The Mediation Effect of Foresight Strategy on the Relationship Innovation, Entrepreneurship and Market Orientation on MSMEs Performance

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ABSTRACT. This study aims to examine the effect of innovation, entrepreneurship and market orientation on the MSMEs performance mediated by the foresight strategy. The information to be achieved is about the clarity of the occurrence of variable relationships built on an equation model based on the relevant concept. This research was conducted by means of a survey on MSMEs in Makassar City with the number of samples analysis was 94 samples. The target unit of analysis is MSMEs Makassar City, and the respondents are owners MSMEs. The analytical tool used to test the hypothesis is Partial Least Square (PLS) with the help of software Smart-PLS version 3.0. The results showed that the foresight strategy was able to mediate the relationship between entrepreneurship and market orientation on the MSMEs performance. Increasing the optimal MSMEs performance is inseparable from well-executed entrepreneurial strategies and expansion of market orientation, as well as support for foresight strategies inherent in the implementation of strategies carried out by MSMEs. The results of this study were unsuccessful in proving the relationship between innovation and MSMEs performance through a foresight strategy. This can be used as motivation for MSMEs to continue to innovate in product improvement so that the MSMEs performance continues to increase. The results of this study reinforce the contingency theory that the performance of MSMEs can increase if they implement strategies that can adapt to their environment. The foresight strategy is present as a strategy that can seize opportunities and be able to detect environmental changes in the future.

Keywords: *Mediation, Innovation, Entrepreneurship, MSMEs.*

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are growing very rapidly in the national context. The presence of MSMEs helps reduce unemployment and plays a role in income distribution. MSMEs are the core of modern economic life which must remain competitive and provide high quality output. The existence of MSMEs is considered very important for economic development in Indonesia, so the government seeks to empower MSMEs by providing facilities, coaching, mentoring and helping strengthening to grow and improve the competitiveness and MSMEs Performance [16].

Increasing the competitiveness and MSMEs performance, is pursued by means of adequate strategy formulation and implementation. The form of strategies that can be applied by MSMEs are: (1) increasing innovation by implementing new ideas, processes, products or services (2) increasing entrepreneurship by continuously updating, acting to achieve goals, developing product lines, introducing new products and adopting an attitude of competitive advantage (3) expanding market orientation by understanding customer needs well, committing,

measuring customer satisfaction and understanding the strengths of competitive strategies, and (4) implementing a good foresight strategy by understanding the technological, economic, environmental as well as being proactive in seeing the future prospects of the organization.

Empirical research on the MSMEs performance has been conducted before (eg, [2], [1], [4], [15], [10], [21]. Research in Indonesia on the MSMEs performance has been conducted by [9], [18], [12]. The results of the study in general explain that the MSMEs performance can improve if the strategy is implemented properly, however, in particular the results of these studies have varied, contradictory and inconsistent results resulting in research gaps. Research gaps found in empirical research on measuring the MSMEs performance, namely, Research [12], [1], [21]. use operational performance to determine the overall of MSMEs performance. [4] use business performance. [15], the performance of innovation as a measure of the MSMEs performance. [10], the orientation of the international market as an indicator of performance measurement. Another case of research conducted by [9], [18], [12] and [20] are more likely to measure

business performance and strategy performance. Thus, performance measurement needs to be modified in order to become a more accurate and comprehensive measure

The foresight strategy is something new for MSME actors, even there are still many MSMEs that do not know this strategy so that it has not been implemented in improving the MSMEs performance. According to [13] Foresight strategy is the ability to create and maintain high quality views and implement strategies that are useful organizationally. For example, detecting bad conditions, policy guidance, strategic forms, market exploration, and new products and services. Thus, this research is expected to contribute to MSME players as a whole regarding the implementation of strategies in increasing innovation, entrepreneurship, market orientation and foresight strategies in achieving the expected goals, namely improving the MSMEs performance both operational performance and financial performance so that MSMEs in Indonesia, especially in cities. Makassar is able to compete in regional, national and international markets.

2. LITERATURE REVIEW

Contingency theory in management accounting is a central theory to explain the relationship between strategy and other contextual variables that affect organizational performance. In the contingency approach, the organizational strategy has an impact on performance depending on the structural arrangement including the organizational capabilities which consist of innovation, entrepreneurship and market orientation [7]. Innovation is the process of creating ideas, developing an invention to introducing a product. Innovation has become the key for a organizational to remain competitive, so new innovations are needed in carrying out organizational activities to achieve the expected goals. Innovation plays an important role not only for large companies, but also for SMEs [5]. [14] argue that innovation is one of the most important competitive tools and is generally seen as a core value organizational capability. [12] and [12] prove that innovation affects the performance of MSMEs. *H1: The effective implementation of innovation can improve the MSEMs performance if it is mediated by a foresight strategy.*

Entrepreneurship refers to the firm ability to continually update, innovate, and constructively accept market risk. Entrepreneurial action means creating new resources or combining existing resources in new ways to develop and commercialize new products, move to new markets and/or serve new customers. Entrepreneurship is identified as an important organizational process that contributes to the survival and firm performance. According to [19], entrepreneurship is able to encourage firm to think creatively and act innovatively as a basis for developing resources, motivation and processes to face the challenges faced by the firm. Research on the relationship between entrepreneurship and performance conducted by [2] and [9] found that entrepreneurship has an effect on the MSMEs performance.

H2: Effective entrepreneurship *implementation can improve the MSMEs performance if it is mediated by a foresight strategy.*

Market orientation is a marketing management concept that facilitates a firm ability to deliver superior products and services to internal and external customers [8]. This is especially important in a dynamic market environment where competition and market uncertainty are increasing. Market orientation has been one of the key concepts of strategic success. This is very important in a dynamic market environment where competition and market uncertainty are increasing [11]. The company continues to develop a strategic plan to set goals, allocate resources and assign responsibility for strategy implementation. The strategic orientation that can be used to achieve strategic objectives is by focusing on customer needs orientation, competitor orientation, and interfunctional coordination. [12] and [10] stated that market orientation affects the MSMEs performance.

H3: The implementation of an effective market orientation can improve the MSMEs performance if it is mediated by a foresight strategy.

3. RESEARCH METHODS

This study aims to examine the effect of innovation, entrepreneurship and market orientation on the MSMEs performance through a foresight strategy. The information to be obtained is about the clarity of the occurrence of variable relationships built on an equation model based on relevant concepts, so that this research can be classified as an explanatory study. explanatory research is research that aims to explain the relationship, difference and influence of one variable with other variables [3]. This study was analysis using primary data collected through a questionnaire using a survey method. This research questionnaire consists of statements about five variables or constructs as measured by an indicator. The five variables are innovation, entrepreneurship, market orientation, foresight strategy and MSME performance. Each respondent is asked to convey his perception of the indicator for this variable by choosing one number from a scale of 1 to a scale of 5. Therefore, each construct needs to be tested for validity and reliability. The final stage

of analysis in this research is hypothesis testing. The analytical tool used to test the hypothesis is Partial Least Square (PLS)

4. RESULTS AND DISCUSSION

A. Results Analysis

1. Validity and Reliability of Research Instruments

This study uses primary data collected by sending instruments in the form of questionnaires to respondents. The instrument used in this research needs to be tested for validity and reliability. The validity test uses a loading factor value> 0.50 which is required [6]. The following are the results of the validity test question item.

TABLE I. Results Of The Validity Analysis

Variable	Question Item	Loading Factor	Status
Innovation	X1.1	0,838	Valid
	X1.2	0,767	Valid
	X1.3	0,791	Valid
Entrepreneurship	X2.1	0,653	Valid
	X2.4	0,812	Valid
	X2.5	0,831	Valid
Market orientation	X3.1	0,667	Valid
	X3.2	0,666	Valid
	X3.3	0,715	Valid
	X3.4	0,685	Valid
	X3.5	0,686	Valid
Foresight Strategy	Y1.1	0,669	Valid
	Y1.2	0,715	Valid
	Y1.3	0,787	Valid
	Y1.4	0,749	Valid
MSMEs performance	Y2.1	0,785	Valid
	Y2.2	0,854	Valid
	Y2.3	0,671	Valid
	Y2.4	0,701	Valid
	Y2.5	0,785	Valid

The results of the analysis show that all instruments (question items) have a loading factor value greater than 0.50 (> 0.50). This shows that all variables used in this study are valid. In addition to validity, an instrument is expected to have stability and consistency in measuring a construct, so that the instrument needs to be tested for reliability [17]. The results of reliability testing are presented in the following table.

TABLE II. Reliability Analysis Results

Variable	Number of Questions	Cronbach Alpha	Composite Reliability	Status
Innovation	3	0,720	0,841	Reliable
Entrepreneurship	3	0,648	0,811	Reliable
Market orientation	5	0,798	0,861	Reliable
Foresight Strategy	4	0,717	0,815	Reliable
MSMEs performance	5	0,709	0,821	Reliable

The results of the reliability analysis showed that all research variables had a Cronbach alpha value greater than 0.60 (> 60). This indicates that all items on the variables of innovation, entrepreneurship, market orientation, foresight strategy and MSME performance are reliable.

2. Result of Path Coefficient Analysis

The following is a picture of the results of the structural model analysis in the model used in this study
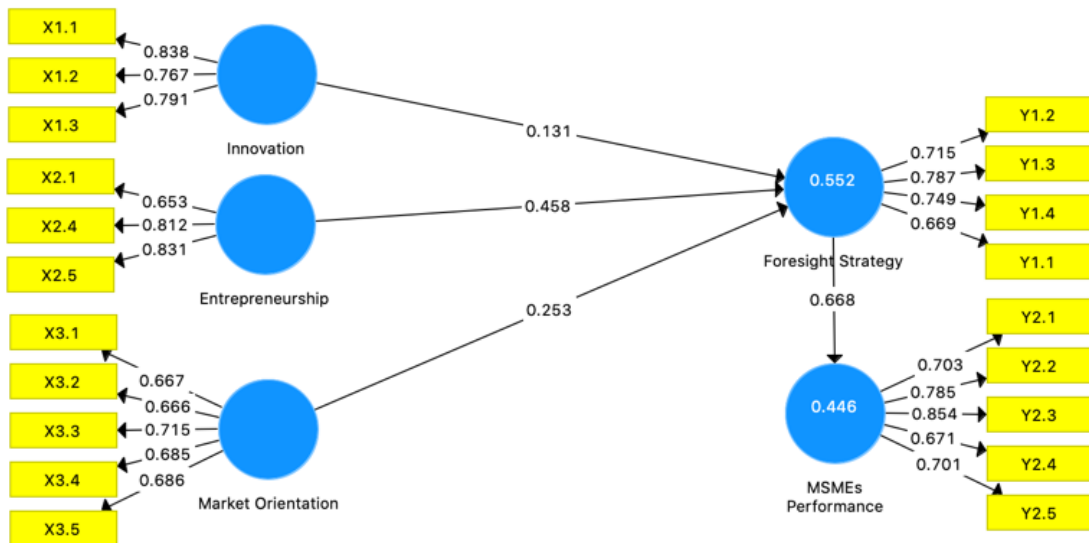

Fig 1. Result of Structural Model Analysis

The variables of innovation, entrepreneurship and market orientation towards the foresight strategy have a coefficient with a positive direction indicating the loading factor value of respectively (0.131),

(0.458) and (0.253). The foresight strategy variable on company performance has a positive coefficient with a loading factor value of (0.668). The positive coefficient means a unidirectional relationship between innovation, entrepreneurship and market orientation on the MSMEs performance through a foresight strategy. This means that if innovation, entrepreneurship and market orientation are carried out properly with the support of a foresight strategy, it can improve the MSMEs performance in Makassar City.

3. *Hypothesis test*

TABLE III. Hypothesis Testing Results

	Path Coefficient	Standard Deviation	P Value
Innovation ➔ Foresight Strategy ➔ MSMEs Performance	0,088	0,068	0,194
Entrepreneurship ➔ Foresight Strategy ➔ MSMEs Performance	0,306	0,071	0,000**
Market Orientation ➔ Foresight Strategy ➔ MSMEs Performance	0,169	0,076	0,026*

Information:
** significant at the level 1%
* significant at the level 5%

The results of testing hypothesis 1 (H1) state that the foresight strategy is not able to mediate the relationship between innovation and MSMEs performance. Innovation on the MSMEs performance through the foresight strategy has a coefficient in a positive direction. The analysis results show that the path coefficient value is 0.088 with a P-value of 0.196 > 0.05, which means it is not statistically significant, so that hypothesis 1 (H1) is not supported (rejected).

The results of testing hypothesis 2 (H2) state that the foresight strategy is able to mediate the relationship between entrepreneurship and MSME performance. Entrepreneurship towards the MSMEs performance through a foresight strategy has a coefficient in a positive direction. The analysis results show that the path coefficient value is 0.306 with a P-value of 0.000 < 0.05, which means statistically significant at the level 1% ($p < 0.01$), so that hypothesis 2 (H2) is supported (be accepted).

The results of testing Hypothesis 3 (H3) state that the foresight strategy is able to mediate the relationship between market orientation and MSME performance. Market orientation towards the MSMEs performance through the foresight strategy has a coefficient in a positive direction. The analysis result shows that the path coefficient value is 0.169 with a P-value of 0.026 <0.05, which means statistically significant at the level 5% ($p <0.05$), so that hypothesis 3 (H3) is supported (be accepted).

B. *Discussion*

1. *Relationship of Innovation, Foresight Strategy, and MSMEs Performance*

The results of the analysis of the relationship between innovation, foresight strategy and MSME performance show that the path coefficient is positive but not significant. This indicates that the foresight strategy cannot mediate the relationship between innovation and MSME performance. In general, MSMEs in Makassar City have made innovations in product development in order to achieve optimal performance targets. However, in its application, innovation with the foresight approach sometimes fails due to environmental uncertainty which continues to change. In addition, there are many competitors who also continue to innovate in product development. MSMEs players should not only focus on one innovation, but focus on creating creative ideas so that MSMEs can compete optimally. In this way, the MSMEs performance will also experience an optimal increase. The results of this study do not support the contingency theory in examining the relationship between innovation and MSMEs performance through foresight strategies.

2. *Relationship between Entrepreneurship, Foresight Strategy and MSMEs Performance*

The results of the analysis of the relationship between entrepreneurship, foresight strategy and MSMEs performance indicate that the path coefficient is significant. This indicates that the foresight strategy can mediate the relationship between entrepreneurship and the MSMEs performance. When entrepreneurship is carried out effectively and optimizes foresight strategies, it will have an impact on improving the MSMEs performance. The results of this study indicate that MSMEs in Makassar City have generally carried out entrepreneurial and foresight strategies well because of the support of adequate resources. Most of the MSMEs players have understood entrepreneurial strategies, starting from starting a business from below to having a large turnover. This is a great opportunity for MSMEs players in developing their business so that the targets and MSEMs performance continue to increase. The results of this study support the contingency theory that the success of the firm in

executing the strategy requires adequate knowledge in generating ideas, business development to the ability to compete, so that MSMEs can achieve optimal performance targets. The results of this study support and complement the findings by [2] and [9] That the optimal implementation of entrepreneurship can improve the MSMEs performance.

3. Relationship between Market Orientation, Foresight Strategy and MSMEs Performance

The results of the analysis of the relationship between market orientation, foresight strategy and the MSMEs performance show that the path coefficient has a significant positive. This indicates that the foresight strategy can mediate the relationship between market orientation and MSMEs performance. This indicates that the expansion of market orientation with the support of a foresight strategy can optimize the MSMEs performance. One of the successes of MSMEs is the creation of new markets as a form of market orientation expansion. MSMEs in Makassar City continue to follow market developments in order to be able to compete. All MSMEs have taken advantage of social media in creating and expanding markets so that their products are known and liked by consumers. This form of market orientation has been carried out well by MSMEs players so that the target of increasing performance has been achieved by most of the MSMEs in Makassar City. The results of this study also support the contingency theory that MSMEs are able to compete and achieve optimal performance if they have creative ideas in creating a strategic market orientation and are able to see future conditions about market opportunities and challenges in the future using the foresight approach. The results of this study support and complement the findings by [12] and [10].

5. CONCLUSION

The findings of this study prove that the foresight strategy is able to mediate the relationship between entrepreneurship and market orientation on the MSMEs performance. This indicates that entrepreneurship and market orientation will be more effective in improving the MSMEs performance if they apply the foresight strategy properly. MSMEs must continue to strive to improve entrepreneurial strategies, market orientation and foresight strategies so that MSMEs continue to experience increased performance. The foresight strategy is not able to mediate the relationship between innovation and MSMEs performance. This is because MSMEs continue to experience environmental changes. If the environment changes, innovation and foresight strategies will also change so as not to become a weakness in implementing the

strategy. Innovation must continue to be improved, besides that, MSMEs players must continue to create creative ideas about product innovation, technological innovation and marketing innovation. In this way, it is expected that performance can continue to increase with the support of a foresight strategy.

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