

Market Orientation and Innovation: The Impact of Entrepreneurial Orientation among Traditional Snack Entrepreneurs in Sanan, Malang, Indonesia

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Abstract: The food and beverage industry has become a mainstay sector in Indonesia and is projected to experience better growth in the coming year. However, the growth of this industry also causes a tight competition among similar businesses. In facing the competition, one key to succeed is innovation and entrepreneurial orientation. This research aims to determine the influence of market orientation on entrepreneurial orientation, the entrepreneurial orientation on innovation, and the market orientation on innovation in traditional snack SME entrepreneurs in Malang. This research is quantitative research, which is using an explanatory method. Data collection uses questionnaires that are distributed among 100 respondents of the SME entrepreneurs in Sanan, Malang. The sampling method is using purposive sampling to determine the amount of samples with certain considerations. The consideration is the length of operation for at least one year for the SME owners in Sanan, Malang. The data analysis method is using Partial Least Square (PLS). This research shows that market orientation has a positive significant influence on entrepreneurial orientation, and entrepreneurial orientation also has a significant influence on innovation. Finally, market orientation has a significant and positive influence on innovation among traditional snack SME entrepreneurs in Sanan, Malang.

1 INTRODUCTION

Small Medium Enterprise (SME) has a big role in Indonesia. Its existence has a big contribution to business activities, and it has provided new employment opportunities (Nurfadilah, 2018). SME in the food and beverage sector is also rising in Indonesia, especially in East Java. This sector constructs 25% of the total business sectors in East Java. Besides, it increases by 7.04% annually and will still be potentially rising in the following years. Some factors that influence the growth of small and medium enterprises include massive product development, various market demands, and their adaptive capability (Waluyo, 2017). This shows the importance of small medium enterprises to focus on their market orientation. According to Kohli & Jaworski (1990), market orientation refers to the orientation of an organization in digging out information from consumers, especially information about their need and demand, in taking action based on the information and research, and in formulating

the strategy based on the insights from the consumers. Based on the understanding of the consumers, market orientation becomes an important aspect for an organization to stay alert in the competition. Market orientation is an important element to support the ability of an organization to innovate based on the orientation of the consumer, the orientation of the competitors, and the interfunctional coordination (Grinstein, 2007).

Miller and Friesen (1983) study that companies with strong entrepreneurial orientation tend to be able to innovate if compared to others with no entrepreneurial orientation. SMEs have a strong growth because of several factors, such as the ability to focus, flexibility, low cost, and fast innovation. However, SMEs have to consider how to implement the innovation. The purpose of innovation is to offer different types of products or services from competitors, which the customers should like them (Setiawan, 2015). Innovation is important to an organization's success and continuity. According to Han, Kim, and Srivastava (1998), innovation creates

superiority in competition, which becomes a mean to survive in uncertainty environments. An organization can create an innovative product, increase the quality of the service, or do different things that have not been done by the competitors (Jiménez-Jiménez & Sanz-Valle, 2011).

Malang is a city that has many tourist destinations, it has been visited by many tourists. On the other hand Malang is a city that has various natural resources which can be processed into various snacks. Both this condition causes a variety of typical foods to emerge, such as fruit chips and tempeh chips. Sanan is an area in Malang that has grown into a center area for the production of food made from tempeh.

The tempeh industry has been in Sanan since the year of 1.800 and has been managed across generations. Now there are around 400 tempeh producers in the area and have involved many workers. The focus of the business is relatively the same, but the models taken are slightly different from each other. Most produce tempeh from soybean as raw materials into semi-finished products. The raw material is produced into chips and other snacks. Some producers take semi-finished materials from other producers to process them again.

The growth of entrepreneurs in Sanan brings competition between businesses in the area. On the other hand, the abundance of modern Malang food also becomes a competitor for Sanan's traditional snacks. This encourages them to continue to strive to innovate their products.

The owners of small tempeh businesses in Sanan Malang have done some product innovation to attract their consumers. The innovation is created through the various existing snack products from tempeh, such as tempeh chips with various flavors, tempeh flavored brownies, tempeh flavored cake, tempeh flavored steak, tempeh flavored chocolate. However, these small businesses need to observe the market demands and market opportunities to create an innovation to build their competitive advantages. To understand the market demands and market opportunities, the business owners require the ability to be proactive and take risks, which are reflected in entrepreneurial orientation. Therefore, the aim of this research is to investigate the impact of market orientation toward entrepreneurial orientation, entrepreneurial orientation to innovation. This research also examines the impact of market orientation toward innovation among small business owners.

2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Literature Review

2.1.1 Market Orientation

Market orientation is a process and activity that are related to creating and satisfying customers by evaluating their need and demand (Uncles, 2000). Market orientation is an important factor for a company to understand the market, so that the company can develop product and service strategies. The company with strong market orientations has a faster basic improvement, and it is reflected on the success of their new main products, profitability, market share, and sustainable competitive advantage (Baker and Sinkula, 2009). Market orientation is related to the availability of resource management in an organization because its purpose is to create new added values for existing products or the services. The market orientation measures some components, such as customer orientation, competitor orientation, interfunctional coordination (Grinstein, 2008; and Kohli & Jaworski, 1990). Customer orientation can be explained in some elements, such as to give the best service to the customer, to offer the benefit to the customer, to satisfy customer, to give value for the customer (Grinstein, 2008). Competitor orientation is described as an understanding the short-term power and weakness, the recent long-term capability and strategy, and the potential of the main competitor. Interfunctional coordination can be explained in these indicators, such as all departments working together to fulfill customer need, sharing information and resources among departments, and all functions in the organization working together to offer value to the customer.

2.1.2 Entrepreneurial Orientation

Entrepreneurial orientation is the orientation of a company that follows the principal of the effort to identify and exploit business opportunities. Eshima and Anderson (2016) define entrepreneurial orientation as an attitude and tendency to do entrepreneurship in an organization.

Entrepreneurial orientation must be possessed by the leader and by all people in the managerial levels. A company with a strong entrepreneurial orientation tends to take the risk (Lumpkin & Dess, 1996). Besides, that company also implements innovativeness, proactiveness, and risk taking tendency. Entrepreneurial orientation in a company

is behavioral dimensions and managerial attitudes (Anderson et al., 2015). According to Rhee et al. (2010), entrepreneurial orientation is shown through active behaviors, ready to take the risk, fast response in business changing.

Wang (2008) explains that entrepreneurial orientation consists of three indicators; aggressiveness, risk taking and proactiveness. Aggressiveness is a competitive attitude reflected through the desire to beat competitor's products and to seek market opportunity in order to win the competition. Risk taking is an entrepreneur willingness to use the available resources in the uncertainty, and the courage to face the challenge by exploiting resource or strategizing business. Proactiveness is a process to search and identify business opportunities by developing, introducing, improving product or service, and anticipate the market changes.

2.1.3 Innovation

Innovation is the main core of the entrepreneurial process. According to Kotler and Keller (2009), innovation is a new product, service, idea, and perspective from someone. Innovation is always perceived by the customers as the availability of new products or services. Innovation is also defined as a breakthrough related to new products.

Ramadani and Gerguri (2011) explain innovation as a transformation of knowledge to a product, process and service by using something new. Innovation is a result of the success of exploitation from a new idea. In other words, it is the result of developing and employing knowledge, and technological skill to create a new product through the process of producing new goods or services. Mahmoud et al. (2016) measure innovation by four indicators: willing to try a new idea, searching new ways to sell, implementing creativity in operational methods, and being less resistant to innovation.

2.2 Hypothesis Development

2.2.1 Market Orientation and Entrepreneurial Orientation

A company with a strong entrepreneurial orientation produces higher profitability (Baker & Sinkula, 2009). The process to follow changes in customer, competitor, the market response on a product, and the coordination of resources forces small enterprises to be active in adapting and improving the changes. Market orientation makes a company

understand the importance of its resources to reach success, and gives a chance to find important factors to create a new product. Market orientation encourages a small company to response to a business environment with more aggressive and proactive attitudes (Riviezzo et al., 2013).

H₁: market orientation has a significant influence on entrepreneurial orientation

2.2.2 Entrepreneurial Orientation and Innovation

Entrepreneurial orientation has an important role in innovation. The attitude in entrepreneurial orientation triggers individuals to learn, be active, and be able to adapt fast. Entrepreneurial orientation as the company behavior can create a better innovative environment (Madhoushi et al, 2011). This behavior becomes the organizational culture that encourages the leader's to be aggressive and proactive in taking internal action and in facing dynamic business environments. Entrepreneurial orientation facilitates various developments and product ideas. In the end, entrepreneurial orientation encourages the ability to create new products and innovation process. Entrepreneurial orientation has moderating effects on innovation activities such as product, administration and profit (Jaaffar et al., 2017).

H₂: entrepreneurial orientation has a significant influence on innovation.

2.2.3 Market Orientation and Innovation

Market taste is always changing in accordance with the changing trends, therefore, small businesses need to comprehend their targeted market orientation. Market orientation brings important roles in innovation. The pressure of customer demands has influenced the need of a company to innovate (Manzano et al, 2005). Grinstein (2008) studies market orientation components and its influence on innovation. Internal coordination as the component of market orientation influences company ability to innovate. Internal coordination is the integration between organizations' supporting activities, including innovation. Besides, market orientation is one of the crucial elements that encourage a company to innovate. Market orientation acts as an antecedent involving many things, and also focuses on competitions and internal configurations that bring new values to customers (Didonet et al., 2016).

H₃: market orientation has a significant influence on innovation.

2.3 Research Framework

This research uses a research framework to show the relationship between the research variables. The framework is shown: below.

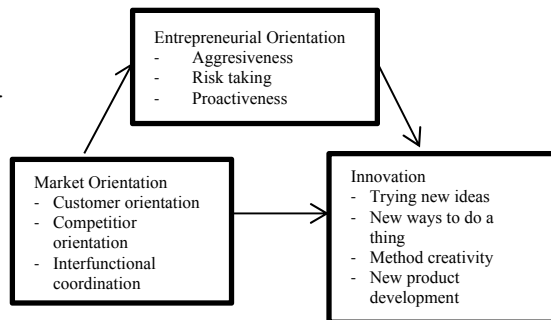


Figure 1: Research Framework.

3 RESEARCH METHOD

This is quantitative research. Quantitative research is research that can be measured using statistical methods. This quantitative research examines the causal relationships. This research aims to describe a generalization of samples from a population or to explain the relationships, differences, or influences of a variable with other variables including the test for the causal relationship (Cooper and Schlinder, 2013). Causal relationships are relationships from independent variables and dependent variables.

The population is the sum of all the characteristics to be estimated (Cooper and Schlinder, 2013). The population that becomes the object in this study is the owners of Sanan Malang Tempe UKM. The sampling technique in this study is using a non-probability sampling technique, namely purposive sampling with several considerations. The sample for this research is as many as 100 business owners of Tempe Sanan, Malang. These small business owners must have been operating the business for at least one year. The research data are collected using questionnaires. The measurement scale follows the Likert scale, as it is used to measure attitudes, opinions, and perceptions of a person or group of people about a social phenomenon.

The data are processed by using Smart Partial Least Square (PLS) software. There are some stages to comply for using the Smart PLS software, such as

an outer model test, inner model test, and hypothesis tests. Outer model is used to measure the convergent validity, discriminant validity, composite reliability and average variance extracted (AVE). Test for structural model use R² (determinant coefficient) and Q² predictive relevance (Ghozali, 2012). R square classified to strong, moderat, and weak. The strong R square is considered to be a good model to predict the structural model of the research. PLS model evaluation using Q² shows the predictive relevance of the research model.

4 RESULT AND DISCUSSION

4.1 Outer Model Evaluation

Before testing hypotheses to predict relational relationships in a structural model, testing the measurement model must be done to verify indicators and latent variables. These tests include testing construct validity (Convergent and Discriminant) and construct reliability.

The outer model analysis is to measure the convergent validity and discriminant validity as below.

Table 1: Convergent Validity.

	Market Orientation	Innovation	Entrepreneurial Orientation
X _{1.1}	0.806		
X _{1.2}	0.754		
X _{1.3}	0.703		
X _{1.4}	0.842		
X _{1.5}	0.805		
X _{2.1}	0.812		
X _{2.2}	0.812		
X _{2.3}	0.756		
X _{2.4}	0.786		
X _{2.5}	0.743		
X _{3.1}	0.836		
X _{3.2}	0.779		
X _{3.3}	0.807		
X _{3.4}	0.709		
Y _{1.1}		0.831	
Y _{1.2}		0.880	
Y _{1.3}		0.893	
Y _{1.4}		0.886	
Y _{1.5}		0.862	
Y _{2.1}		0.853	
Y _{2.2}		0.854	
Y _{2.3}		0.898	
Y _{2.4}		0.659	
Y _{2.5}		0.683	
Y _{3.1}		0.737	
Y _{3.2}		0.758	
Z _{1.1}			0.745
Z _{1.2}			0.698
Z _{1.3}			0.844
Z _{1.4}			0.852
Z _{1.5}			0.857
Z _{2.1}			0.821
Z _{2.2}			0.692

Table 1 presents the convergent validity of each measurement item. The value of convergent validity for all items is presented by loading factors that are higher than 0.70 in order to be declared as valid. This research shows that all item is fullfill the valid value.

From table 2, The value of the loading factors of each item to its construct is declared valid because the value is higher than the value of each cross loading.

Table 2: Cross Loading.

	Market Orientation	Innovation	Entrepreneurial Orientation
X _{1.1}	0,806	0,504	0,621
X _{1.2}	0,654	0,454	0,530
X _{1.3}	0,703	0,536	0,554
X _{1.4}	0,642	0,507	0,543
X _{1.5}	0,805	0,588	0,688
X _{2.1}	0,812	0,501	0,628
X _{2.2}	0,812	0,564	0,684
X _{2.3}	0,756	0,520	0,601
X _{2.4}	0,786	0,597	0,659
X _{2.5}	0,743	0,658	0,599
X _{3.1}	0,836	0,601	0,701
X _{3.2}	0,779	0,623	0,714
X _{3.3}	0,807	0,729	0,698
X _{3.4}	0,609	0,527	0,563
Y _{1.1}	0,672	0,831	0,606
Y _{1.2}	0,637	0,880	0,706
Y _{1.3}	0,650	0,893	0,723
Y _{1.4}	0,677	0,886	0,706
Y _{1.5}	0,673	0,862	0,728
Y _{1.6}	0,631	0,853	0,625
Y _{1.7}	0,716	0,854	0,698
Y _{1.8}	0,679	0,898	0,650
Y _{1.9}	0,400	0,659	0,440
Y _{1.10}	0,468	0,683	0,507
Y _{1.11}	0,486	0,637	0,460
Y _{1.12}	0,484	0,658	0,508
Z _{1.1}	0,574	0,580	0,745
Z _{1.2}	0,489	0,520	0,698
Z _{1.3}	0,772	0,706	0,844
Z _{1.4}	0,723	0,595	0,852
Z _{1.5}	0,718	0,630	0,857
Z _{1.6}	0,745	0,710	0,821
Z _{1.7}	0,520	0,542	0,692

Table 3: AVE.

Variable	AVE
Market Orientation	0,573
Entrepreneurial Orientation	0,649
Innovation	0,624

As in table 3, this research value of AVE (Average Variance Extracted) of each construct is higher than 0.50 so the construct does not have problems in convergent validity.

Table 4: Cronbach's Alpha.

Variable	Composite Reliability
Market Orientation	0,949
Market Orientation	0,956
Innovation	0,920

This study uses Cronbach's alpha to measure reliability or internal consistency among the items in an instrument. Based on table 4, the results of testing the measurement item is said to be reliable if it has an alpha coefficient greater than 0.6. The test results in this study are reliable because they have a value > 0.6.

4.2 Structural Model Evaluation

The goodness of Inner Model is used to determine the ability of endogenous variables to explain the diversity of exogenous variables. The inner model

evaluation is done by observing the value of R² and Q².

Table 5: R square.

Variable	R Square
Market Orientation	
Entrepreneurial Orientation	0,696
Innovation	0,635

As in table 5, the result of R² in this research is 0.635, which is considered to be a strong value. This shows that the variable of market orientation influence innovation as 63.5%. R square value for entrepreneurial to innovation is 0,696 . This reflects that entrepreneurial orientation influence innovation as 69,6%. The value of Q² in this research is 0.88904. It shows that this model has predictive relevance, which means the structural model as a relevant one.

$$\begin{aligned}
 Q \text{ square} &= 1 - (1 - R^2 \text{EO}) \times (1 - R^2 \text{Innovation}) \quad (1) \\
 &= 1 - (1 - 0,696) \times (1 - 0,635) \\
 &= 1 - (0,11096) \\
 &= 0,88904
 \end{aligned}$$

4.3 Hypothesis Testing

Hypothesis testing is used to determine the causality developed in the model, to examine the influence of exogenous variables on endogen variables. Significance testing can be known through t statistic value, which is greater than the critical value 1.96.

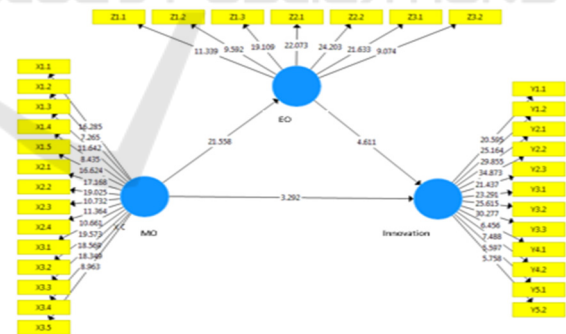


Figure 2: Bootstrapping structural model.

4.3.1 The Influence of Market Orientation on Entrepreneurial Orientation

The result of the testing from the table above is that the t-statistic value of market orientation to entrepreneurial orientation is 21.558. The result of the testing shows that the t-statistic is more than 1.96 and the P value is 0.000 less than 0.05. This means that market orientation influences directly to entrepreneurial orientation.

4.3.2 The Influence of Entrepreneurial Orientation on Innovation

The result of the testing above is that the t-statistic of entrepreneurial orientation to innovation is 4.611. The result shows that the t-statistic is more than 1.96 and the P value is 0.000 less than 0.05. It means that entrepreneurial orientation influences directly to innovation.

4.3.3 The Influence of Market Orientation on Innovation

The result of this section is that t-statistic of market orientation to innovation is 3.292. The result shows that the t-statistic is more than 1.96 and the P value is 0.001 less than 0.05. This means that market orientation influences directly to innovation.

Table 6: Path Diagram.

Variable	Effect		
	Direct	Indirect	Total
Market Orientation → Innovation	0.753	-	0.753
Market Orientation → Entrepreneurial Orientation	0.835	-	
Entrepreneurial Orientation → Innovation	0.473	-	0.473
Market Orientation → Innovation	0.395	0.395*0.753	0.297

The conversion of the path diagram into the measurement model is intended to find out the strength of the influence between constructs that are explained in the effect of the model, both the effect directly or indirectly, as for the model effects shown in table 6.

4.4 Discussion

4.4.1 The Influence of Market Orientation on Entrepreneurial Orientation

The result of the table describes that t-statistic of market orientation to entrepreneurial orientation is 21.558. The result of the test shows that t-statistic is more than 1.96 with P value 0.000 less than 0.05 and the coefficient value is 0.835 which is positive or in the same direction. The increasing variable of market orientation will affect entrepreneurial orientation about 0.835. It means that the market orientation directly influences entrepreneurial orientation significantly and positively. Market orientation is the most important factor for a company to understand the market, and develop a strategy of the product and service to fulfill customer and market needs (Baker & Sinkula, 2009).

Innovation is started from the selling strategy, benefit of the product, strategy in delivering product knowledge, delivery accuracy of the product corresponding the benefit usability etc. The requirement to fulfill customer changing-need, a company needs to renew its product or innovate by observing the market first. In launching an innovation, a company needs to take the risk, follow market development, observe the opportunity. A company that has strong market orientation and entrepreneurial orientation will produce high profitability (Baker & Sinkula, 2009).

4.4.2 The Influence of Entrepreneurial Orientation on Innovation

The result of the test shows that the t-statistic value of entrepreneurial orientation to innovation is 4.611. The result of the testing shows that t-statistic is more than 1.96 with P value 0.000 less than 0.05 and the coefficient value is 0.473 which is positive or in the same direction. The increasing variable of entrepreneurial orientation will affect innovation about 0.473. It means that the entrepreneurial orientation directly influences entrepreneurial orientation significantly and positively.

Entrepreneurial orientation is the company orientation that has the principal to identify and exploit chances (Lumpkin & Dess, 1996). Entrepreneurial orientation is shown in the behavior such as active, aggressive, risk-taking, fast response in every aspect of what happened in changing business especially in a small medium enterprise that is susceptible in facing giant companies. The behavior toward entrepreneurial orientation triggers individual to keep learning, active and adaptable quickly. The aggressiveness and activeness in learning are able to affect the new ideas creation. The activeness affects in the experiment to try various ways to sell a product, production, product value improvement or the other innovation. Moreover, by changing market target is one the ways to innovate. By taking the risk, they are letting go of the comfort zone as an entrepreneur. They learn new thing, ask the expert, ask for suggestion and apply the training process or knowledge as a new strategy in innovating of product improvement.

4.4.3 The Influence of Market Orientation on Innovation

The result of the test shows that the t-statistic value of market orientation to innovation is 3.292 with P value 0.001 less than 0.05 and the coefficient value is 0.358 which is positive or in the same direction.

The increasing variable of market orientation will affect innovation improvement about 0.358. The result of the testing shows that t-statistic is more than 1.96. It means that market orientation directly influences innovation significantly and positively. Market orientation is a process and activity related to creation and customer satisfaction by keeping on valuing customer need (Uncles, 2000). A company has to develop ideas or innovation because customers tend to be surfeited if the same product is being produced without any variations. On the other hand, before launching an innovation, a company needs to observe what customers want

Consumer demand can be a trend happening in the society. Market orientation can be a strategy of a company to attract a customer through the innovation of a new product, unique packaging, new variants etc. Rhee et al. (2010) explain that market orientation is a market target or segment by the producer that has certain characteristics wanted by the customer in targeted market level related with their taste, desired product, packaging, selling strategy, and branding to capture the market. The success process in reaching the targeted market is by the product selling, it will improve the innovation process by the producer to reach the success of the product in fulfilling customer demand.

5 CONCLUSIONS

The result of the study shows that the indicator of interfunctional coordination plays the most important role in the market orientation of the business owners in Sanan. The highest mean for the entrepreneurial orientation belongs to the level of aggressiveness of the business owner in carrying out their business operations. The business owners have the tendency to try new ideas in running their business.

The result of the study proves that market orientation influences positively and significantly on entrepreneurial orientation. Market orientation also influences positively and significantly on innovation. This result also proves that entrepreneurial orientation influences positively and significantly on innovation among the small medium enterprise owners in Sanan, Malang. Entrepreneurs need to do marketing activities more aggressively and proactively. Marketing strategies in SMEs tend to be created and run spontaneously according to the habits that have occurred for a long time. So far, more marketing has been done by reselling large buyers such as souvenir centers. Many tempe

processed products are purchased in large quantities for resale at higher prices. Employers must build relationships and create communication with consumers to get repeat and continuous purchases.

Business owners in Sanan can be more proactive in sales and try to increase distribution channels outside the region or abroad. The development of the market can be done at an inexpensive cost. Promotional media as well as distribution tools can be reached by using online marketing. In general, consumers prefer products that they have used before, therefore it is very important to introduce products online to be widely known to consumers. Online marketing will help sellers to reach their costumers and communicate with them in an easy way.

This research is conducted in an industrial center that encompasses a group of entrepreneurs who have products made of tempeh. For future researchers, the model can be replicated in other small businesses. Other researchers can develop other variables to investigate the factor affecting the success of innovation in small medium enterprises. Innovation also can be observed as one aspect that influences business survival.

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