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# **Implication of work environment, market and learning orientations on innovation in Indonesia**

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## **Abstract**

This study aims to reveal the effect of the work environment, market orientation, learning orientation on innovation, the influence of the work environment on market orientation and learning, and the influence of market orientation on learning orientation in Indonesia. It is utilizing 112 purposive sampling and employing Generalized Structured Component Analysis (GSCA) to analyze data. The results showed that the work environment had a significant positive effect on market orientation, the work environment had a significant positive effect on learning orientation, market orientation had a significant positive effect on learning.

**Keywords:** Innovation, Learning orientation, Market orientation, Work environment, SME.

**La implicación del medio ambiente laboral, el mercado y las orientaciones de aprendizaje sobre la innovación en Indonesia**

## **Resumen**

Este estudio tiene como objetivo revelar el efecto del ambiente de trabajo, la orientación del mercado, la orientación del aprendizaje

en la innovación, la influencia del ambiente de trabajo en la orientación y el aprendizaje del mercado, y la influencia de la orientación del mercado en la orientación del aprendizaje en Indonesia. Se emplea un muestreo intencional y un análisis de componentes estructurados generalizados (GSCA) para analizar los datos. Los resultados mostraron que el ambiente laboral tuvo un efecto positivo significativo en la orientación al mercado, el ambiente laboral tuvo un efecto positivo significativo en la orientación al aprendizaje, la orientación al mercado tuvo un efecto positivo significativo en el aprendizaje.

**Palabras clave:** Innovación, Orientación al aprendizaje, Orientación al mercado, Ambiente de trabajo, PYME.

## 1. INTRODUCTION

SMEs in Indonesia currently play a very central and strategic role in national development. SMEs based on the small and medium business sector have an important contribution to the transition of the market economy through the process of innovation, creating jobs, generating income, and business dynamics (HISRICH AND OZTRURK, 1999). According to SAKUR (2011) there are three main problems faced by SMEs, namely the absence of market guarantees, the inability to meet the quality and certainty of production. Resolving these problems, the solution is not conducted through a financial approach or providing financing but can be done through institutions that recognize the market or those who are able providing knowledge regarding the quality of small business products.

Nowadays, the condition of SMEs in Jakarta is not dissimilar from national conditions. Based on data from the Department of

manpower and transmigration (DISNAKERTANS, 2011), the number of unemployed people in DKI Jakarta decreased to 555,410 from the total of 580,511. The commercial areas developed by the DKI Jakarta provincial government in each administrative city support the growth of SMEs. The SME and small and medium industry sectors have proven to contribute 17% to revenues for the DKI Jakarta regional budget in 2011 (DISPERINDGI, 2011). Hence, the DKI Jakarta provincial government continues to provide opportunities for SMEs to expand their businesses.

Considering the sizeable contribution of SMEs to regional income, it is necessary to pay attention to the success factors of SME businesses operating in Jakarta so that they are able to endure and grow. Hence, to understand the strategies in SMEs, it is indispensable to do comprehensive research on how and what types of strategies affect the performance of SMEs. Lacking an apparent strategy, businesses do not have a sustainable basis for creating and maintaining competitive advantage in the market (KUTLLOVCI, SHALA, AND TRONI, 2012). WILKINSON (2002) states that small and micro enterprises will grow if the environment rules or policies support, the macroeconomic environment is well-managed, stable and predictable; information that can be trusted and easily accessed and the social environment encourages and respects the success of the business.

Market orientation is an implementation of the marketing concept that is able to provide superior value to consumers (KOTLER, 2012). The development of the marketing concept is not only focused

on efforts to satisfy needs and desires through a deep understanding of consumers. Yet, companies should be able to provide satisfaction that meets the needs and desires of consumers better than competitors (WALKER et al., 2006). In other words, the companies through their products are able to provide competitive return compared to its competitors. In this case, there are two keywords to form a market orientation, namely consumers and competitors.

Learning orientation shows that the capabilities of the organization are based on the old assumptions in the market, namely companies which focus on events or environment changes, which will affect the company's capacity to provide satisfaction to customers (HARDLEY & MAVONDO, 2000). The development of company capabilities will include organizations to absorb and combine new ideas (COHEN & LEVINTHAL, 1990). HURLEY & HULT (1998) verified that learning orientation is a precursor in explaining corporate culture into innovation. A study done by BARNEY (1986) explained that the success of the company will be achieved if it has the ability to utilize resources productively, so that it can create distinctive competencies. Furthermore, BARNEY (1991) explained that each company has different capabilities to produce goods and or services. The orientation of innovation is the innovation openness and the capacity to innovate by introducing new products, new processes or ideas in the organization. MADRID-GUIJARRO, *et al* (2009) has been dividing innovation into production innovations, process innovations and management innovations.

Furthermore, studies on market orientation with different results, namely market orientation have a significant positive effect on innovation (LUKAS AND O.C., 2000; WONG AND TONG, 2012, LEEKPAI AND JAROENWISAN, 2013; WANG, 2015). But other studies found the effect of negative market orientation was significant on innovation (LAWTON AND PARASURAMAN, 1980; GATIGNON AND XUERE, 1997). Hence, This study aims to investigate the effect of the work environment, market orientation, learning orientation on innovation, the influence of the work environment on market orientation and learning, and the influence of market orientation on learning orientation in Indonesia.

## **2. METHODOLOGY**

This Explanatory Research intends to explain the causal relationship between research variables through hypothesis testing. It is conducted in DKI Jakarta Province which consists of five administrative cities namely South Jakarta, East Jakarta, Central Jakarta, West Jakarta and North Jakarta. The number of population is the small entrepreneurs supported by the DKI Jakarta Provincial Government Training Center for the period of 2017 amounted to 112 people. Samples were determined using purposive Sampling. The research instrument on external environmental variables was adopted from BOUAZZA, et al (2015), market orientation (NARVER & SLATER, 1990), learning orientation (BAKER & SINKULA, 1999) and innovation (HURLEY & HULT 1998). The research instrument

has been tested for validity and reliability and the measurement is scored using a Likert scale from 1 (very disagree) to 5(very agree) which represents an assessment of the attitude of approval. Data were analyzed by employing Generalized Structural Component Analysis (GSCA). The research model can be seen in Figure 1.

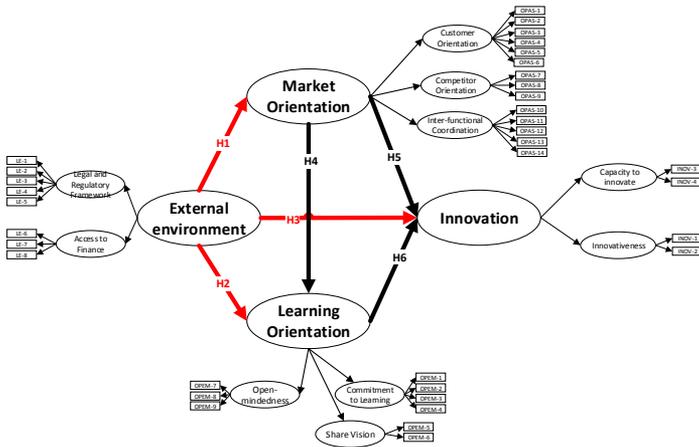


Figure 1: Model of Research Hypothesis

A few previous study has examined the influence of the external environment on market orientation. Based on the results of these studies, the research hypothesis can be generated as follows:

H<sub>1</sub>: The external environment has a significant effect on market orientation.

H<sub>2</sub>: The external environment has a significant effect on learning orientation.

H<sub>3</sub>: The external environment has a significant effect on innovation.

H<sub>4</sub>: Market orientation has a significant effect on learning orientation.

H<sub>5</sub>: Market orientation has a significant effect on innovation.

H<sub>6</sub>: Learning orientation has a significant effect on innovation

### **3. RESULTS AND DISCUSSION**

The results of the GSCA analysis have proven that the external environment has a significant effect on market orientation with a coefficient of 0.826 and a CR value of 17.61 \* (starred). This means the value of  $CR > t\text{-table}$  ( $t = 2.00, \alpha = 5\%$ ). The decision is that the proposed H1 is proven empirically, the proposed hypothesis can be accepted in this study. This means that the External Environment has a significant effect on Market Orientation. The estimated positive value indicates that the higher the External Environment understood by the respondent will increase Market Orientation. This means that the better the External Environment can improve Market Orientation. This shows that the external environment of SMEs through the improvement of basic regulations and laws and the availability of access to external financing will affect SMEs in market oriented through focusing on

customers, orientation to competitors and coordination between functions.

The results of this study indicate that the regulatory dimension and legal basis are the dominant dimensions in reflecting or measuring external environmental aspects, so that if policy makers want to optimize the external environment, the main priority is the regulatory dimension and the legal basis. The findings of this study confirm the opinion of LUMPKIN and DESS (1996) that the growth of SMEs is influenced by the business climate. (SHANE, 2000) asserts that people recognize opportunities related to the information and knowledge they already have. Previous knowledge provides an introduction to positive opportunities. The entrepreneur's values, beliefs and goals have an effect where opportunities will be chosen to be important to consider.

One point of view argues that the environment has a big impact on other things, so that organizations must adapt to their external environment, which is represented by a series of external conditions (BIRLEY, 1985). ELFRING & HULSINK (2001) further explained that changes in strategy are driven by environmental factors and represent the efforts made by organizations to change strategies and adaptability to their environment. CADOGAN, *et al* (2005) argue that at a certain point in the intensity of high competition, technological change, market turbulence and regulatory pressure, the company's products may not meet the anticipation of customers and the company can lose its customers.

Market and entrepreneurial orientation not only allows companies to absorb the shocks created by a dynamic and complex business environment but also helps them to benefit from new business opportunities (HUSSAIN, KAMARIAH, & FAYAZ, 2015). Further, resources are not only the company's internal production capabilities but also function as the ability to enable them to adapt to the external environment. Resources can include managerial abilities to learn to develop new resources or strategies to respond effectively to the external environment to achieve competitive advantage and superior performance (FARRELL, 2000; VERHEES & MEULENBERG, 2004). Hence, understanding changing market trends and making effective responses are not only intended to ensure the survival of companies in cutting throat competition but also results in improved performance (MAHONEY, 1993).

The growth and success of SMEs depends mainly on the ability of these companies to formulate and implement strategies that can effectively respond to the challenges posed by the external environment (KUMAR, *et al* (2011); NARVER & SLATER, 1990) that market-oriented companies tend to run the risk which is limited due to continuous monitoring of customers and the competitor's environment (LAFORET, 2008). Aligning effective strategies is important for every business because it allows companies to achieve and maintain competitive advantage. Thus, to survive the company will require a combination of various strategies that are suitable for rapid environmental change (AMINU AND MOHD SHARIF, 2014).

The results of the GSCA analysis obtained an estimated value of 0.390 and a CR value of 2.64 \* (starred). This means the value of  $CR > t$ -table ( $t = 2.00$ ,  $\alpha = 5\%$ ). The decision is that the proposed H2 is proven empirically, the proposed hypothesis can be accepted in this study. This means that the external environment has a significant effect on learning orientation. The estimated positive value indicates that the higher the external environment understood by the respondent will increase the learning orientation. These results indicate that the external environment of SMEs through improving basic and legal regulations and the availability of access to external financing will significantly affect the orientation of SME learning, namely SMEs will be committed to learning, sharing vision and openness.

#### **4. CONCLUSION**

The result of study aforementioned showed that the work environment had a significant positive effect on market orientation, the work environment had a significant positive effect on learning orientation, market orientation had a significant positive effect on learning, yet the external environment was found have no significant positive effect on innovation, market orientation and learning orientation have not significant impact towards innovation. Further, a number of research findings and contributions have been generated through this research, but it is fully realized that this research still has limitations. Some of the limitations of the research presented below

can be presented as references for future researchers so that they can construct better research.

a. In this study only examined the external environment variables. Other research, besides involving the internal environment, also involves the external environment but only as a dimension of environmental variables. Therefore, detailed research on environmental variables has not been carried out.

b. This research is only aimed at SMEs in the culinary field only. The results might be dissimilar if applied to SMEs in other fields.

c. This research is only aimed at SMEs which are SMEs that have received assistance from the DKI Jakarta Provincial Education and Training Center, so that SME owners have the ability to manage businesses. The UKM has received programmed training. Maybe the results will be different when not getting assistance from SMEs.

d. This research is only conducted at SMEs that already have business licenses, so that they can expand market share, partnerships and access to finance legally proven. Maybe the results will be diverse when it is applied to a business that has no a business license.

## CONFLICT OF INTEREST

The authors declare that there is no conflict of interest in this publication.

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