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RESEARCH ARTICLE

THE ROLE OF INNOVATION, ENTREPRENEURSHIP AND MARKET ORIENTATION TO THE SMALL MEDIUM ENTERPRISES PERFORMANCE CASE STUDY IN SIDOARJO EAST JAVA

***Muslichah Erma Widiana**

Faculty Economics, Bhayangkara University Surabaya Indonesia

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ABSTRACT

The category of micro, small and medium-sized enterprises (SMEs) in reality is an indicator of Indonesia's economic resilience. Sidoarjo is a city of support for Surabaya and has a very vital economic function. Even with the establishment of several major industries here, Sidoarjo is already part of a nationwide industry. If looking at the data about Sidoarjo, precisely this city is proclaimed as "City of SMEs Indonesia". How not in the district of 591.59 square kilometers divided into 18 districts, there are 171,264 businesses that are divided into large businesses 16,000 businesses, 154,891 micro and small and medium enterprises. The purpose of this research is to know the role of innovation orientation as the variation variable of entrepreneurship orientation and market orientation toward market performance of SMEs.

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INTRODUCTION

The category of micro, small and medium-sized enterprises (SMEs) in reality is an indicator of Indonesia's economic resilience, it can be proved during the economic crisis that hit Indonesia where the effects of the economic crisis are not to impact on SMEs activities. Resilience is due to SMEs are not too dependent on imported raw materials, where the majority of raw materials on MSMEs are local goods. In addition, SMEs can survive the impact of the crisis due to SMEs have a relatively high market potential because of the relatively cheap production prices and affordable by the wider community. This makes SMEs have a strategic role in the Indonesian economy.

The meaning of entrepreneurship orientation refers to the tendency of organizational decision making to support entrepreneurial activities (Fatoki, 2012). The entrepreneurship orientation is also an individual process in pursuit of entrepreneurship opportunities based on the level and nature of available resources that are reflected through innovative, risk-taking, and proactive attitudes (Jalali *et al*., 2014). Pro-active means that an entrepreneur has an initiative and does not wait, and thinks visionary so as to have both short and long term planning, willing to learn from experience, failure, and can receive criticism and suggestions to develop his business (Soegiastuti & Haryani, 2013). Dare to take risks means that business actors take risks by adjusting the risk profile and risk benefits to a business (Isa, 2013), while having an innovative attitude or mindset is also very important for the survival of a business, usually, entrepreneurs with an entrepreneurial orientation Will be more daring and effective in managing innovative ideas than those that do not (Hafeez *et al*., 2012). Innovation, in the general sense, can be seen as the process of designing, developing and implementing new products or services to improve economic, physical and logical parameters in a manageable process (Rahman and Ramos, 2010). However, innovation in MSME is not just a kind of change in an entity. Innovation, in this case, focuses on qualitative change and is primarily targeted to increase the knowledge gains that will lead to economic benefits. Thus, innovation is not just adapting new things from a person, but creating something yourself as a new, at least no similarity in the previous form. Innovations in SMEs can combine product specialization, or targeted commercialization, or a deliberate discovery in an effort to increase the value of the product. To that end, innovation is increasingly regarded as one of the main drivers of the company's long-term success in today's competitive market (Baker and Sinkula, 2002; Darroch and McNaugton, 2002; Lyon and Ferrier, 2002). Market orientation is defined as the most effective organizational culture in creating important behaviors for the creation of superior value for buyers as well as performance in business (Narver and Slater, 1990). Various activities of batik SMEs, in essence, require clarity in market orientation, where Narver and Slater (1990) states that market orientation consists of three

Corresponding author:* **Muslichah Erma Widiana,
Faculty Economics, Bhayangkara University Surabaya Indonesia.

behavioral components, including customer orientation, competitor orientation, and inter-functional coordination. Lianto *et al*. (2015) revealed that improving the performance of a business is driven by the innovation efforts that can be done a business. Companies that are able to innovate are believed to improve performance, but also be trusted to help a business in the face of competition in an evolving industry environment. Sidoarjo is a city of support for Surabaya and has a very vital function. Even with the establishment of several major industries here, Sidoarjo is already part of a nationwide industry. If looking at the data about Sidoarjo, precisely this city is proclaimed as "City of SMEs Indonesia". How not in the district of 591.59 square kilometers divided into 18 districts, there are 171,264 businesses that are divided into large businesses 16,000 businesses, 154,891 micro and small and medium enterprises. In addition, there are about 82 industrial centers that grow and add more about 11 business villages (Kampoeng Batik, Kampong Jajanan, Kampong Bebek, Kampong Krupuk, Kampong Shoes, Kampong Sayangan, Kampong Lele, Kampong Mushroom, Village Smoke etc). The diversity of creative business units developed by Sidoarjo-based SMEs is certainly a positive impact on the people's economy. In addition, wide-ranging business opportunities and cooperation for communities throughout Indonesia to order and resell the products of this Sidoarjo crafters. The purpose of this research is to know the role of innovation orientation as the variation variable of entrepreneurship orientation and market orientation toward themarket performance of SMEs.

Literature Review

Market Orientation: Uncles (2000) defines market orientation as a process and activity related to customer creation and satisfaction by assessing customer needs and wants continuously. Application of market orientation will bring improved performance for the company. Martin (2006) simply says that market orientation is a superior skill in understanding and satisfying customers. Thus, market orientation is a set of beliefs that place customers in the first stage, while excluding from all other stakeholders, such as owners, managers, and employees, to develop a profitable long-term business (Deshpande *et al*., 1993). Keskin (2006) explains that within the framework of marketing culture and adopts a strategic view, it leads to three components of market orientation: (1) Obtaining and using customer information; (2) develop a strategic plan based on that information, and (3) implement a plan to respond to customer needs. Market orientation is a continuous building process.

The market orientation of an organization is one of the circumstances in which a company must be oriented towards a marketed product by looking at market share, (Kohli and Jaworski 1990). In this case, market orientation is comparable to concepts such as organizational flexibility. Just as larger or lower level flexible organizations and redesign organizations can increase the organizational level of flexibility (Volberda, 1992), organizations also vary in their degree in market orientation. This brings us to the problem of the optimal level of market orientation. An organization spends more on market-oriented justifiable performance improvements, only as an organization may be more flexible than necessary (Bruggeman and Koster, 2000). Martin (2006) goes further and explains that the heart of market orientation is the focus of corporate customers. To create a superior value for buyers continues to require a seller to understand the buyer's value chain, not only because oftoday but also because it evolves over time. Other authors add that competitive advantage is not just a function of how well a company plays an existing rule (Govindarajan and Gupta, 2001). More importantly, it depends on the company's ability to radically change the rules. Martin (2006) further agrees that market-oriented businesses understand the dynamics of costs and revenues not only for current customers but also for future buyer targets. This is done by spending a good enough time to meet and talk to customers formally and informally. Market-based businesses also continue to monitor their customer commitments with customer communication interactions and knowledge transfer depending on the consistency and commitment of market research use. Keskin (2006) explains that within the framework of marketing culture and adopting a strategic outlook, it leads to three components of market orientation: (1) obtaining and using customer information; (2) develop a strategic plan based on that information, and (3) implement a plan to respond to customer needs.

Entrepreneurial Orientation

Lumpkin and Dess (1996), provides a clear distinction between Entrepreneurial Orientation entrepreneurial orientation and entrepreneurship. Entrepreneurship is defined as a "new entry" that can be done by entering a fixed market or a new market with existing or new products or services or launching a new company. The entrepreneurial orientation is defined as the depiction of how the new entry is implemented (Lumpkin and Dess, 1996). The entrepreneurial orientation is illustrated by the process of practice and decision-making activities that encourage new entry, so entrepreneurship can be considered a product of entrepreneurial orientation. Processes, practices and decision-making activities (entrepreneurial orientation) generate new entry (entrepreneurship). Research by previous researchers provides strong theoretical support to measure the concept of entrepreneurship orientation using three dimensions: innovativeness, risk-taking, and proactiveness. Researchers using entrepreneurial orientation constructs usually operate by using three-dimensional measurements (Kreiser, Marino, and Weaver, 2002). Furthermore, it is also explained that the aggregate measurement of the entrepreneurial orientation is based on the assumption that these three dimensions contribute equally to the overall level of entrepreneurship orientation of the firm in all situations (Covin and Slevin, 1989). However, the development of the literature states that each of these dimensions can make a unique contribution to the nature of enterprise entrepreneurship (Lumpkin and Dess, 1996). Thus, it is possible if the three dimensions of this entrepreneurial orientation will have a different relationship with important variables such as company performance. However, there is little research examining the contribution of the three dimensions of entrepreneurship orientation to company performance (Lumpkin and Dess, 2001).

The indicators of entrepreneur orientation are

The tendency of companies to innovate (innovativeness): Researchers regard innovation as the heart of entrepreneurship (Kreiser, 2001). The dimensions of innovativeness reflect a company's tendency to use and support new ideas, experiments and creative processes that may succeed in introducing new products or services, new things or

technological processes (Lumpkin and Dess, 1996). So innovativeness is a basic willingness to abandon old or existing technologies or practices to look for new things to move in a better direction. Based on the results of Frese, Brantjes, and Hoorn (2002) research, the company's tendency to innovate positively related to the success of the company, because, with the new idea, the company can capture important segments in the market. A high level of innovation will improve the company's performance (Marino and Weaver, 2002). Lumpkin and Dess (1996) argue that applying the concept of entrepreneurial orientation is found in the strategy literature. Further explained that the orientation of entrepreneur refers to the process, practice and decision-making activities. Although much empirical research on entrepreneurship focuses on individual-level analysis, researchers today focus more on entrepreneurship as a firm-level behavior (Lumpkin and Dess, 1996) define an entrepreneurial enterprise as the first company in product innovation in the market, to take risks and First proactively introduce product innovations that hit competitors with a landslide.

Company's tendency to take risks

The concept of risk-taking has long been associated with entrepreneurship (Kreis, 2001). This dimension reflects the company's active will to pursue opportunities even though these opportunities are risky and the results are uncertain (Caruana, Morris and Vella, 1998). This dimension captures the level of risk taking in resource allocation decisions as well as product and market choices (Venkatraman 1989). Although risk-taking is usually viewed as a characteristic or individual trait, Venkatraman views it as an organizational-level construct. The risk is taken into account in that the entrepreneur objectively identifies key risk factors and risk sources and then systematically tries to regulate or mitigate these factors. In line with Frese, Brantjes, and Hoorn (2002) stating that risk taking can be seen as a company's undertaking of the unknown, such as investigations into unexplored technology. Kreser, Marino, and Weaver (2002) found that the tendency of firms to take risks (risk taking) has a positive effect on company performance. The tendency of risk taking attitude is positively related to the success of the firm because the manager or the owner of the company can make a favorable agreement for the company performance.

Innovation Orientation

Dermott & O'Connor (2002), explains three notions of innovation orientation ie a) Innovation can come from the end result often related to project outcome. B) Innovation can
Utilizing the orientation within companies and organizations towards enabling sustainable Productivity increases. C) Innovation is measured by the number of new products introduced by the company, the percentage of new product sales, innovation, and relative frequencies introduces new things compared to competitors. Innovation is always a risky departure from existing practice. Innovation is considered a new application (Rogers, 2003). Innovation is different from innovation. Innovation is a characteristic of an individual or organization whereas innovation is a new product, a new process or a new business system (Boer & Duringa, 2004). The innovation orientation is a change in a product offering, service, business model or operation that significantly enhances the experience of a large number of stakeholders. Changes in the connotation of Greenfield development. A change reflects that there is a way people do things before and now there are different ways. It is also possible for existing practices or technologies in other sectors to be applied to specific sectors (Hovgaard & Hansen, 2004).Innovation as creativity and / or adoption of new ideas, new processes, new products or new services aimed at increasing value to customers and contributing to the performance or effectiveness of the company (Hansen, Korhonen, Rametsteiner & Shook (2006) Orientation of innovation can be related With product offerings whether new products are built on radical technology or new features Changes in services can definitely be innovative Meaningful improving experience if a packaging redesign company changes must improve experience Stakeholders separate innovation from innovation Creativity that produces uncertain invention Becomes an innovation.The discovery that satisfies the interests of just one person is not innovation but a discovery of being more than new and creative must have a wider impact The term stakeholder, acknowledging that the benefits of an innovation can be beneficial Consumers, shareholders, employees and every part of it (Carpenter, 2010).

Measurement of innovation orientation to know a company already oriented to high-level innovation or still low. The orientation of this innovation is measured by the company's frequent introduction of new products, new services, new production processes, product quality and raw materials. More and more companies introduce new products mean the company's innovation level is higher. The more companies improve the new service better the higher the level of innovation orientation. The production process, product quality and quality of raw materials also determine the level of innovation orientation (Kirca, Jayachandran & Bearden, 2005; Jhonson *et al*., 2009). Increased orientation of technical innovation can also be done with the development of new services (Lin & Hsieh, 2011). The development of new services is carried out through five stages: service identification, service value formation, service modeling, service implementation, and commercialization services. The development of new services tends to be more flexible. The process of developing new services will be perfected by the service supervisor. The Company incorporates detailed service requirements by integrating the value of services into the future development process for the service. Increased orientation of innovation can be done by conducting explorative information technology. Information technology is responsible for companies in Romania. Quantitative and qualitative research reveals new insights in responding to the company for the latest dramatic changes in information technology, In order to overcome the still global economic crisis and to ensure increased organizational efficiency and profitability. While Product configuration improves product quality and this relationship is moderated negatively by difficulties for the company to determine its target market needs (Camelia, 2012; Alessio, Elisa & Cipriano, 2012)

SMEs performance

In addition, Bradley and O'Reagain (2001) commented that SMEs can internationalize to seek rapid performance growth. Growth can be measured in company performance through export sales. The study shows that internationalization has a positive relationship with company performance. Burpitt and Rondinelli (2000) studies show that financial success in early

export activities motivated small firms to internationalize in the next period. The company agreed that the sale of profits and growth is an important factor for their internationalization. This shows that internationalization will help the company to achieve profit success. Partial correlation analysis has shown that both the variables of financial success and learning orientation are associated with small firms. Chatterjee and Lim (2000) studied the relationship between external factors and internal factors of SMEs in Singapore with the level of internationalization and performance. The results show that there is a positive relationship between internationalization and performance. Regionalization and internationalization have proven successful for SME success in Singapore. In addition, they tend to be regionalized because markets like Malaysia and Indonesia are almost similar to those in the cultural aspect and this allows the market to easily penetrate. Chelliah (2010) examines the performance of MSMEs traditionally measured using accounting data, such as return on investment, revenue growth, and market share. He has proposals for inclusion of qualitative measures to provide an understanding of organizational processes and outcomes.
Suliyanto and Rahab (2012) explained that the performance of MSMEs can be measured by (1) Market Reach; (2) Increased Sales; (3) Company Profits; And (4) Increasing Number of Customers.

Relationship between Variables and Research Models

Effect of Entrepreneur Orientation on Innovation: The entrepreneurial orientation can be considered as the process, practice, philosophy, and decision-making activities that lead the organization to innovation (Wiklund and Shepherd, 2005; Li *et al*., 2009), the importance of entrepreneurial orientation for survival and firm performance has been recognized in the entrepreneurial literature (Tat *Et al*., 2007; Hughes and Morgan, 2007). Innovation is an important factor in companies because of the evolution of competitive money in an environment of entrepreneurial orientation (Bueno and Ordonez, 2004). Innovation is thought to have an immediate effect on company performance (Brockman and Morgan, 2003). Ireland and Webb (2007) argue that entrepreneurial action has a direct effect on innovation products and processes, so a globalization orientation enhances a company for autonomy, competitive aggressiveness, proactive and the willingness to take risks and innovate (Zahra *et al*., 1999; Lumpkin and Dess, 1996), entrepreneurship and innovation orientation, and performance can be linked to one another. Based on the above explanation can be formulated the first hypothesis that is

H1:Entrepreneurial Orientation has a significant positive effect on innovation

The Influence of Market Orientation on Innovation

Slater and Narver (1990) suggest that innovation and new product success exist in the relationship between market orientation and business performance. However, to establish market orientation should stimulate innovation and innovation should improve company performance. The positive relationship between innovation and company performance has been proven in many studies, but the relationship between market orientation and innovation has not been established, but small independent firms can innovate on their products by adopting innovation inputs that are closely related to the quality of the final product. The hypothesis on the relationship between market orientation and product innovation is based on the literature on innovation adoption. Rogers (1995) states that early adopters have more social participation, are interconnected in their private network systems, have agency contact changes, have greater exposure to private communication channels and engage in more active information gathering. Note that many of these characteristics can be measured by the behavioral components of market orientation. Based on the above explanation can be formulated the second hypothesis that is

H2: Market orientation has a significant positive effect on innovation

Effect of Entrepreneurship Orientation on Performance: On the hypothesis of entrepreneurship, orientation has a positive and significant impact on performance indirectly through innovation according to Frank *et al*. (2010) ignores internal and external conditions that may be specific to the company, as a result of entrepreneurial orientation on business performance. In a stable business environment, proactive and risk behaviors can be more beneficial. But in a dynamic competitive environment, entrepreneurial orientation is an important prerequisite that the company itself must direct if it wants to have an active influence on market developments. The role of entrepreneurial orientation in that context affects performance. Based on the above explanation can be formulated the third hypothesis that is

H3: The orientation of entrepreneur has a significant positive effect on performance

The Influence of Market Orientation on Performance: The impact of market orientation on company performance has been studied for over a decade in the SME business. The Wilson study (1996), Horng and Chen (1998), in particular, addressed the direct influence of market orientation on corporate performance and competitive advantage. According to Pelham (1997), a market-oriented company, which has excellent market information, collection, and processing capabilities, is able to predict the needs and market changes accurately and quickly, allowing them to respond quickly and appropriately. Thus, they increase their competitive advantage. In this case, it has been affirmed by experts in the literature that market orientation makes small firms have the potential of competitive advantage over large corporations. Based on the above explanation can be formulated the fourth hypothesis that is

H4: Market orientation has a significant positive effect on performance

The Influence of Innovation on Performance: The positive role of corporate innovation on corporate performance has been supported by many theoretical and empirical studies of new product development, adoption and diffusion technology, process improvement, and innovation (Calantone *et al*., 2002). The study notes that SMEs (Keizer and others 2002) should be demanded to be innovative, based on their limited resources, vulnerability to uncertain competitive advantage, turbulence in the business environment, and widespread power of customers and suppliers. Indeed, SMEs that follow proactive business strategies encourage innovation as a central part of corporate culture. SMEs can

achieve position leadership by implementing aggressive innovation strategies in the niche industry. High-tech SMEs, for example, electronics, software, and biotechnology, for example, demonstrate improved performance by generating new markets and industries due to their innovation (Romijn and Albaladejo, 2002). Innovation has long been associated with entrepreneurial behavior, and theoretically associated with high tolerance of ambiguity, taking risks, and evaluating the uncertainty of better situations. Based on the above explanation can be formulated the fifth hypothesis that is

H5: Orientation of innovation has a significant positive effect on performance

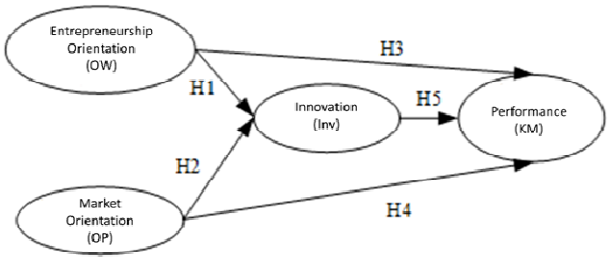

Fig. 1. Research Models

MATERIALS AND METHODS

This research is conducted on small and medium enterprises located in the region of Sidoarjo regency. The location of this research is determined by UMKM Sentra in Sidoarjo Regency and registered in Industry and Trade Office in 2015. The criteria of Small and Medium Enterprises used are: (1) SMEs registered / licensed and can be identified by the Industry and Trade Office of Sidoarjo Regency; (2) SMEs engaged in manufacturing, namely Small and Medium Enterprises that produce products; (3) SMEs that become the mainstay products and potential to be developed. Sidoarjo regency has 18 districts. This research uses purposive sampling that is sampling according to population characteristic. Each District is taken 10 SMEs, thus there are 180 SMEs are sampled. Exogenous variables in this research are entrepreneurship orientation and market orientation. Innovation orientation intervening variable. Endogen Variable of MSME performance. Data analysis in this research using Structural Equation Model (SEM).

RESULT AND DISCUSSION

Confirmatory Analysis of Exogenous Constructs

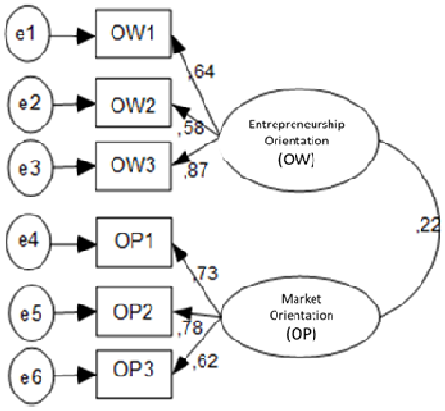

Fig. 2. Result of confirmatory analysis for exogenous construct

Table 1. Result of Confirmation Factor of Entrepreneurship Orientation Analysis

Indicator	Loading	Critical Ratio	note
OW1	0,642	4,345	Valid
OW2	0,584	2,346	Valid
OW3	0,872	5,644	Valid
Construct reliability = 0,7476			

Based on table 1 it can be seen that the critical ratio value (CR) of the three indicators of entrepreneurship orientation is greater than 1.96, it can be concluded that the three indicator is valid from the entrepreneurial orientation construct. The value of construct reliability is 0.7476> 0.700, indicating that the three indicators are reliable.

Table 2. The Result of Market Orientation Confirmation Factor Analysis

Indicator	Loading	Critical Ratio	Note
OP1	0,733	5,878	Valid
OP2	0,782	6,321	Valid
OP3	0,624	3,458	Valid
Construct reliability= 0,7579			

Based on table 2 it can be seen that the critical ratio (CR) value of three indicators of market orientation is greater than 1.96, it can be concluded that the three indicators are valid toform the market orientation of the construct. The value of construct reliability is 0.7579> 0.700, indicating that the three indicators are reliable.

Confirmatory Factor Analysis of Endogen Construct

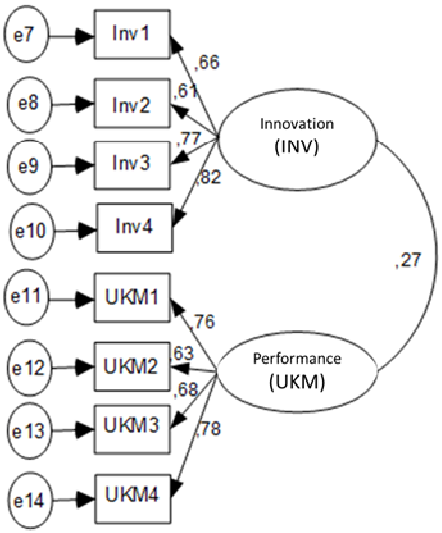

Fig 3. Confirmatory Factor Analysis Result of Endogen Construct

It can be seen that the critical ratio (CR) value of three indicators of entrepreneurship orientation is greater than 1.96, it can be concluded that the three indicators are valid to form the entrepreneurial orientation construct. The value of construct reliability is 0.7476> 0.700, indicating that the three indicators are reliable.

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Construct Reability = 0,7579			

Based on table 3 it can be seen that the critical ratio (CR) value of three indicators of market orientation is greater than 1.96, it can be concluded that the three indicators are valid in the form of market orientation constructs. The value of construct reliability is 0.7579> 0.700, indicating that the three indicators are reliable.

Result of Analysis of Structural Equation Model and Hypothesis Testing

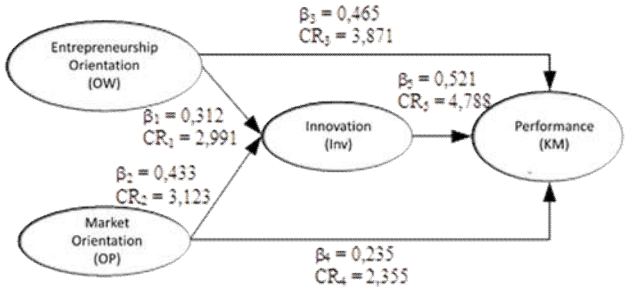

Fig. 4. Result Structural Equation Model

The result of model analysis of structural equation and hypothesis testing can be seen in Table 4.

Table 4. Result of SEM Testing

Hip	Relationships between variables	Path coefficient	CR	Description
H1	Orientation Entrepreneur →innovation	0,312	2,991	significant
H2	Market Orientation →innovation	0,433	3,123	significant
H3	entrepreneurorientation→performance	0,465	3,871	significant
H4	Market Orientation →performance	0,235	2,355	significant
H5	innovation→performance	0,521	4,788	significant

Based on table 4. Can be explained as follows:

- The value of the coefficient of orientation path of entrepreneurship → aninnovation of 0.312 and the critical ratio value of 2.991> 1.96, indicating that the orientation of entrepreneur has asignificant effect on innovation. Hypothesis 1 (H1) which states the entrepreneurial orientation effect on innovation is accepted.
- The value of market orientation coefficient→ aninnovation of 0.433 and the critical ratio value of 3.123> 1.96, indicating that market orientation has asignificant effect on innovation. Hypothesis 2 (H2) which states the market orientation has an effect on acceptable innovation.
- The value of the coefficient of the orientation path of entrepreneurship → performance of 0.465 and the critical ratio of 3.871> 1.96, indicating that the entrepreneurial orientation has a significant effect on performance. Hypothesis 3 (H3) which states the entrepreneurial orientation effect on the performance accepted.
- The value of market orientation coefficient →performance of 0.235 and critical ratio value of 2.355> 1.96, indicating that market orientation has a significant effect on performance. Hypothesis 4 (H4) which states the market orientation affect the performance accepted.
- The value of the coefficient of innovation path → performance of 0.521 and the critical ratio value of 4.788> 1.96, indicating that innovation has a significant effect on performance. Hypothesis 5 (H5) which states the innovation effect on performance is accepted.

DISCUSSION

Effect of Entrepreneur Orientation on Innovation

The result of research showed that entrepreneurship orientation had apositive and significant effect on innovation at UMKM of Sidoarjo Regency which showed thecoefficient of line 0,312, thecontribution of 31,2% and value of Critical Ratio (CR) 2,991> 1,96. The results of this study support the Irish and Webb (2007) research which states that entrepreneurial action has a direct effect on innovation products and processes, so entrepreneurial orientation enhances a company for autonomy, competitive aggressiveness, proactivity and a willingness to take risks and innovate. Orientation of entrepreneurship and innovation, and performance can be linked to one another (Zahra *et al*., 1999; Lumpkin and Dess, 1996).

The Influence of Market Orientation on Innovation

The result of the research shows that market orientation has apositive and significant effect on innovation at UMKM of Sidoarjo regency which is shown by path coefficient 0,433, and value of Critical Ratio (CR) 3,123> 1,96. The results of this study are in accordance with Slater and Narver (1990) research which shows that innovation and success of new products exist in the relationship between market orientation and business performance. However, to establish market orientation should stimulate innovation and innovation should improve the performance of MSMEs. This is because market orientation will generate new ideas to respond to market challenges so that this will create innovation. Therefore, market orientation has a positive and significant influence on innovation can be proven through this research.

Effect of Entrepreneurship Orientation on Performance: The results showed that entrepreneurship orientation had a positive and significant effect on the performance of UMKM of Sidoarjo Regency which showed by thecoefficient of line 0,433, and value of Critical Ratio (CR) 3,123> 1,96. This finding does not support the research of Herman Frank *et al*. (2010) disregarding the company's internal and external conditions that are particularly the impact of entrepreneurial orientation on business performance. Whereas in a stable business environment, proactive and risk behavior can be more beneficial. But in a dynamic competitive environment, entrepreneurial orientation is an important prerequisite that the company itself must direct if it wants to have an active influence on market developments. The role of innovation in that context will drive an entrepreneurial orientation that affects performance.

The Influence of Market Orientation on Performance: The results showed that market orientation had apositive and

significant effect on the performance of MSME of Sidoarjo Regency shown by thecoefficient of line 0,235, and value of Critical Ratio (CR) 2,355> 1,96. The results of this study are in accordance with Peterson's (1989), Meziou (1991), Pelham and Wilson (1996), Horng and Chen (1998) studies which demonstrate the direct effect of market orientation on competitive advantage and the direct influence of market orientation on firm performance. According to Pelham (1997), a market-oriented company, which has excellent market information. This market information is collected and processed so that the company is able to predict the needs and market changes accurately and quickly, enabling them to respond quickly and accurately. Thus, they can increase their competitive advantage that will ultimately affect the company's performance. Given that SMEs may not have a long-term and strategic focus, their orientation is general customer orientation so that market orientation is a critical determinant of performance (Appiah-Adu and Singh, 1998).

The Influence of Innovation on Performance: The results showed that innovation had apositive and significant effect on performance at UMKM of Sidoarjo Regency which showed by path coefficient 0,521, and value of Critical Ratio (CR) 4,788> 1,96. These findings support the opinions of Romijn and Albaladejo (2002) who argue that SMEs following proactive business strategies encourage innovation as a central part of corporate culture. SMEs can achieve position leadership by implementing aggressive innovation strategies in the niche industry. High-tech SMEs, such as electronics, software, and biotechnology, show improved performance by generating new markets as they innovate. This is possible because innovation has long been associated with entrepreneurial behavior, and theoretically associated with a high tolerance for ambiguity, taking risks, and evaluating an uncertain situation better.

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