Enhancing Small and Medium Enterprises Performance through Innovation in Indonesia: A Framework for Creative Industry

by Ratni Prima Lita

Enhancing Small and Medium Enterprises Performance through Innovation in Indonesia: A Framework for Creative Industry

Ratni Prima Lita[♣], Ranny Fitriana Faisal[♣], Meuthia[♣]
[♣]Andalas University, Indonesia
Corresponding email: ratniprimalita.unand@gmail.com

ABSTRACT

In this era, change is one of the crucial things in the organizations which will affect all organizations and managers activities. In particular, many Small and Medium Enterprises (SMEs) are implementing innovation development in order to improve their position. A sustainable competitive advantage is generally measured as a critical factor in improving economic security of a country and value of life of its citizens. The importance on innovations has been recognized as a central trend in modern economies, and innovations and creativity are already accepted as principal drivers of economic growth, productivity and living standards. In academic view, the topic of innovations has been one of the most interesting topics to discuss during the last decade.

Minangkabau culture in West Sumatra, Indonesia, encourages people to create unique products that can be offered as regional superior products. The potential of creative industry can be seen from the variety of opportunities that build up. One of the factors that influence of the development on creative industry is the increasing number of middle class in Indonesia. This kind of society can be possible as prospective consumers of creative products. In addition, socio-cultural diversity such as entrepreneurial orientation and natural resources especially culture of Indonesia can inspire creative industries to continue to innovate and after that can lead them to improve their performance, especially in tourism area.

The aim of this article is to identify the effect of entrepreneurial orientation and organizational culture on organizational innovation and organizational performance among Small and Medium Enterprises (SMEs) on creative industry which are supporting the tourism in West Sumatra, Indonesia. The research method was quantitative analysis using SmartPLS. Data are obtained using questionnaires that distributed by purposive sampling technique method. The sample consists of 183 SMEs' owners of creative industry that produce and trade the products directly to the customers. The findings showed that entrepreneurial orientation and organizational culture have significant effect on organizational innovation; and entrepreneurial orientation and organizational culture have significant effect to organizational performance. Even though previous study showed there is significant effect of organizational innovation to organizational performance, but in this study was not accepted. Lastly, the result found that the organizational innovation has partial mediation influence between entrepreneurial orientation and organizational performance.

Keywords: *Small and Medium Enterprises (SMEs), Creative Industry, Entrepreneurial Orientation, Organizational Culture, Organizational Innovation, Organizational Performance*

Introduction

SMEs play an important role in any country, which contribute to economic development, employment and reduction of poverty (Ayyagari et al., 2007). These are some reasons why SMEs are measured as an instrument of growth, especially in the developing countries. One of the reasons includes the support of entrepreneurship and innovation activities which enhance competition and productivity growth. SMEs are more creative due to more flexible and can adapt to the changes in the market. Moreover, they contribute mostly to employment growth, although both, the rate of establishment and failure of SMEs are high (Tambunan, 2007). Innovation activities are about initiating new ways for administration, products, services, production, marketing, technology and which are difficult to replicate (Konsti-Laakso et al., 2012).

Indonesia has been recognized as one of the most excites and fast-growing emerging economies (Britishcouncil, 2017). Indonesia is consists of over 13,000 islands and hundreds of diverse ethnics and languages; this cultural heritage and diversity alongside a huge domestic market (240 million) can lead to giving some opportunities for the creative industries to develop. Despite the Indonesian government has supported the development of creative industry but still many problems faced by creative industry entrepreneurs in West Sumatra. West Sumatra is one of a province in Indonesia practically developing creative industries. Fashion and culinary are still dominated and become the icon of creative industry in the province.

The dominant role of the government in developing this sector is expected to motivate SME's owners and leaders to improve their business performance. Because this research focuses on the SME of creative industry, the sensitivity of innovation becomes higher. Nevertheless, the preliminary survey results of this study indicate that SMEs in West Sumatera in general are still less innovative, thus, competitiveness tends to be low at the national level. The limitation of innovation is caused by the lack of entrepreneurs' ability to develop products and technologies, such as marketed products that tend to be monotonous (not varied) and the number of handicraft products that emulate competitors. In addition, the lack of training conducted on employees affects the ability of employees to modify the product is also limited.

Regarding the organizational culture, employees who have not been able to understand what they have to accomplish, generally still depend on the desire of the owner or the leader of the company. This resulted in the creativity of employees to be hampered, which in the end the company's mission ahead also becomes unclear. The results of research in several countries show the importance of business development based on innovation. Mc.Adam et al. (2010) finds companies both small and large to enter the global market requiring innovation and innovation implementation to be influenced by products and processes, knowledge and information, while products and processes will be influenced by innovation leadership, people and culture.

Furthermore, the development of creative industries in West Sumatra is also influenced by the character and culture of the Minang people that prefer to be self-employed (become an entrepreneur) rather than work for other (sumbar.antaranews.com, 2017). In line with this phenomenon, Semiarty and Fanany (2017) have investigated the role of Minangkabau local culture which has remained strong in the traditional model of leadership in the local community.

Related to the concept of organizational culture, there are still many opinions from SME's owners who think that if the business they do is enough to meet their daily needs, so no longer need to do innovative efforts and lead to improved company performance.

The desire to make fundamental changes related to the management system is also low, such as the making of financial statements manually is still entrenched among SMEs of West Sumatra. In fact, according to the preliminary survey in 2016, the management of less professional companies has an impact on organizational innovation and performance. Hence, the novelty of this research addressed on the SMEs culture and innovation has not been rigorously studied in Indonesia. In spite of the increasing understanding of the need of innovation activities within SMEs, few types of research have examined its effectiveness to strengthen organizational performance. To fill this gap, the research aims to explore and understand the impact of organizational culture and entrepreneurial orientation to organizational innovation and organizational performance in SMEs.

Literature Review

Entrepreneurial Orientation

In the previous study, different researchers have defined entrepreneurship in various ways, but all of them have a similar meaning. According to Hashi and Krasniqi (2010), an entrepreneur is a person who creates a business, they described entrepreneur as a person who initiates innovation, new products, new processes, and discovers a new market. Entrepreneurship is explained in terms of creativity, innovation, risk-taking, flexibility, and growth. It is similar to the study of Morris et al. (2008), the study found that the most common themes of entrepreneurship include: the creation of enterprise, wealth, change, innovation, employment, growth, and value.

This explanation does not only for the kind of organizations in which entrepreneurial activities may appear. Indeed, entrepreneurial behavior is not only possible in new firms, but also in firms regardless of their age and size (Kraus et al. 2011). The entrepreneurial activities of existing and established organizations have been described as corporate entrepreneurship (Zahra 1993), entrepreneurial orientation (Wiklund 1999), or intrapreneurship (Antoncic and Hisrich, 2001). Nowadays, researchers defined the entrepreneurial activities of an established firm will be referred to as its Entrepreneurial Orientation. Entrepreneurial orientation relates to behaviours, practices, the decision-making styles, and processes that effect the organizations to entry into markets with new or existing products or services (Wiklund & Shepherd 2003; Walter et al. 2006).

According to Wiklund (1999), previous study showed that entrepreneurial orientation has three dimensions: innovativeness, proactiveness and risk-taking. The entrepreneurial orientation dimension of innovativeness is about practicing and providing support to innovation, creative processes and the improvement of new ideas through experimentation (Lumpkin and Dess 1996). The second dimension is proactiveness. Proactiveness refers to processes, how we seek and get the opportunities which may not be really connected to our present organizational operations. It

is also related with the introduction of new products and brands, and how to remove the products that in mature and declining stages of life cycles (Venkatraman, 1989). This dimension concerns the significance of initiative in the entrepreneurship. An organization can create a competitive improvement by predicting changes in the future demand (Lumpkin and Dess, 1996) and be an active participant in shaping their own environment (Kraus et al., 2011).

The third dimension, risk-taking, is used to explain the uncertainty that follows the entrepreneurial behavior. Entrepreneurial behavior involves how to provide a significant proportion of resources to achieve the goals of the projects. The focus is on moderate and calculated risk-taking as a replacement for extreme and uncontrolled risk-taking behavior (Morris et al. 2008) but the importance of the risk-taking dimension is that it learns about how the organizations can absorb of uncertainty and how to manage it.

Organizational Culture

Organizational culture is related in value. The combination of the value, the knowledge and the experiences of the fonder will be the bases of the culture that he will apply into the organization. (Tanase, 2015). Uttal (1983) defined organizational culture as a system of what is important (shared values) and how things work (beliefs) that interrelate with a people in organization, the structure of organizations and control systems to produce behavioural norms in organizations. In addition, Sun (2008) describes organizational culture as the set of theory of important values, beliefs, and understandings that all the organization elements share in common, which accommodate managers to create decision and organize activities of the organization. Brown (1998) explained organizational culture as the pattern of beliefs, values and learned ways of dealing with an experience that has developed based on an organization's history, and which tend to be practiced in activities and in the behaviors of its members.

Hofstede (1997) said that culture affects how people behave and to think, so, it is important to recognize culture within an organization; whereas Grieves (2000) strongly supported that organizational development can encourage humanistic values. Deal and Kennedy (1982) mentioned that organization development should be matched with organizational culture effectively, with the purpose of making people work efficiently. Martins and Terblanche (2003) showed there are two perspectives when we want to describe the role of organizational culture in an organization, the functions of organizational culture and the influence that organizational culture.

A founder of literature on organizational culture, Hofstede, proposes a four model approach to explained organizational culture (Hofstede, 1997). First is culture as a learned entity. In this model, Hofstede explained organizational culture as a thing developed by the people of the organization, and then it will be able to transfer to new people of the organizations. Second is culture as a belief system.

Hofsted described organizational culture is viewed as the traditions of beliefs and values sharing by the people in the organizations, which gives the understanding of an institution meaning, and offered them with the regulations of behavior in their organization (Davis, 1984;

Sun, 2008). On the other words, organizational culture is viewed as a basic perspective to belief. The third is culture as a strategy. Bate (2010) argued that culture is a strategic phenomenon and strategy is a cultural phenomenon. According to that, strategy formulation can be viewed as a cultural activity and cultural stands should be presented as strategic decisions (Sun, 2008, Hofstede, 1980). Fourth is culture as mental programming: Hofstede (1980) argues that organizational culture is described as the collective programming of the mind, which decides the members of one category of people from another. Standing on Hofstede's argument, Brown (1988) proposes that values form the foundation of culture, and are intimately related to moral and ethical codes, thus defining "like" and "dislikes" for people in an organization.

Organizational Innovation

According to Hashi and Krasniqi (2010), entrepreneurship defined five types of innovation, such as creating organizational changes by developing new products, or changes in the existing one; finding new methods to reduce costs; budding organizational innovations; identifying a role for market; and increasing productivity. North and Smallbone (2000) emphasized that innovation means new developments that are done within an industry, or new changes within a firm, regardless whether they exist within other firms of the same industry. Porter (1990) defined innovation as an attempt to create competitive advantage by perceiving or discovering new and better ways of competing in an industry and bringing them to market (Rexhepi, 2014).

There was a belief that the core source of innovation is large enterprises during the early post-war period. The increase of organizational size leads to higher innovation capabilities. Nevertheless, many studies have explained that SMEs are the major contributors in innovation activities (Kalantaridis and Pheby, 1999). Previous studies did not analyze the degree of innovation performed within a product. As long as a new product was introduced, it was considered an innovation. Nevertheless, the latest research differentiates product innovation by implementing incremental or radical changes (Salavou & Lioukas, 2003).

Some literatures have concluded that internal characteristics are essential on achieving high organizational performance through innovation. It depends whether the organization builds up a radical or incremental innovation, for which different strategies and structures are needed. According to Pullen *et al.,* (2009), the internal characteristics, which involve strategy, process and organization, play a significant role to make decision on the development of innovation types. Conventional strategy is focused more on incremental innovation through development or improvement of existing products and services, while technology strategy encourages radical innovation by focusing on emerging trend.

An additional internal characteristic of SMEs consist of process made up of formalization and marketing-R&D integration. A formal process is needed when creating incremental innovation, while less formalized process is used for radical product innovation. Another internal characteristic is organization, which comprises climate, culture and team structure. The organizational climate is related to organizational regulations, practices and procedures, and to the employees' attitudes, such as trust, conflict, rewards equity and resistance to change.

Organizational culture has to do with the beliefs and values rooted in the organization, by inheriting innovation within employees.

Moreover, team structure means the cross-functional teams, composed of individuals with various skills and capabilities. It can be completed that incremental innovation involved an entrepreneurial climate, hierarchical culture, and a lightweight team structure, while radical innovation is achieved when there is entrepreneurial climate with adhocracy culture and autonomous team structure (Pullen *et al.*, 2009). Additionally, Mahemba and Bruijn (2003) showed the organization can either produce or adopt innovations based on the internal abilities and strategic orientation.

Organizational Performance

Growth is considered as an indicator of organizational performance and it is associated with the achievement of financial goals. The turnover of the firm is the most frequent measure of growth, which addresses taxation concerns, whereas the number of employees is another measure of growth, which addresses the job concerns. There is interconnection between these two growth indicators within the context of SMEs, and they are used due to their visibility and simplicity to obtain within organizations (Fadahunsi, 2012). There are many definitions of SMEs from different authors; however, the common criteria include the number of employees, sales and investment level. Most sources categorize SMEs based on the number of employees, which comprise those that have no more than 250 employees (Ayyagari *et al.*, 2007).

Over the years, there have been many theories of organizational performance in the strategic management literature. Two significant aspects of organizational performance perspectives in strategic management are the constituencies for whom the organization performs, and the dimensions which should be calculated. Fadahunsi (2012) categorized three factors that will influence SMEs organizational performance.

The first factor is entrepreneurs' characteristics, which has to do with the attributes of the person who establishes the SMEs and the main resources presented for SMEs creation. Personal characteristics of the SMEs owners may contribute to the growth of the firm, such as motivation, education, ownership/ management experience, number of founders, ethnicity/race, age and gender. For example, motivation can persuade on the strategic choices made by the SMEs owners. Educated and experienced SMEs owners usually establish an organization in the discipline they have been educated and are likely to find better growth-related opportunities. Furthermore, when there is more than one SMEs owner, it leads to a diversity of experience, skills and resources which match each other (Fadahunsi, 2012).

The second important factor to growth in SMEs is organizations' characteristics, which is connected to the decisions made when starting a business. Some factors include age, sector, location, size and ownership form. Business operating in one sector may grow faster than others. There are benefits and restrictions for organizations located in urban and rural areas (Fadahunsi, 2012). The third influential factor that contributed is business management practices/strategies, which is correlated to the managerial actions within organization.

Most important factors involve training program for workforce, training for managers, marketing strategy, internationalization, technical resources, planning, external advice and facility, as well as financial resources. Analysis should be done to evaluate how much training the organization can afford to give to its employees in relation to the organizations' tendency to grow (Fadahunsi, 2012).

Conceptual Framework and Hypotheses

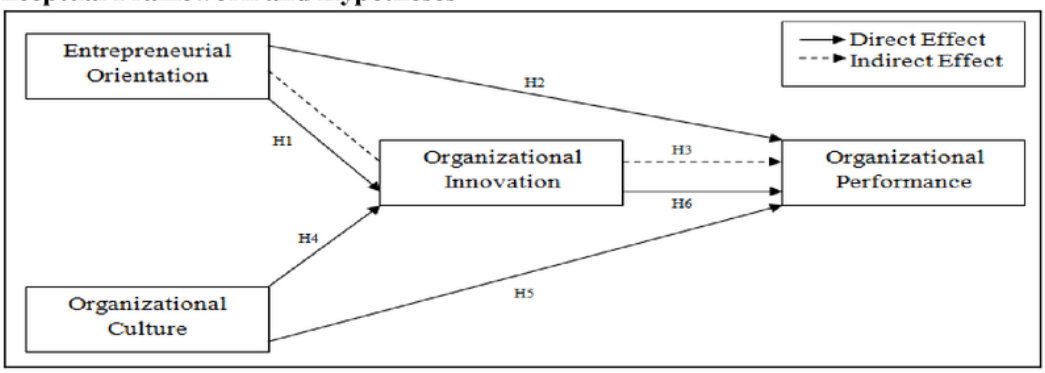

Figure 1. Conceptual Framework

Entrepreneurial Orientation can foster innovation process. So many pieces of literatures have stressed upon the effect and relationship between entrepreneurial orientation and innovation (Miller, 1983; Covin and Slevin, 1989; Schafer, 1990; Barringer and Bluedorn, 1999; Wicklund and Shepherd, 2003; Harms et al., 2009; Hafeez et al., 2012). According to Lumpkin and Dess (1996, 2001) entrepreneurial orientation refers to the trend of a firm to indulge in innovative, proactive and risk prone ventures. From the literature it can be argued that innovation is a function of entrepreneurial orientation. Similarly, the literature asserts a significant relationship between entrepreneurial orientation and organizational performance (Wicklund et al., 2009).

Entrepreneurial Orientation is measured as a behavioral procedure that operates at firm level. If entrepreneurial orientation is prone towards innovation, the firm would follow and manage innovation in their activities as compared to those firms where entrepreneurs are less innovative and risk averse; and perform better than the competitors. Hafeez et al. (2012) found organizational innovation can be as mediating factors that will influence the effect of entrepreneurial orientation and organizational performance. Based on the previous study, we proposed:

H1 Entrepreneurial Orientation significantly influences organizational innovation

H2 Entrepreneurial Orientation significantly influences organizational performance

H3 Organizational innovation mediates the effect between entrepreneurial orientation and organizational performance

Organizational culture can effectively encourage cooperation, sharing of knowledge, experience and ideas. Open culture, persuade the participation of all team people in the organizations to involve in the creative process, will be increased the degree of participation in

organization. In addition, it will lead the employees to develop their creativity and innovation. Cultures aimed at rising innovation and creating suitable conditions and it characterized by dynamism, flexibility, fast adaptation to changing conditions, and non-stereotypical solutions (Szczepańska-Woszczyna, 2014).

Brown (1995) explained the effect of the organizational culture and performance. In this study, the organizational culture describes as a powerful tool for improving organizational performance. Some advantages of organizational culture is leading to enhance organizational performance, individual satisfaction, the higher skill of problem-solving, etc (Hellriegel, 2001). Sun (2008), hypothesizes that organizational culture will be able as a tool of management control and direct the people in the organization, thus it will lead to increase the degree of individual commitment to the organizations and its goals (Motilewa et al., 2015). According to literature, the proposed hypotheses are:

H4 Organizational culture significantly influences organizational innovation

H5 Organizational culture significantly influences organizational performance

Numerous studied have been exhibit the relationship between innovation and organizational performance (Calantone, 2002; Klomp and Van Leeuwen, 2001, Hafeez et al., 2012). Innovation is observed as a vital element for business growth and a critical factor to reach long serving differential advantage (Dess and Picken, 2000; Marchese, 2009) In the perspective of SMEs innovation refers to looking for new ways of doing business, seeking introduction of differentiated products to facilitate grasp the marketing and economic benefits such as higher returns, market share and sustainable competitive advantage (Hafeez et al., 2012).

H6 Organizational innovation significantly influences organizational performance

Research Method

According to the sampling technique applied by Hair et. al (2014), the target of the survey is 183 SME owners of creative industry in West Sumatera, Indonesia. The unit of analysis is the organization. To ensure that the collected data accurately represent the organization, all the owners who have to trade the products directly to the market were asked to answer the survey. A questionnaire was used for data collection and distributed directly to the owners.

Entrepreneurial Orientation scale by Covin and Slevin (1989) cited in Morgan et al. (2015). Entrepreneurial Orientation was measured based on three dimensions: innovativeness, proactiveness and risk taking. Innovativeness dimension of entrepreneurial orientation described how the firm do the R&D, technological leadership and innovation in the organizations, how many new products have been produced, and how the changes in products/ services applied. Proactiveness dimensions indicated how the firm dealing with competitors, to respond about the competitor activities, for example, introduce new products,/services, administrative technique, operating technology etc. Risk taking dimensions mentioned how the organization will catch the risk of the tasks/ activities, uncertainty of the environment, and actively to seek the opportunities. Respondents rate each statement on a Likert-type scale ranging from 1 to 5, with 1 indicating *strongly disagree* and 5 indicating *strongly agree*.

Organizational culture measurement was adopted from Al-Swidi and Mahmoud (2012) and replicated by Shehu and Mahmood (2014). There are 17 items that explained organizational culture. The items included employees understanding of what need to completed, good mission that gives direction and meaning, systemic organization of jobs, capabilities are treated as a source of competitive values, changes in marketing practices, customers decisions are very important, excitement and motivation for employees are the result of vision development, acceptable code of conduct, emphasis on team work, clear set of values, employee involvement in work, respond to competitor actions, information sharing, invention and risk taking encouraged, disappointment as a chance for learning and improvement, encourage direct contact with customers.

In order to measure the frequency of organizational innovation, we replicated an organizational innovation scale based on the study of Widiartanto and Suhadak (2013). Organizational innovation scale reflects the respondents' assessment for how the innovation has been implemented at the organization they are owned. There are six items that distributed to explain this variable: improving working practices, training employees routinely, creating new products, creating modification of products, developing new ideas, encouraging initiatives. Organizational innovation is a Likert-type scale with score ranging from 1 to 5, with 1 indicating *strongly disagree* and 5 indicating *strongly agree*.

Organizational performance was measured by four items based on Brewer and Selden's (2000) scale. Items related to service quality, customer satisfaction, as well as commitment to cost reduction were included. The measurement is also adapted by Im, Campbell and Jeong (2016). Organizational performance is using a Likert-type scale with score ranging from 1 to 5, with 1 indicating *strongly disagree* and 5 indicating *strongly agree*. After measurement model was verified, the theoretical model was tested using structural equation modeling (SEM) with Partial Least Square software.

Result

Profile of Respondents

The descriptions of the respondents will be described on table 1.

Table 1
PROFILE OF RESPONDENTS

Category	Description	Frequency	Percentage (%)
Gender	Male	53	29
	Female	130	70
Age	20 – 30 years	19	10,4
	31 – 40 years	47	25,7
	41 - 50 years	50	27,3
	More than 50 years	67	36,6
Work	Students	3	1,6
	Civil Servants /Police	11	6
	Civil Servants/Police and Entrepreneur	1	0,5

	Entrepreneur	154	84,2
	Entrepreneur and Farmers/Fisherman	1	0,5
	Farmers/Fisherman	1	0,5
	Other	12	6,6
Last Education	Graduated from elementary school	14	7,7
	Graduated from junior high school	19	10,4
	Graduated from senior high school	94	51,4
	Graduate Academy (D3)	16	8,7
	Graduated from college (S1)	38	20,8
	Graduated from postgraduate (S2)	2	1,1
Income/month	Less than Rp.2.000.000	32	17,5
	Rp. 2.000.000 – Rp. 4.000.000	45	24,6
	Rp. 4.000.001 – Rp. 6.000.000	28	15,3
	Rp. 6.000.001 – Rp. 8.000.000	21	11,5
	More than Rp. 8.000.000	57	31,1

Table 1 displays the frequency of different categories of respondent characteristics. Interestingly, it shows that the most commonly reported gender was female (70%), with the age were more than 41 years old (63, 9%). For occupation, most of respondents (84, 2%) are consistently focused work as entrepreneurs and only few of them have side jobs other than entrepreneur. However, of the 183 respondents, the majority of respondents (127 respondents or 69, 5%) had just finished their high school. On the other hand, in terms of income per month, the majority of respondents have income more than 8 million IDR (31, 1%).

Validity Testing of First Order Reflective and Second Order formative

Convergent validity was used to test whether the indicator of the variables actually measures the research variables. In this study, convergent validity is seen through the value of outer loading. According to Hair et al. (2014), the outer loading value must be greater than 0.70. However, according to Jogiyanto and Abdillah (2009), the value of outer loading greater than 0.50 can also be considered.

Table 2
OUTER LOADING

	INITIAL OUTER LOADING	OUTER LOADING REESTIMATION 1	OUTER LOADING REESTIMATION 2
CULT1	0,616267	0,669961	0,649848
CULT10	**0,470289**	**deleted**	**Deleted**
CULT11	0,660941	0,663659	0,684978
CULT12	0,66807	0,672211	0,702295
CULT13	**0,473567**	**deleted**	**Deleted**
CULT14	**0,4171**	**deleted**	**Deleted**
CULT15	**0,342515**	**deleted**	**Deleted**
CULT16	0,542114	0,536619	0,520751
CULT17	0,638072	0,659488	0,633247
CULT2	0,712692	0,782994	0,752124

	INITIAL OUTER LOADING	OUTER LOADING REESTIMATION 1	OUTER LOADING REESTIMATION 2
CULT3	0,535468	0,590051	0,574815
CULT4	0,518716	0,524666	0,508852
CULT5	**0,110972**	**deleted**	**Deleted**
CULT6	0,642589	0,644331	0,650201
CULT7	0,528252	0,496239	**Deleted**
CULT8	**0,339831**	**deleted**	**Deleted**
CULT9	0,53723	0,519951	0,558643
INV1	0,708782	0,646999	0,624728
INV2	**0,423994**	**deleted**	**Deleted**
INV3	0,709208	0,722887	0,721117
INV4	0,659014	0,711207	0,729191
ORG_INV1	**0,424192**	**deleted**	**Deleted**
ORG_INV2	0,547047	**0,478204**	**Deleted**
ORG_INV3	0,859024	0,5912	0,659353
ORG_INV4	0,883056	0,850196	0,93559
ORG_INV5	0,865673	0,843821	0,894903
ORG_INV6	0,613846	0,632621	0,722042
PERF1	**0,401776**	**0,409118**	**Deleted**
PERF2	0,755534	0,746026	0,808399
PERF3	0,797833	0,801592	0,80065
PERF4	0,728182	0,728683	0,754578
PRO1	0,79197	0,809994	0,913607
PRO2	0,697945	0,722044	0,843637
PRO3	0,612653	0,575636	0,575659
RISK1	0,815282	0,816001	0,81439
RISK2	0,81768	0,818359	0,821941
RISK3	0,765971	0,764329	0,761595

Furthermore, discriminant validity used to identify whether the indicator's correlation score to its own variable is greater than other variables. In this study, discriminant validity is seen from the output latent variable correlations. The value should be greater in the diagonal line. The value in the diagonal line is obtained by rooting the AVE (√AVE) value. Table 2 below shows the value in the diagonal line which all the value is already greater than the other value.

Table 3
LATENT VARIABLE CORRELATIONS

	CULTURE	INNOVATIVENESS	INOVATION	PERFORMANCE	PROACTIVENESS	RISK-TAKING
CULTURE	**0,61927**					
INNOVATIVENESS	0,060929	**0,693304**				

INOVATION	0,496133	0,158226	**0,838834**			
PERFORMANCE	0,422578	0,35302	0,316471	**0,788234**		
PROACTIVENESS	0,295635	0,12354	0,58332	0,277474	**0,879318**	
RISK-TAKING	0,224808	0,393106	0,193034	0,356419	0,175838	**0,799759**

Besides using reflective constructs, this study also used a second order formative construct (testing the validity of indicators on each dimension in the entrepreneurial innovation variable). The validity test in the formative construct is seen from the significance of weight and collinearity (Hair et al., 2014). The outer weight parameter is fulfilled if the value of T-statistics is greater than the t-table value. This study used the test with $\alpha = 5\%$, then t-table is used as reference = 1.96. Table 3 below shows the outer weight value of formative constructs.

Table 4

OUTER WEIGHT (MEAN, ST-DEV, T-VALUES)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
INV1 -> EO	0,095836	0,092076	0,043758	0,043758	2,190125
INV2 -> EO	-0,01767	-0,01663	0,025426	0,025426	**0,694898**
INV3 -> EO	0,085187	0,081047	0,05384	0,05384	**1,582207**
INV4 -> EO	0,104921	0,091644	0,061084	0,061084	**1,717639**
PRO1 -> EO	0,525953	0,522232	0,042013	0,042013	12,51893
PRO2 -> EO	0,377018	0,37804	0,047059	0,047059	8,011542
PRO3 -> EO	0,052962	0,053622	0,018389	0,018389	2,880008
RISK1 -> EO	0,101889	0,100277	0,03175	0,03175	3,209131
RISK2 -> EO	0,258061	0,255027	0,045343	0,045343	5,691283
RISK3 -> EO	-0,00287	-0,00595	0,034077	0,034077	**0,084059**

As displayed in table 3, a number of indicators are not significant which have T-statistic lower than 1.96. From this point of view, we found that the results are statistically weak. We should drop the indicators which have T-statistic lower than 1.96. However, due to the conceptual and theory applied in this study, these indicators would be kept and analyzed (Hair et al., 2014)

Reliability Testing

Reliability testing in this research is used to observe the consistency of variable used. Table 4 shows the composite reliability of each variable which all the value is greater than 0.60.

Table 5

COMPOSITE RELIABILITY

	Composite Reliability
CULTURE	0,859463
EO	0,758723
INNOVATIVENESS	0,734303
INOVATION	0,874574
PERFORMANCE	0,831014
PROACTIVENESS	0,871919
RISK-TAKING	0,841733

Measurement Model (Inner Model)

R-Square

Table 5 showed the coefficient of determination, R^2 is 0,980619for the entrepreneurial orientation variable. This means that innovativeness, proactiveness and risk taking explained by 98.06% of the variance in entrepreneurial orientation. R^2 value of organizational innovation is 0,350731. It showed that 35.07% of the variance in organizational innovation explained by entrepreneurial orientation and organizational culture. R^2 value of organizational performance is 0,100154. It means that 10.01% of the variance in organizational performance explained by entrepreneurial orientation, organizational culture and organizational innovation.

Table 6
R-Square

	R Square
CULTURE	
EO	0,980619
INNOVATIVENESS	
INOVATION	0,350731
PERFORMANCE	0,100154
PROACTIVENESS	
RISK-TAKING	

Test of Significance (Hypotheses Testing)

Table 6 and 7 above showed the path coefficient values for each hypothesis. This study examines the effect of mediation between independent and dependent variables. The mediation test was performed using a mediation testing stage by Hair et al. (2014), as follows:

1. Conducting testing of significance without including the mediation variable
   Results of data processing of this study indicate the direct influence of independent variables on dependent without entering the mediation variable (organizational innovation). Thus, the next stage of testing can be performed.
2. Testing the significance of indirect effects by including the mediation variable

After the mediation variables are incorporated into the new research model, the results of the path coefficient as shown in Table 7 are obtained.

The table shows that the indirect effect (EO → innovation) * (Innovation → Performance) = 11.31395 * 1.321382 = 14.95005 is significant (> 1.96). Then the test proceeds to the next stage.

3. Calculate the value of VAF (Variance Accounted For) by comparing the indirect effect and total effect.

   The results of data processing showed that the value:

   VAF = [Indirect effect / total effect] * 100%

   VAF = [4.95005 / (14.95005 + 4.769262)] * 100%

   VAF = (14.95005 / 19.71931) * 100%

   VAF = 0.758143 * 100%

   VAF = 75.81 (Partial Mediation)

According to Hair et al. (2014), if the value of VAF <20% it means that, there is no influence of mediation variables. If the VAF values are between 20 - 80%, then there is a partial mediation effect, whereas if the VAF value is greater than 80%, then there is the effect of full mediation.

Table 7
PATH COEFFICENT WITHOUT MEDIATION (MEAN, ST-DEV, T-VALUES)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
CULTURE -> PERFORMANCE	0,448777	0,448605	0,034738	0,034738	12,919051
EO -> PERFORMANCE	0,286667	0,30371	0,042263	0,042263	6,783013

Table 8
PATH COEFFICENT WITHOUT MEDIATION (MEAN, ST-DEV, T-VALUES)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	Hypotheses testing
EO -> INNOVATION	0,455152	0,465921	0,040229	0,040229	11,31395	Supported
EO -> PERFORMANCE	0,312009	0,32795	0,065421	0,065421	4,769262	Supported
CULTURE -> INNOVATION	0,360669	0,353452	0,048835	0,048835	7,385436	Supported

CULTURE -> PERFORMANCE	0,390155	0,394496	0,059336	0,059336	6,575303	Supported
INNOVATION -> PERFORMANCE	-0,08579	-0,10104	0,06492	0,06492	**1,321382**	**Not Supported**

Discussion

The entrepreneurial orientation which has innovativeness dimensions will influence to highlight market with R&D, applied technology, and leadership. Proactiveness dimensions in entrepreneurial orientation will lead to anticipate competitors' strategies and activities. Risk taking dimensions in entrepreneurial orientation will be able to drive organizational performance because the firm can adapt the changes and uncertainty. Firms that have an entrepreneurial orientation and have an excellent organizational culture will be able to drive organizational innovation. Entrepreneurs are should be able for determining the culture of their firms by the positive orientation towards innovation that may facilitate them to identify and aim the attractive market opportunities (Stokes, 2000).

The uniqueness of the Minangkabau's culture also applied in the SMEs' organizations will lead to organizational innovation. However, it also can be barriers to imply the innovation to enhance organizational performance. From the result of the study, organizational innovation conducted by the company has not been able to encourage organizational performance. It showed that there are limited training programs to complete by the employees. Hence, it will give the limitation to create the new products and modify the products. It will affect the marketing activities to trade the products because the products tend to be monotone. In this case, the organizational innovation of creative industry in West Sumatra did not affect the organizational performance because they should maintain the Minangkabau traditional motifs and cannot modify the new product based on the customer demand.

On the other hand, to encourage performance, the government must offer required socio-technological support to the entrepreneurs so that they can take innovative method with more confidence. More technology development, business incubation centers, and counseling organizations must be established in the future. Furthermore, entrepreneurs also need to decrease the emphasis on conventional and older ways of running businesses; reliance on existing and type of products should also be reduced. They should embrace new technologies and new methods to improve their business processes and should spend more money in branding activities to promote product innovation (Abimbola, 2001). Moreover, innovation practices should also be practiced in managerial and marketing activities (North and Smallbone, 2000), in order to achieve higher sustainable competitive advantage and superior firm performance.

Conclusions

This study examined the influence of entrepreneurial orientation, organizational culture, organizational innovation and organizational performance on creative industry in West Sumatera, Indonesia. This research uses 183 respondents questionnaires and SEM/PLS. Four of

five hypotheses were significant influences and the rest that is one hypothesis was insignificant, and another hypothesis is partial mediation influence the variables. It means the entrepreneurial orientation and organizational culture give impact on the organizational innovation and organizational performance. In contrast, the organizational innovation is not really affected organizational performance on SME. However, the organizational innovation has partial mediation of the influence of entrepreneurial orientation to organizational performance.

Acknowledgment

The authors are grateful to Indonesian Minister of Research Technology and Higher Education (KemenristekDikti-DP2M) giving the financial support of this research under the grant of Excellence Higher Education Institution Research in the year of 2017. This paper was presented in the Global on Service Management (Gloserv) Conference on October 2017 in Volterra, Tuscany, Italy, Funded by Andalas University.

References

Abimbola, T. (2001). Branding as a competitive strategy for demand management in SMEs. *Journal of research in marketing and entrepreneurship*, *3*(2), 97-106.

Al-Swidi, A. K., & Mahmood, R. (2012). Total quality management, entrepreneurial orientation and organizational performance: The role of organizational culture. *African Journal of Business Management*, *6*(13), 4717.

Antoncic, B., & Hisrich, R. D. (2001). Intrapreneurship: Construct refinement and cross-cultural validation. *Journal of business venturing*, *16*(5), 495-527.

Ayyagari, M., Beck, T., & Demirguc-Kunt, A. (2007). Small and medium enterprises across the globe. *Small business economics*, *29*(4), 415-434.

Barringer, B. R., & Bluedorn, A. C. (1999). The relationship between corporate entrepreneurship and strategic management. *Strategic Management Journal*, 421-444.

Bate, S. P. (2010). *Strategies for cultural change*. Routledge.

Brewer, G. A., & Selden, S. C. (2000). Why elephants gallop: Assessing and predicting organizational performance in federal agencies. *Journal of Public Administration Research and Theory*, 10, 685-712.

Brown, A. (1998). *Organizational culture*. (2nd ed). Pitman Publishing

Calantone R. J., Cavusgil S. T. and Zhao Y. (2002). Learning Orientation, Firm Innovation Capability, and Firm Performance. *Industrial Marketing Management*, 31(6), 515-524.

Covin, J & Slevin, D. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal,* 10(1): 75-87.

Davis, S.M. (1984). *Managing Corporate Culture*. Ballinger, Cambridge, MA.

Deal, T.E. & Kennedy, A.A. (1982). *Corporate Cultures. The Rites and Rituals of Corporate Life*. Addison-Wesley, Reading, MA.

Dess G. G. and. Picken, J. C. (2000). Changing Roles: Leader-ship in the 21st Century. *Organizational Dynamics*, 28(3), 18-34.

Fadahunsi, A. (2012). The Growth of Small Businesses: Towards A Research Agenda. *American Journal of Economics and Business Administration, 4 (1) 105-115*

Grieves, J. (2000). Introduction: the origins of organizational development. *The Journal of Management Development*, 19(5), 345-447.

Hafeez, M., H, Mohd Noor Mohd Shariff, M., N., H., and, Lazim, H., B., M. (2012). Relationship between Entrepreneurial Orientation, Firm Resources, SME Branding and Firm's Performance: Is Innovation the Missing Link? *American Journal of Industrial and Business Management*, 2, 153-159.

Hair J.F., Black W.C., Babin B.J., Anderson R. E. (2014).*Multivariate Data Analysis*. Prentice Hall.

Harms, R., Schulz, A., Kraus, S. and Fink, M. (2009) The Conceptualization of 'Opportunity' in Strategic Management Research. *International Journal of Entrepreneurial Venturing*, 1(1), 57-71.

Hashi, I., and Krasniqi, B. (2010). Entrepreneurship and SME growth: evidence from advanced and laggard transition economies, *International Journal of Entrepreneurial Behaviour & Research*. 17(5), pp. 456-487.

Hofstede, G. (1980). *Culture's Consequences*. Sage, Beverly Hills, CA.

Hofstede, G. (1997). *Culture and Organisations: Software of the Mind: Intercultural Cooperation and its importance for Survival*. McGraw-Hill.

http://creativeconomy.britishcouncil.org/places/indonesia/

http://sumbar.antaranews.com/en/news/10597/fashion-and-culinary-biggest-players-of-creative-industry-in-west-sumatra.html

Im, T., Campbell, J. W., & Jeong, J. (2016). Commitment intensity in public organizations: performance, innovation, leadership, and PSM. *Review of Public Personnel Administration*, 6(3), 219-239.

Jogiyanto, H. M., & Abdillah, W. (2009). Konsep dan aplikasi PLS (Partial Least Square) untuk penelitian empiris. *BPFE Fakultas Ekonomika dan Bisnis UGM. Yogyakarta*.

Kalantaridis, C., & Pheby, J. (1999). Processes of innovation among manufacturing SMEs: the experience of Bedfordshire. *Entrepreneurship & Regional Development*. 11, 57-78.

Klomp L., and. Van Leeuwen G. (2001). Linking Innovation and Firm Performance: A New Approach. *International Journal of the Economics of Business*, 8(3), 343-364.

Konsti-Laakso, S., Pihkala, T., & Kraus, S. (2012). Facilitating SME innovation capability through business networking. *Creativity and Innovation Management*. 21(1),. 93-105.

Kraus S, Kauranen I, Reschke CH (2011) Identification of domains for a new conceptual model of strategic entrepreneurship using the configuration approach. *Manag Res Rev*, 34(1), 58–74

Kraus, S., Rigtering, J., P., C., Hughes, M., & Hosman, V. (2011). Entrepreneurial orientation and the business performance of SMEs: a quantitative study from the Netherlands through Springerlink.com

Lumpkin G. T. and Dess, G. G. (1996). Clarifying the Entrepre-neurial Orientation Construct and Linking It to Performance. *Academy of Management Review*, 21(1),. 135-172.

Lumpkin G. T. and. Dess G. G. (2001). Linking Two Dimen-sions of Entrepreneurial Orientation to Firm Performance: The Moderating Role of Environment and Industry Life Cycle. *Journal of Business Venturing*, 16(5), 2001, 429-451.

Lumpkin GT, Dess GG (1996) Clarifying the entrepreneurial orientation construct and linking it to performance. *Acad Manag Rev*, 21(1),135–172

Mahemba, C. M., & Bruijn, E. J. D. (2003), Innovation Activities by Small and Medium-sized Manufacturing Enterprises in Tanzania. *Creativity and Innovation Management*. 12(3), 162-173.

Marchese M., (2009). Issues Paper. *International Conference on SMEs, Entrepreneurship and Innovation, OECD LEED Programme*, Udine, 22-23 October 2009.

Martins, E.C. & Terblanche, F. (2003). Building organizational culture that stimulates creativity and innovation. *European Journal of Innovation Management*, 6(1), 64-74.

Miller, D. (1983). The Correlates of Entrepreneurship in Three Types of Firms. *Management Science*, 29(7), 770-791.

Morgan, T., Anokhin, S., Kretini, A & Frishammar, J. (2015). The dark side of the entrepreneurial orientation and market orientation interplay: a new product development perspective. *International Small Business Journal,* 33(7), 731-751.

Morris M.H, Kuratko D.F, and Covin J.G. (2008). *Corporate entrepreneurship and innovation*, 2nd edn. Thomson Higher Education, Mason

Motilewa, Deborah B., Agboola, Mayowa G., Adeniji, Grace C. (2015). Organizational Culture and Performance: A study of Covenant University. *International Conference on African Development Issues* (CU-ICADI) Social and Economic Models for Development Track

North, D. & Smallbone, D. (2000). The Innovativeness and Growth of Rural SMEs during the 1990s. *Regional Studies*. 34(2), 145-157.

Pullen, A.J.J., De Weerd-Nederhof, P.C., Groen, A.J., Song, M. & Fisscher, O.A.M. (2009). Successful Patterns of Internal SME characteristics leading to high overall innovation performance. *Creativity and Innovation Management*. 18(3), 209-223.

Rexhepi, L. (2014) the impact of innovation in SMEs performance. Horizons International Scientific Journal (Special Edition) Economics, X(12).

Salavou, H., & Lioukas S. (2003). Radical product innovations in SMEs: the dominance of entrepreneurial orientation. *Creative and Innovation Management, 12(2),* 94–108.

Schafer, D., S. (1990). Level of Entrepreneurship as Scanning Source Usage in very Small Businesses. *Entrepreneur-ship Theory and Practice*, 15(2), 9-31.

Semiarty, R., Semiarty, R., Fanany, R., & Fanany, R. (2017). The effects of local culture on hospital administration in West Sumatra, Indonesia. *Leadership in Health Services*, *30*(1), 59-67.

Shehu, A. M., & Mahmood, R. (2014). The relationship between market orientation and business performance of Nigerian SMEs: The role of organizational Culture. *International Journal of Business and Social Science*, 5(9/1), August, 159- 168.

Stokes, D. (2000). Putting Entrepreneurship into Marketing. *Journal of Research in Marketing and Entrepreneurship*, 2(1), 1-16.

Sun, S. (2008) Organizational culture and its themes. *International Journal of Business and Management*. 3(12). 137-141.

Szczepańska-Woszczyna, K. (2014). The importance of organizational culture for innovation in the company *Forum Scientiae Oeconomia*, 2(3).

Tambunan, T. (2007). Development of SMEs in a Developing Country: The Indonesian Story. *Journal of Business and Entrepreneurship*. 19 (2), pp. 60.

Tanase, I., A. (2015). The importance of organizational culture based on culture transfer. The 9th International Management Conference Management And Innovation For Competitive Advantage, November 5th – 6th, 2015, Bucharest, Romania.

Uttal, B., (1983). The corporate culture vultures. *Fortune Magazine,* October 17

Venkatraman N (1989) Strategic orientation of business enterprises: the construct, dimensionality and measurement. *Manag Sci* 35(8), 941–962

Walter A, Auer M, Ritter T. (2006). The impact of network capabilities and entrepreneurial orientation on university spin-off performance. *J Bus Ventur* 21(4):541–567

Wicklund, J., Patzelt, H..and. Shepherd, D. (2009). Building an Integrated Model of Small Business Growth. *Small Business Economics*, 32(4), 351-374

Wicklund, J.and Shepherd, D. (2003).. Knowledge-Based Re-sources, Entrepreneurial Orientation, and the Performance of Small and Medium-Sized Businesses. *Strategic Management Journal*, 24(13), 1307-1314.

Widiartanto and Suhadak. (2013). The effect of Transformational leadership on market orientation, learning orientation, organization innovation and organization performance: study on star-rated hotels in central java province, Indonesia. *Journal of Business and Management*, Vol. 12 (6), 8-18.

Wiklund, J. (1999). The sustainability of the entrepreneurial orientation-performance relationship. *Entrepreneurship Theory Pract* 24(1):37–48

Wiklund, J, Shepherd D. (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium sized business. *Strateg Manag J* 24(13),1307–1314

Zahra, S.A. (1993). Environment, corporate entrepreneurship, and financial performance: a taxonomic approach. *J Bus Venture* 8(4), 319–341.

Enhancing Small and Medium Enterprises Performance through Innovation in Indonesia: A Framework for Creative Industry

ORIGINALITY REPORT

12%	10%	10%	4%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	eprints.covenantuniversity.edu.ng Internet Source	4%
2	www.scirp.org Internet Source	2%
3	Choi, S.. "Learning Orientation and Market Orientation as Catalysts for Innovation in Nonprofit Organizations", Nonprofit and Voluntary Sector Quarterly, 2012. Publication	2%
4	Submitted to Midlands State University Student Paper	2%
5	Submitted to Universiti Malaysia Sabah Student Paper	2%

Exclude quotes	Off	Exclude matches	< 2%
Exclude bibliography	On		