The Impact of Government Support and Learning Orientation Innovation: Empirical Study of SMEs in Surabaya

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ABSTRACT

Innovation has been well known as one sources of sustained competitive advantage that can boost performance. However, innovation can be driven from various factors including internal organizational culture as well as external support. The present research examines the impact of government support and learning orientation to the SMEs' Innovation. Data from 71 data SMEs were collected and proposed research framework was analyzed using structural equation model. The results show innovation in SMEs is largely driven by the level of learning orientation in the SMEs and the support from government. The results suggest that government supports should be more focused on developing learning orientation within SMEs.

Keywords: SMEs, government support, learning orientation, innovation

1. INTRODUCTION

The dynamic economic situation frequently forces many business actors to think hard in order to maintain their sustainability. Not only for big enterprises, but this situation also influences small and medium enterprises. Furthermore, the pressure will be doubled as it is perceived in the developing countries like Indonesia. The SMEs' number is relatively growing faster than the big enterprise. In the year 2018, the growing trend is opening the big gap between SMEs and big enterprises in Indonesia [1], as shown in Fig.1.

Showing the nature of SMEs growing number, the SMEs will face a difficult situation to compete in order to get the optimum size of market share. In some conditions, they will give up from their competitors. This situation attracts the attention of the government for thinking hard in order to save the excellent ambiance business environment. Consequently, the government frequently tried to help the SMEs through several supports as their high concern program. The sustainability of SMEs will directly affect the power of the economic situation, and it will help the stabilization of the nation indirectly.
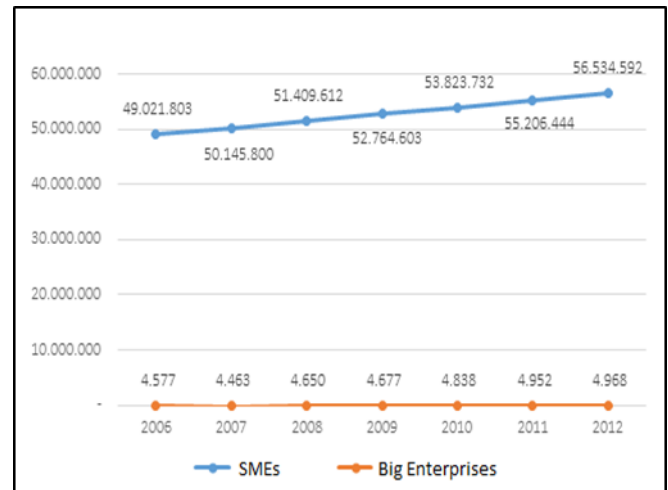

Figure 1. The growth of SMEs and Big Enterprises in Indonesia

The second concern of this research is related to a learning orientation. The learning orientation represents a perceptual condition that is faced by every SME to learn from real life and daily activities to update their organization [2]. If the SMEs fail to understand the core value of learning orientation, they will fail to survive. Thus, the present research will explore how the current condition of

government support and learning orientation from SMEs in which they incubated by the government will create innovation in their business. This research uses Surabaya as a case study.

The Government of Surabaya said that the City has 98% of development from SMEs, while the rest from big companies [3]. However, a total of 260.762 SMEs is ranked sixth compared to several smaller cities/regencies such as Jember (421.151 SMEs), Malang (414.516 SMEs), Banyuwangi (296.706 SMEs), Bojonegoro (281.967 SMEs), and Sumenep (269.005 SMEs) (East Java Agency of Cooperation and SME, 2017). It is an excellent potential if the research can describe the SMEs' perception of learning orientation and government support towards business innovation. By knowing the significant degree, several actions can be suggested to improve the current condition. In the long effects, it will increase the number of SMEs. The rest of this research consists of several chapters. Chapter 2 explains the relevant literature used in this research. Chapter 3 shows the detailed methodology to conduct the research. Chapter 4 revealed the result and followed by discussion. Chapter 5 conclude the research with future openings on practical and theoretical development.

2. LITERATURE REVIEW

Innovation is a noun representing the idea, practice, or object that is considered new for individuals or others [4]. Damanpour & Evan [5] argue that innovation is a process to start, develop, and implement new ideas or behaviors on organizations to adopt. Calantone et al., [6] describes innovation as the openness of new ideas as the cultural aspect of an organization by trying new things, new ways, and become creative. It is believed that innovation is influenced by several antecedences, where this research focused on learning orientation and support.

Learning orientation is a product of how the organization can learn and adapt to the situation [2]. Which in more detail, it reflects the learning on the working process to involve the relevant knowledge in scale up the efficiency in SMEs' operation [7]. Anderson & Boocock [8] reveal that independent learning through informal approach is dominating by small enterprises, which resulted in flexibility and adaptable skill. Learning orientation will directly affect the ability of enterprises to manage the organization [9]. The learning orientation reflects on the competitive advantages of activities creation [10-12]. With the logical of competitive advantage, innovation will be affected by the learning orientation. The current research will investigate how the practical situation perceived by the SMEs at Surabaya in regards of learning orientation. Thus, we developed the first hypothesis as follow:

H1: Learning orientation has positive relationship on business innovation.

Support is a help, motivation as well as advice of others to help the people in deciding [13]. Sarason & Pierce [14] describe how the support as information or action that causes the people to consider, have a value, and social interaction in times of need. Kuntjoro [15] said that support is a verbal or non-verbal act to help provided by people who are familiar with the subject. Young & Kim [16], in their research, show how government support can be seen as an effort by the government in allocating budget for financial investment and human resources to help the one in need. One of support is provided to SMEs [17]. To see how the supports of Surabaya government perceived by SMEs, we tested the second hypothesis below:

H2: Government support has a positive relationship on business innovation.

3. RESEARCH METHODOLOGY

The methodological approach in this study is multivariate data analysis with a structural model relationship. The model, as can be seen in Fig 2, is consisted of two hypotheses. The instrument development of this model is assessed through the questionnaire. The questionnaire consisted of two sections. The first section asked the respondents' demographic conditions such as the company name, sectors type, year of established, and the main problem during the business activity. The second question asked on variable indicators, where the details of indicators are presented in Table 1. The indicators were measured by the Likert-five-point scale. The scale ranging from 1 as "I strongly disagree" to 5 as "I strongly agree." The data collection uses a single cross-sectional design, where the respondents are the Surabaya SMEs in which they get help from the government. The sampling method uses convenience sampling with online and offline media. The questionnaire was distributed between September 2018 to January 2019. 71 SMEs participated in this research. Before the questionnaire was distributed, a pilot test was conducted. The pilot test was validated by asking three respondents. The details are as shown in Table 2.
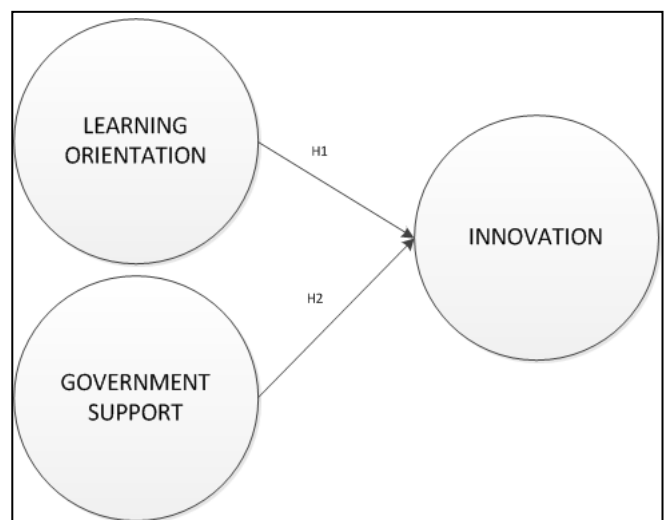

Figure 2. The proposed hypothesis

Table 1. Construct Variables

Construct	Measurement items [16]
Government Support (GS)	Our company get advice support frequently
	Our company get help in marketing and sales
	Our company get counseling when facing a business problem
Learning Orientation (LO)	Fundamental values of the company to include the learning is the critical form improvement
	Learning for employees are investment, not cost
	The learning ability is considered as a key to ensuring the sustainability of the company
Innovation (I)	The company has the speed of innovation compared to competitors in the same industry
	Improvement of production in our company is faster than the competitors in the same industry
	Innovation on the new way logistic in our company is faster than the competitors in the same industry

Table 2. Pilot Test Respondents

No	Position
1	Head of Business Development Services Association
2	SMEs expert academician
3	Practitioner in SMEs empowerment

4. ANALYSIS AND DISCUSSION

The experts validate the questionnaire without any significant change. Thus, the questionnaire distribution was conducted to SMEs. A total of 50 respondents filling the questionnaire by online and 21SMEs filling the questionnaire by offline. Several assumption tests were performed, such as missing value and outlier. The tests indicate that the data has no problem at all. From the demography, the respondents were dominated by the enterprise's employees in which they worked for less than eight years. The similar values also appeared to the established year of enterprises, where most enterprises were formed less than eight years. The enterprises' sector is dominated by processing industry, following by trade, hotels, and restaurants. The majority problems were explored as they had difficulties in funding, marketing, and labors.

In order to reveal the respondents' perceived, an SEM analysis was performed. The SEM requires several tests before the result is considered as valid. The test consists of data fit tests and model fit tests. The data fit tests require the minimum value of factor loadings, Composite Reliability (CR), and Average Variance Extracted as 0.7; 07; and 0.5, respectively. The result of the tests is shown in Table III. All the values except for CL 3 are surpassing the minimum value. However, CL 3 is still considered as 0.7 by the rounding approach.

Table 3. Data Fit Tests

Items	Factor Loadings >0.7 [18-20]	CR >0.7 [21-23]	AVE [24-26]
BS_3	*0.88*	*0.89*	*0.74*
BS_4	0.77		
BS_5	0.92		
CL_2	0.73	0.79	0.56
CL_3	0.67		
CL_4	0.83		
PSI_1	0.81	0.87	0.69
PSI_2	0.96		
PSI_3	0.70		

After the data is considered valid, model fit tests were performed. The model fit tests use the Goodness of Fit Index (GFI), Normed Fit Index (NFI), Tucker-Lewis Index (TLI), and Comparative Fit Index (CFI). A minimum of 0.9 value is required. The result of this model is shown in Table 4. The overall value exceeds the minimum score of 0.9.

Table 4. Model Fit Test

Items	Threshold [27-30]	Values
GFI	*0.9*	*0.911*
NFI	0.9	0.901
TLI	0.9	0.963
CFI	0.9	0.975

Following analysis after the model fit tests is model interpretation. The SEM result shows that the two hypotheses are proven to have positive values (β1 for 0.41 and β2 for 0.35). Both values have a significant level of 0.024 and 0.020, respectively, indicated that the values are positive and significant. The present model has 29% of squared multiple correlations value for Innovation, which indicates that the predictors of innovation explain 29 percent of its variance. In other words, the error variance of innovation is approximately 70.8 percent of the variance of innovation itself.
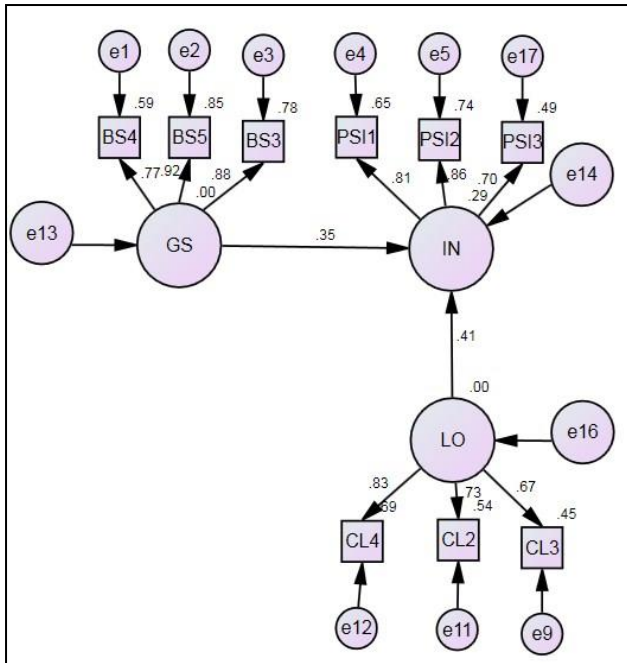
Figure 3. The Model Result

The influence result from government support to innovation (hypothesis 1) is similar by Hanel et al., [31] insight. This result proves that the public program in supporting through subsidy in the form of subsidy, technological support, funding support, information and internet service, and training programs can improve the innovation. A similar result is shown in Szczygielski et al. [32] on Turkey and Poland enterprises. The second hypothesis is in line with previous research conducted by Keskin [9]. The author stated that if the enterprises take the learning orientation as a priority, then the product/service creation is made with creativity. The learning process is developed through the interaction of SMEs in observing the business environment. The observation is driven by the unpredicted demand, technological turbulence, and unpredicted competition that these items are related to innovation (Cahill, 1996). The high-skilled SMEs in learning will not skip the opportunity created by marked demand because they can understand the consumers' needs [5].

Several suggestions related to government support and innovation are the SMEs have to use government support. While from the government's point of view, they need to actively create the programs to produce innovation in SMEs, such as innovation training, networking, and coaching. The Government also need to socialize the government support to the untouched yet SMEs. The suggestion for learning orientation and innovation is enhancing the SMEs' activities in regard to continuous learning such as discussion, sharing knowledge, analyze the failing enterprises as a case study, communicating the best solution, and have an open-minded perspective.

5. CONCLUSION

The present research was conducted in order to find out the SMEs' perceived in regards of government support and learning orientation towards the innovation. Two hypotheses were tested, and the values indicate the positive as well as significant acceptance. The result indicates that SMEs get the perceived government support towards the learning orientation. Furthermore, the SMEs are revealed to have a positive learning orientation to innovation. The model result indicates the 29% of innovation described by government support and learning orientation. The suggestions are highlighted for both SMEs and the government to aware of these factors. Several limitations are highlighted, such as the variation industries that need to be expanded in depicting the objects of observation. The number of SMEs is also a concern, increasing the number as many as it can to reflect the population of SMEs is expected.

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