promotions, providing superior services, developing strong brand names, and so on (Li, Zhao, Tan, & Liu, 2008).

Competitive strategies that are of concern to SME entrepreneurs/businesses include: business management, human resources, marketing, innovation, and global orientation (Rosli,

2012).

Competitive strategies for SMEs can be in the form of low cost, differentiation, and innovation strategies (Afsharhasemi et al., 2013; Chadamoyo & Dumbu, 2012). Besides these strategies, SMEs can also develop competitive strategies in the form of alliance strategies (Yan, 2010). Competitive strategies for SMEs are shown through innovation, product quality improvement, and low costs.

2.4. Business Performance

Business performance is a function of the results of existing activities in a company that are influenced by internal and external factors in achieving the goals set for a certain period time. Business performance can be shown through financial performance that can be measured through the level of liquidity, solvency, and profitability. Business performance is represented through economic performance consisting of market share, premium growth, and profitability (Olivares & Lado, 2008). In general, it is difficult to determine a single size for company performance. Subjective approaches are often used in empirical research based on the perceptions of company leaders regarding performance. One dimension that is considered appropriate for measuring SME performance is operational performance (Bayraktar, Demirbag, Koh, Totoglo, & Zaim, 2009), namely: reduction of waiting time in production, forecasting accuracy, better resource planning, better operational efficiency, reduction in inventory levels, savings costs, and more accurate financing.

SME performance can be measured through: financial performance, customer loyalty, customer satisfaction, customer sustainability, and performance received (Mahmmod & Hanafi, 2013). Measurement of business performance with an objective approach measured through economic performance or financial performance include: ROI, profit, sales, revenue growth, and market share (Baker & Sinkula, 2009; Chadamoyo & Dumbu, 2012; Dubhilela & Dhurup, 2014; Poudel et al., 2012; Taleghani et al., 2013; Wingwon, 2012).

Measurement of business performance with a subjective approach measured through non-economic performance or non-financial performance includes: market performance, market effectiveness, market dominance, service quality, customer satisfaction, productivity, market valuation, buyer power, supplier power, sales concentration, level of customer sustainability, company reputation, employee turnover, and organizational commitment (Al-Alak & Tarabieh, 2012; Baker & Sinkula, 2009;

Husnah et al., 2013; Taleghani et al., 2013; Wingwon, 2012).

Business performance is seen as 2 (two) perspectives in the context of market orientation with objective and subjective measurements. Measurement of objective performance in the form of economic performance and subjective measurements related to the performance of non-economic aspects. Noneconomic performance can be in the form of customer satisfaction, customer sustainability, corporate image, and employee satisfaction.

Business performance in SMEs can be measured based on the achievement of marketing and financial performance (Merrilees, Thiele, & Lye, 2010). Marketing performance includes: sales growth rate, ability to acquire new customers, mastery of market share, and the ability to increase sales. Financial performance can be measured through: the level of ability to make a profit, the rate of return on investment, and the

ability to achieve overall corporate goals.

2.5. Research Hypotheses

2.5.1. Effect of Market Orientation and Entrepreneurial Orientation on Competitive Strategies

There is an influence between market orientation on competing strategies. Market orientation includes: customer orientation, competitor orientation, and coordination between functions, while competitive strategies include: innovation, quality improvement, and low-cost strategy. It is shown that customer orientation has a positive and significant effect on the overall competitive strategy. Competitor orientation has a positive and significant effect on innovation strategy and low-cost strategy. But competitor orientation does not affect the quality improvement strategy. Inter-functional coordination has a negative effect on the overall competitive strategy.

Market orientation has a significant positive effect on SME business strategies (Afsharghasemi et al., 2013). Market orientation includes: competitor orientation, customer orientation, and inter-functional coordination. Competitive strategies include: innovation strategy, differentiation strategy, and low-cost leadership strategy.

Entrepreneurial orientation in the form of dimensions of innovation is positively related to competitive strategies in the form of low-cost and differentiation strategies. However, entrepreneurial orientation in the form of risk-taking and competitive aggressiveness dimensions does not affect competitive advantage strategies (Lechner & Gudmundsson, 2014).

Entrepreneurial orientation has a positive effect on competitive strategies of SMEs (Wingwon, 2012). Entrepreneurial orientation is positively and significantly related to the performance of SMEs with a competitive advantage strategy as a mediating variable. Competitive advantage is shown through product differentiation, market sensing, and market responsiveness (Mahmoud & Hanafi, 2013).

Based on the description, the following hypotheses are proposed:

H1

: Market orientation has a positive effect on SME's competitive strategy.

H1a : Market orientation has a positive effect on differentiation strategy.

H1b : Market orientation has a positive effect on low cost strategy.

H1c : Market orientation has a positive effect on the focus strategy.

H2

: Entrepreneurial orientation has a positive effect on SME's competitive strategy.

H2a : Entrepreneurial orientation has a positive effect on differentiation strategy.

H2b : Entrepreneurial orientation has a positive effect on low cost strategy.

H2c : Entrepreneurial orientation has a positive effect on focus strategy.

2.5.2. Effect of Market Orientation and Entrepreneurial Orientation on Business Performance

Market orientation has a positive effect on SME business performance (Dubhilela & Dhurup, 2014; Idar & Mahmood, 2011; Liu et al., 2011; Olivares & Lado, 2008). Market orientation negatively affects the performance of SMEs (Hassim et al., 2011). Entrepreneurial orientation has a positive effect on SME

performance (Hassim et al., 2011; Idar & Mahmood, 2011; Keh, Nguyen, & Ng, 2008; Liu et al., 2011). Runyan et al. (2008) showed that entrepreneurial orientation has a positive influence on the performance of SMEs only in “young” business groups that run businesses less than 11 years. In business groups of more than 11 years, entrepreneurial orientation has no influence on the performance of small business.

There is a positive relationship between entrepreneurial orientation and SME performance mediated by technological capabilities, innovation, and growth (Poudel et al., 2012).

Entrepreneurial orientation includes: innovation, risk taking, and proactivity, while financial based performance appraisal includes: ROA, ROI, net income, and profit to income ratio.

Entrepreneurial orientation consisting of dimensions of innovation, proactivity, risk taking, competitive aggressiveness, and autonomy affects the business performance of SMEs (Arshad et al., 2014). The four dimensions of entrepreneurial orientation have a positive effect on business performance but for the autonomy dimension have a negative effect on business performance.

Partially, market orientation and entrepreneurial orientation affect the performance of SMEs, but simultaneously entrepreneurial orientation does not directly affect the performance of SMEs (Baker & Sinkula, 2009). Market orientation consisting of customer intelligence, intelligence dissemination, and responsiveness has a positive effect on SME performance. SME performance is measured by an objective and subjective approach. The objective approach through financial performance. The subjective approach is measured through the level of customer sustainability, reputation over competitors, employee turnover, and product development effectiveness. Based on the explanation, the following hypotheses were formulated:

H4 : Market orientation has a positive effect on SME performance.

H4

H3

H3 : Entrepreneurial orientation has a positive effect on SME performance.

2.5.3. Effect of Competitive Strategies on Business Performance

There is a positive relationship between competitive advantage strategies consisting of cost strategy, differentiation strategy, innovation strategy, and alliance strategy on SME performance (Yan, 2010). Similar findings were also expressed by Chadamoyo and Dumbu (2012) where a joint strategy that includes cost, differentiation, and innovation strategy has a positive effect on SME performance. Competitive advantage strategies which consist of low-cost leadership and differentiation have a positive relationship with the performance of SMEs (Al-Alak & Tarabieh, 2012; Husnah et al., 2013).

Based on the explanation, the following hypotheses were formulated:

H5

H5 : Competitive strategy has a positive effect on SME performance.

H5a : Differentiation strategy has a positive effect on SME performance.

H5b : Low cost strategy has a positive effect on SME performance.

H5c : Focus strategy has a positive effect on SME performance.

Based on the formulation of the research hypotheses, the research framework can be described as shown in Figure 1.

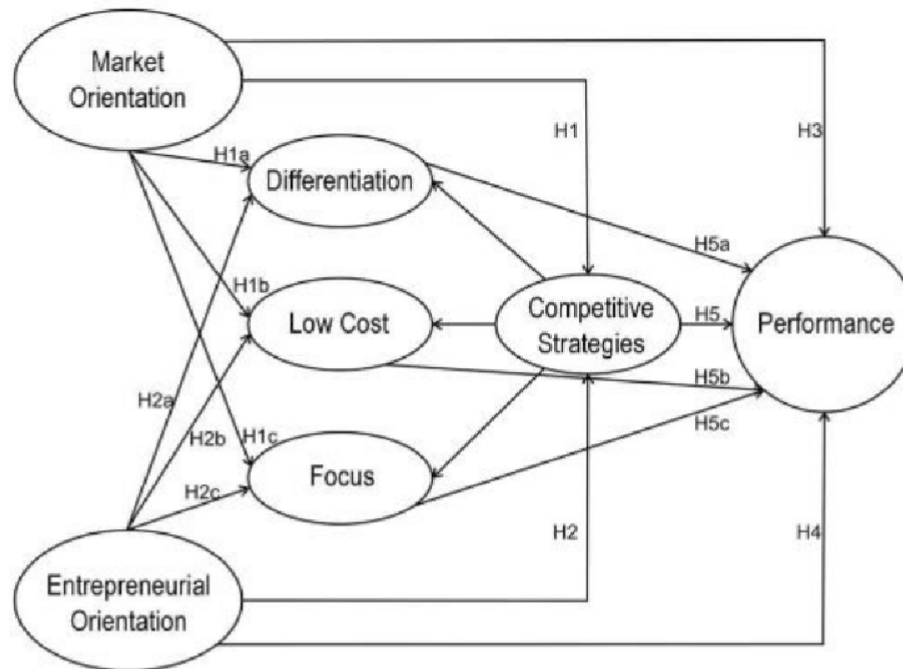


Figure 1. Research Theoretical Framework

3. Research Methods

This research is a quantitative research aimed at answering problems through measurement techniques of research variables to produce conclusions that can be generalized. Research samples are creative industry SMEs engaged in fashion and handicraft business in Special Region of Central Java Province.

The sampling technique used purposive sampling by considering certain criteria, namely:

1. The criteria for categorizing SMEs are based on Law No. 20 of 2008 concerning MSMEs.
2. SMEs are incorporated in a centre or community that engages in various handicraft businesses, which consist of various handicrafts of silver, natural fibres, pottery, leather and wood, and fashion business that consists of various batik handicrafts.

Determination of the sample size in multivariate research is the amount of sample size 10 times greater than the number of variables used in the study (Sugiyono, 2010). The number of dependent and independent variables in this study are 6 variables. In this study, the sample size used was 100 SMEs in the creative and fashion industries in the Special Region of Central Java Province.

Data collection method began with observations on creative industry SMEs to identify feasibility to become a research sample and initial data acquisition in research respondents' profiling.

Based on the results of observations, carried out data collection through the distribution of questionnaires to research samples related to the assessment of market orientation, entrepreneurial orientation, competitive strategy, and SME performance.

The questionnaire used open and closed model questions.

The variable measurement scale used a 4 (four) tiered Likert scale with no good criteria (score 1) until well (score 4).

The variables in this study include market orientation, entrepreneurial orientation as independent variable, competitive strategies (differentiation, low costs, and focus strategy) as the intermediate variable, and the performance of SMEs as the dependent variable.

Market orientation is a business culture that produces superior performance through its commitment to creating superior value for customers, which is developed through customer orientation, competitor orientation, and inter-functional

coordination. In this study, the indicators developed for each market orientation dimension are adopted from a number (Idar & Mahmood, 2011; Idar et al., 2012) indicators of customer

orientation dimension include: customer satisfaction orientation, meeting consumer needs and desires, monitoring the market environment/conditions, and service standards. Indicators of competitor orientation dimension include: response to competitor attacks, specific strategies to overcome competition, competitive pricing, and product acceptance in the market. Interfunctional coordination indicators include: dissemination of market information, support for human resources for marketing and product development, coordination between units with consumer orientation, and commitment of all human resources to customer satisfaction creation.

Entrepreneurial orientation is a multidimensional construct which includes dimensions of innovation, risk taking, and proactive attitudes. In this study, indicators for each dimension of entrepreneurial orientation were adopted from number of studies (Fairoz et al., 2010; Idar & Mahmood, 2011; Keh et al., 2008). Indicators of the dimension of innovation include: creativity and initiative, attention to market research, technology and innovation, different new product variant/types in the last 3 years, product design and packaging renewal, and renewal of production processes/new products/new services. Indicators of the dimension of risk taking include: readiness to face situations of business uncertainty, the ability to take account risks, responsibility for risks that arise, and courage to act to maximize the potential opportunities that exist. Indicators of the dimension of proactive attitudes include: confidence in running a business, a pioneer in introducing new products, proactively responding to market desires, and activeness in fostering partnership with other parties.

The concept of competitive strategy is developed through strategies for the creation of competitiveness/competitive advantage, namely: cost leadership, differentiation, and focus strategy. Competitive strategy indicators are developed from number of studies (Afsharghasemi et al., 2013; Suci, 2009; Yan, 2010). Indicators of differentiation strategy include: the intensity of introducing new products, the uniqueness of products, products not easily replicated, developing the identity/brand of a business/product with certain characteristics, and offering different prices with other SMEs. Low cost strategy indicators include: lower production costs, emphasis on business efficiency and productivity, optimizing the use of production facilities and infrastructure, producing cost-efficient products, using low-cost raw materials, and utilizing low-wage labour. Focus strategy indicators include: serving certain segments or market groups, focusing on producing certain products, focusing

on serving certain market areas, and focusing on serving certain customers.

The performance of SMEs is the process and results of work on the ability to manage resources, where performance can be measured through objective and subjective performance. In this study, performance measurement is measured through subjective performance grouped in marketing, financial, and operational performance. Measurement of marketing and financial performance was adopted from number of studies (Merrilees et al., 2010). Operational performance measurement was adopted from research of Bayraktar et al. (2009). Marketing performance indicators include: the level of sales growth, the ability to acquire new customers, mastery of market share, and increased sales that are better than existing customers. Financial performance indicators include: ability to make a profit, return on investment, and achievement of financial goals. Operational performance indicators include: reduction of waiting time in the production process, ability to plan and allocate resources, and operational efficiency in running a business.

Data analysis techniques in this study are quantitative analysis by using descriptive and inferential statistical tools. Descriptive statistics are used to provide an overview of the sample and research variables by using the frequency distribution model and the mean. Inferential statistical tools in this study used path analysis, namely the analysis of causal models of independent variables (exogenous), intermediate

variables (endogenous), dependent variables (endogenous), and all measured variables. The path analysis application in this study is the development of the Multiple Regression Analysis (MRA). Path analysis is intended to analyse the causal relationship that occurs in multiple regression if the independent variable affects dependent variables not only directly but also indirectly.

4. Analysis and Discussion

4.1. Profiling Sample of Creative Industry SMEs

The sample in this study consisted of 100 creative industry SMEs in Central Java which were divided into craft businesses (various handicrafts of natural fibre, silver, earthenware, leather, and wood) as many as 70 SMEs and fashion businesses (various batik) as many as 30 SMEs. The research sample profile can be shown in the table 1.

No.	Profile of SMEs	N	Percentage
1	Business history:		
	Heritage	51	51%
	Self-pioneering	49	49%
2	Number of HR (people):		
	5-19	66	66%
	>19	34	34%
3	Business legality:		
	Incorporated company	1	1%
	Limited partnership	12	12%
	Not yet	87	87%
4	Marketing area:		
	Domestic	57	57%
	Overseas	43	43%
5	IT utilization:		
	User	60	60%
	Have not used	40	40%
6	SME assets (Rp):		
	50 million - 500 million	100	100%
	500 million - 2.5 billion	0	0%
7	Sales/year		
	300 million - 2.5 billion	100	100%
	2.5 billion - 50 billion	0	0%

Table 1. Profiling Sample of Creative Industry SMEs

Source: Processed Data, 2015

4.2. Assessment of Market Orientation, Entrepreneurial Orientation, Competitive Strategies, and SME Performance

Assessment of market orientation, entrepreneurial orientation, competitive strategy, and performance of SMEs is based on calculating the range of scales with the following categories: scores of 3.26-4.00 (good), 2.51-3.25 (good enough), 1.76-2.50 (poor) and 1.00-1.75 (not good). Respondents in this study were the owners or responsible person of SME.

Market orientation consists of customer orientation (4 items), competitor orientation (4 items), and inter-functional coordination (4 items). Entrepreneurial orientation consists of dimension of innovation (5 items), risk taking (4 items), and proactive attitude (4 items). Competitive strategies consist of differentiation strategy (5 items), low cost strategy (6 items), and focus strategies (4 items). SME performance consists of marketing performance (4 items), financial performance (3 items), and operational performance (3 items).

The assessment of market orientation in SMEs is considered to be quite good on average (90%), the assessment of entrepreneurial orientation in SMEs is considered to be quite good on average (90%), the implementation of differentiation strategy on SMEs is considered quite good on average (53%), the implementation of the low cost strategy for SMEs is considered to be fairly good on average (72%), and the implementation of the focus strategy on SMEs is considered poor on average

(58%). The performance of SMEs is considered good enough on average (84%).

4.3. Hypothesis Testing

4.3.1. Effect of Market Orientation and Entrepreneurial

Orientation on Differentiation Strategy

The results of multiple regression analysis to analyse the effect of market orientation (X1) and entrepreneurial orientation (X2) on differentiation strategy, obtained the following results:

The multiple coefficient of determination (R^2) is 0.100, which

means that the variables of market orientation and entrepreneurial orientation contribute to the influence of differentiation strategy on the SMEs in the fashion and craft creative industries by 10.0%.

The results of hypothesis testing with F test obtained results = 5.382; with p-value = 0.000 ($p < 0.05$). This shows that there is a significant influence between market orientation and entrepreneurial orientation on differentiation strategy in creative industry SMEs.

The results of partial hypothesis testing using t test obtained the results of t count 1 = 2.145 with p-value = 0.034 and t count 2 = 1.969 with p-value = 0.052. These results indicate that: (1) There is a positive and significant influence between market orientation on differentiation strategy in creative industry SMEs. (2) There is no significant influence between entrepreneurial orientation on differentiation strategy in creative industry SMEs. Thus, H1a proposed in this study is proven or acceptable, whereas H2a is rejected.

Research findings that explain that market orientation has a positive effect on SME competitive strategies in the form of differentiation strategy supports the results of Afsharghasemi et al. (2013).

Researchers' findings that explain that entrepreneurial orientation does not influence differentiation strategy partially support the research results of Lechner and Gudmundsson (2014) which suggest that entrepreneurial orientation in the form of risk-taking and competitive aggressiveness dimensions does not affect differentiation strategy.

In this study, entrepreneurial orientation has no effect on differentiation strategy, because creative industry SME business people have not been optimally oriented towards innovation. This can be shown from the results of the descriptive analysis on the dimension of innovation which shows that business actors are considered not oriented to the development/renewal of product design and packaging. Business actors do not consider technological renewal in the production process to be very important in supporting the business.

This is because business actors still rely on traditional and simple equipment/technology in the production process, considering the products produced are more accentuating the art and natural elements. An assessment of the dimension of risk taking can be shown that business actors have not dared to maximally utilize existing business potential/opportunities such as: entering new markets and producing products that are truly new to the market. An assessment of the dimension of proactive attitudes can be shown that business actors have not been oriented to be a pioneer in the introduction of new products.

Such conditions do not encourage businesses to implement differentiation strategy in the form of introducing new products that are different from other business actors, producing products that are not easily replicated by other business actors, and price differentiation. Thus, it can be explained that the potential for entrepreneurial orientation will affect the competitive strategy of an organization.

This is in line with the opinion of Poudel et al. (2012) which states that entrepreneurial orientation is a strategic resource of

an organization with the potential to produce competitive advantage. The potential for entrepreneurial orientation and its impact on business performance depends on the role of entrepreneurial orientation as a driving force or pioneer for organizational capabilities and innovation.

The findings that entrepreneurial orientation has no effect on differentiation strategies do not support research of Wingon (2012) and Suci (2009) which states that entrepreneurial orientation has a positive and significant influence on differentiation strategies.

4.3.2. Effect of Market Orientation and Entrepreneurial Orientation on Low Cost Strategy

The results of multiple regression analysis show the value of the multiple coefficient of determination (R^2) of 0.164 which

means that statistically the market orientation and entrepreneurial orientation variables contribute to the influence of the low-cost strategy on the creative industry SMEs by 16.4%. Hypothesis test results with F test obtained results = 9.514; with p-value = 0.000 ($p < 0.05$). This shows that there is a significant influence between market orientation and entrepreneurial orientation simultaneously on the low-cost strategy for creative industry SMEs.

The results of partial hypothesis testing using t test obtained the results of t count 1 = 3.246 with p-value = 0.002 and t count 2 = 2.156 with p-value = 0.034. These results indicate that: there is a positive and significant influence between market orientation and entrepreneurial orientation partially on low cost strategy on creative industry SMEs. Thus, H1b and H2b proposed in this study are proven or acceptable.

The results of this study support the partial research of Afsharghasemi et al. (2013) which explains that market segments consisting of customer orientation, competitor orientation, and inter-functional coordination dimensions had a positive influence on low cost strategy for manufacturing SMEs in Malaysia. This study partially supports the research results of Ge and Ding (2005) which explains that market orientation consisting of dimension of customer orientation and competitor orientation has a positive and significant effect on low cost leadership strategy in companies in China, but the inter-functional dimension has no effect.

Entrepreneurial orientation has a positive and significant influence on the low-cost strategy, partially supporting research of Lechner and Gudmundsson (2014). Whereas the entrepreneurial orientation in the form of dimension of innovation has a positive effect on low cost strategy but the dimension of risk taking has no effect.

4.3.3. Effect of Market Orientation and Entrepreneurship Orientation on Focus Strategy

The results of multiple regression analysis show the value of the multiple coefficient of determination (R^2) of 0.263 which

means that statistically the market orientation and entrepreneurial orientation variables contribute to the influence on the focus strategy of creative industry SMEs by 26.3%.

The results of the partial hypothesis testing using t test obtained the results of t count 1 = 3.336 with p-value = 0.001 and t count 2 = 4.015 with p-value = 0.000. These results indicate that: there is a positive and significant influence between market orientation and entrepreneurial orientation partially on the focus strategy of creative industry SMEs.

Hypothesis test results with F test obtained results = 17.263;

with $p\text{-value} = 0.000$ ($p < 0.05$). This shows that there is a significant influence between market orientation and entrepreneurial orientation simultaneously on the focus strategy of creative industry SMEs.

4.4. Effect of Market Orientation, Entrepreneurial Orientation, and Competitive Strategies on SME Performance

The results of multiple regression analysis show the value of multiple determination coefficient (R^2) of 0.487 which means

that statistically the variables of market orientation, entrepreneurial

orientation, and competitive strategies on SMEs (differentiation, low cost, and focus) contribute to the influence on the performance of SMEs in creative industries by 48.7%.

The results of partial hypothesis testing using t test obtained the results of t count 1 = 2.063 with $p\text{-value} = 0.042$, which means that there is a positive and significant influence between market orientation on the performance of SMEs in the creative industry. These results support the H3 proposed in this study so that the hypothesis is accepted.

The results of t count 2 = 2.865 with $p\text{-value} = 0.005$, which means that entrepreneurial orientation has a positive and significant effect on the performance of creative industry SMEs. These results support the H4 proposed in this study so that the hypothesis is accepted.

The results of t count 3 = 3.150 with $p\text{-value} = 0.002$ which means that the differentiation strategy has a positive and significant effect on the performance of SMEs in the creative industry. These results support the H5a proposed in this study so that the hypothesis is accepted.

The results of t count 4 = 2.038 with $p\text{-value} = 0.044$, which means that low cost strategy has a positive and significant effect on the performance of SMEs in creative industries. These results support the H5b proposed in this study so that the hypothesis is accepted.

The results of t count 5 = 2.710 with $p\text{-value} = 0.008$, which means that the focus strategy has a positive and significant effect on the performance of SMEs in the creative industry. These results support the H5c proposed in this study so that the hypothesis is accepted.

Hypothesis test results with F test obtained results = 17.879; with $p\text{-value} = 0.000$ ($p < 0.05$). This shows that there is a positive and significant influence between market orientation, entrepreneurial orientation, and competitive strategies (differentiation, low cost, and focus) simultaneously on the performance of creative industries SMEs.

Research findings where market orientation has a positive and significant effect on the performance of SMEs supports the results of previous studies (Dubhilela & Dhurup, 2014; Idar & Mahmood, 2011; Liu et al., 2011; Olivares & Lado, 2008). However, it does not support other studies which show that there is a negative relationship between market orientation on SME performance (Hassim et al., 2011).

The findings in this study that entrepreneurial orientation has a positive influence on the performance of SMEs support the results of previous studies (Fairoz et al., 2010; Hassim et al., 2011; Idar & Mahmood, 2011; Keh et al., 2008; Liu et al., 2011; Suci, 2009). However, the findings of this study do not support research which states that entrepreneurial orientation does not affect the performance of SMEs (Arief, Thoyib, Sudiro, &

Rohman, 2013; Setyawati, 2013). This is because the educational background of entrepreneurs who are on average are still low so that their entrepreneurial insights are still very minimal.

The findings in this study that competitive strategies have a positive effect on the performance of SMEs support the results of previous studies (Al-Alak & Tarabieh, 2012; Chadamoyo & Dumbu, 2012; Husnah et al., 2013; Yan, 2010). Where competitive strategies consist of low-cost leadership and differentiation have a positive relationship with the performance of SMEs, but the results of this study do not support research of Suci (2009) which explains that business strategies have a negative and significant impact on SME performance, because SMEs do not implement business strategies purely but implementing a hybrid business strategy.

A summary of the results of the regression analysis for testing the effect of market orientation, entrepreneurial orientation, and competitive strategies on the performance of creative industry SMEs can be shown in Table 2.

Further analysis in testing the hypothesis above is path analysis, the results of which can be shown in Figure 2.

Table 2.
Regression Analysis
with Performance
as a Dependent Variable

Source:
Primary Data Processed

Independent Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig. (p)
	B	Std. Error			
(Constant)	0.656	0.315		-	-
Market Orientation (X1)	0.187	0.090	0.173	2.063	0.042 [*]
Entrepreneurial Orientation (X2)	0.265	0.092	0.240	2.865	0.005 [*]
Differentiation Strategy (Y1.1)	0.117	0.037	0.250	3.150	0.002 [*]
Low Cost Strategy (Y1.2)	0.096	0.047	0.168	2.038	0.044 [*]
Focus Strategy (Y1.3)	0.094	0.035	0.233	2.710	0.008 [*]
R = 0.698					
R ² = 0.487					
F count = 17.879					
Sig. (p) = 0.000					

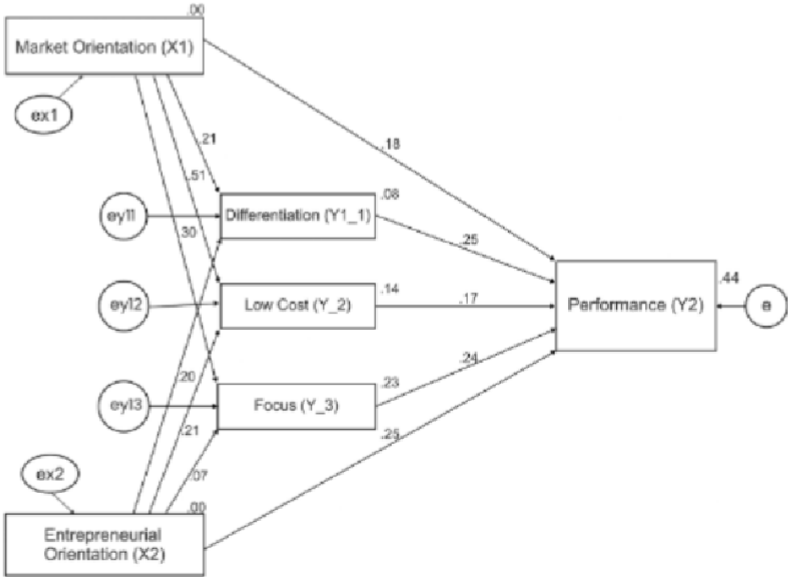


Figure 2.
Path Analysis Mode

Endogenous/ Dependent Variables	Exogenous/Independent Variables	Effects (%)		
		Direct	Indirect	Total
Differentiation Strategy (Y1.1)	Market Orientation (X1)	49.0	-	49.0
	Entrepreneurial Orientation (X2)	46.0	-	46.0
Low Cost Strategy (Y1.2)	Market Orientation (X1)	58.2	-	58.2
	Entrepreneurial Orientation (X2)	20.8	-	20.8
Focus Strategy (Y1.3)	Market Orientation (X1)	30.5	-	30.5
	Entrepreneurial Orientation (X2)	36.7	-	36.7
Business Performance (Y2)	Market Orientation (X1)	18.1	18.2	36.3
	Entrepreneurial Orientation (X2)	25.0	17.4	42.4
	Differentiation Strategy (Y1.1)	25.9	-	25.9
	Low Cost Strategy (Y1.2)	17.3	-	17.3
	Focus Strategy (Y1.3)	23.8	-	23.8

Table 3.
Direct and Indirect Effects
of Exogenous Variables
on Endogenous Variables

Source:
Primary Data Processed

Based on the results of the analysis with AMOS software as listed in the picture above, it can be briefly presented the direct effect and indirect effect of each exogenous variable (independent variable) on the endogenous variable (dependent variable) as presented in Table 3.

Table 3 above shows that the direct effect of market orientation on the performance of creative industry SMEs is 18.1% and indirect effect of 18.2%. As for the entrepreneurial orientation variable, the direct effect on the performance of creative industry SMEs is 25.0% and indirect effect is 17.4%. This shows that entrepreneurial orientation has a greater direct influence on the performance of creative industry SMEs than market orientation.

5. Conclusion

Market orientation and entrepreneurial orientation simultaneously have a positive and significant effect on competitive strategies of creative industry SMEs. Market orientation has a positive and significant effect on differentiation strategy and entrepreneurial orientation has no effect. Market orientation and entrepreneurial orientation both partially and simultaneously influence the low-cost strategy. Market orientation and entrepreneurial orientation both partially and simultaneously influence the focus strategy.

Market orientation and entrepreneurial orientation both partially and simultaneously have a positive and significant effect on the performance of creative industry SMEs. Competitive strategies consisting of differentiation, low cost, and focus strategies both partially and simultaneously have a positive and significant effect on the performance of SMEs in creative industries.

Market orientation has a greater direct influence on differentiation strategy and low-cost strategy, compared to entrepreneurial orientation. Market orientation has a greater direct influence on low cost strategy than entrepreneurial orientation. Market orientation has a smaller direct influence on the focus strategy, compared to the entrepreneurial orientation. Differentiation strategy has a greater direct influence on the performance of creative industry SMEs than low cost and focus strategies.

Market orientation has a direct influence on the performance of SMEs by 18.1% and indirect influence by 18.2%. Entrepreneurial orientation has a direct influence on the performance of SMEs by 25% and indirect influence by 17.4%. This shows that entrepreneurial orientation has a greater influence on the performance of SMEs compared to market orientation.

The managerial implications of the results of this study are the need to recommend strategies that support the improvement of the performance of creative industry SMEs based on market

orientation and entrepreneurial orientation. Market orientation based strategies can be realized through strategies: intensive marketing strategy, creation of customer satisfaction strategy, creation of competitive advantage strategy, and reinforcement organizational culture strategy.

Intensive marketing strategy is a series of actions to introduce SME products to new regions and or consumers and

increase marketing activities in the markets that have been served to increase market share. This can, among other things, be carried out by aggressively promoting SME marketing activities supported by information technology (e-commerce) to expand market access and proactively participate in trade exhibition/expo activities. Customer satisfaction creation strategy is an SME product/service delivery strategy that exceeds expectations from consumers. This can be done by providing excellent service for consumers, offering quality products, and building long-term relationships with customers. Competitive advantage strategy is a strategy to highlight the superiority of SMEs that are more than similar competitors obtained through offering greater value to consumers, either by giving lower prices, providing greater benefits, and better SME services compared to other SMEs with more prices compete. This can, among other things, be done through highlighting the uniqueness of products that are characteristic of SME products, designing products, packaging and labelling that are different from other SMEs, and implementing a hybrid or combination strategy by offering unique/distinctive products and lower prices through operational cost efficiency. The strategy of strengthening organizational culture is realized through actions to strengthen the values, norms, and policies of SMEs that have been agreed upon in running the business. This can be done through changing the mindset of entrepreneurs from sales oriented to marketing orientation, emphasizing joint commitment in SMEs to be oriented towards customer satisfaction, fostering a conducive SME working climate, and increasing attention to humans (humanity oriented) through the ranks of HR welfare in SMEs.

Strategies that support the improvement of SME performance based on entrepreneurial orientation can be done through strategies: capacity building strategy, self-motivation strategy, organizational innovation strategy, and partnerships (alliances strategy).

Capacity building strategy is a series of actions to improve skills of entrepreneurship, SMEs or groups of SMEs or existing systems to achieve better goals or performance. This can be done through improving technical competence, marketing, human resource management, business finance, and conceptual competence in an entrepreneur. The strategy to increase self-motivation is an encouragement to develop self-enthusiasm for entrepreneurs through positive suggestions to achieve business goals/success. This can be done by developing entrepreneurial soft skills through fostering a positive attitude towards entrepreneurship, maintaining consistency in the business so that business actors do not easily give up, foster perseverance, work hard, and are oriented towards business success so that they can be motivators for other SMEs. The strategy of developing organizational innovation is a mechanism for SMEs to be able to adapt in a dynamic environment through the creation of new ideas by offering innovative new products/services/systems that are oriented towards increasing customer satisfaction. This can be done through the development of production process

innovation, product innovation, marketing innovation, business management innovation, and business administration innovation. Partnership strategy is an agreement between two or more partners to collaborate in sharing knowledge and resources to

achieve strategic goals. This can be done by encouraging a proactive attitude from entrepreneurs to expand the network of partnerships or collaboration with fellow SMEs in and or outside the centres/communities, cooperation with large businesses, collaboration with higher education institutions and other government/private institutions related to SME development.

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