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**Research Article****Analysis of Determinants of Innovation Strategy and Its Impact on Small Medium Enterprise Performance in DKI Jakarta, Indonesia****Iha Haryani Hatta<sup>1</sup>, Edy Supriyadi<sup>2</sup>, Ahmad Djamil<sup>3</sup>**<sup>1,3</sup>Fakultas Ekonomi dan Bisnis Universitas Pancasila<sup>2</sup>Sekolah Pascasarjana Universitas Pancasila

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**ABSTRACT:** Analysis of determinants of innovation strategies and their impact on home industry performance in DKI Jakarta, Indonesia. The purpose of this research is to know the implementation of home industry about orientation of market leadership, investment level, innovation strategy, and business performance; the influence of market leadership orientation and partial investment rate on innovation strategy, and business performance; the influence of innovation strategies on business performance. This study uses 95 home industry actors in DKI Jakarta as randomly selected respondents. Data is processed by PLS program. The results of the study explain that home industry actors have carried out the market leadership orientation, investment level, and business performance adequately, while the implementation of innovation strategy is good; the orientation of market leadership influences the innovation strategy but has no effect on the business performance; the level of investment partially influences innovation and business performance strategies; innovation strategy has an effect on business performance.

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**Keywords:** Market leadership orientation, innovation strategy, investment level, business Performance

**Background of Study**

The existence of a global market will increase the interpenetration of the economy and the interdependence of economic actors that ultimately require these companies to evaluate and modify their competitive strategy. Businesses of this century will face more challenges because consumers are more looking at high-quality and inexpensive products. This century's business is more responsive to rapid changes. In many industries, rapid socio-political change will increase the number and strength of new competitors from within and even abroad. The complexity and challenges facing demand the company to have the right innovation strategy so that it can compete with competitors, especially small and medium enterprises (SMEs). Experience in developed countries shows that SMEs are the source of innovation production and technology innovations, creative and innovative entrepreneurial growth, the creation of skilled work teams. Meanwhile, the flexibility of the SME production process enables the SMEs to cope with the increasingly diverse and specific segmentation of market demand. The ability of these SMEs is determined by a number of factors, including human resources (managers and workers), technology mastery, access to information, output and input markets, work ethic, creativity, work motivation, and so on. Currently, the development of the business environment is heavily influenced by technological changes whether large, medium, or small. Therefore, a new strategy is needed for the company to have competitiveness. Through strategy means companies seek to dig deeper into the potential to maximize the end result to be achieved and at the same time develop the ability to adapt to environmental changes very quickly. The ability of

companies to compete is one of the factors that determine the success of the company. Therefore, companies must analyze the competing forces they have. Changes in competing forces on the one hand can encourage a company to grow more, but on the other hand it can also threaten its development. Meanwhile, the challenges and obstacles facing SMEs should make SMEs actors create and innovate. Therefore, SMEs need support from stakeholders such as the government, SOEs, financial / non-financial institutions and NGOs to protect the business continuity. According to Schilling MA (2015, 84), one of the most important to excel in intercompany competition is innovation strategy. Innovation is classified into two different types, namely radical and incremental innovation. This type of innovation is distinguished on the basis of knowledge and skills and impact on relationships between customers and competitors of the company. Radical innovation is said to be a very new and different innovation from existing solutions. While incremental innovation is an innovation that results in minor changes from (or adaptation) to existing practices.

Based on previous research, there is an inconsistent relationship between the variables of market leadership orientation, level of investment, innovation strategy, and business performance. The results of Abdul Haris Perwiranegara (2015, 77 - 89) explain the orientation of market leadership directly influence the innovation strategy but does not affect business performance. The results of Mohamad Soleh's research (2008, 6) suggests the market leadership orientation proved to have a positive effect on the level of investment and corporate performance and the level of investment positively affect the company's performance.

## Research Objective

Based on the above it is necessary research on the influence of determinants of innovation strategies and their impact on business performance. The purpose of this research is to know the implementation of home industry about orientation of market leadership, investment level, innovation strategy, and business performance; the influence of market leadership orientation and partial investment rate on innovation strategy, and business performance; the influence of innovation strategies on business performance.

According to Tjiptono Fandy (2008), the orientation of market leadership consists of leading behavior, challenging, following, or working on a small portion of all available markets (niches). The market leader is a company recognized by the industry concerned as a leader with the characteristics of having the largest market share (40%) in the relevant product market, superior to other companies in terms of new product introductions, price changes, coverage distribution channels, and promotional intensity, are the centers of competitors' orientation (attacked, imitated, or shunned). Market challengers are "runner-up" companies that constantly try to enlarge their market share, in which they are dealing openly and directly with market leaders. Characteristics of the company: usually a large company in terms of sales volume and profit (market share  $\pm$  30%); always try to find the weakness of the market leader or other company, and then attack it either directly or indirectly. Market challengers typically also concentrate their efforts on taking over weak firms. Market follower is a company that takes an attitude of not harassing the market leader and is only satisfied with how to adapt to market conditions. Characteristics of market followers consist of: always trying to accentuate its trademark to the target market, such as location, service, product superiority, and so on; choosing to imitate a product or strategy of a market leader and a market challenger rather than attacking them; usually earn a high profit because it does not bear the burden of high expenditure for innovation. The niche marketer is a company that specializes in serving some markets that big companies ignore, and avoids clashing with big companies, the characteristics of the following niche marketers: usually geographically specialize; is a company whose purchasing power and size are large enough to be able to grasp, have the potential to develop, have the skills and sufficient resources to fulfill the market niche needs effectively, able to defend themselves from big competitors with goodwill customer.

Rademakers (2005: 130-136) and Gunday, et al (2008: 1-43), innovation strategies used were process innovation, product innovation, and organizational innovation. Process innovation is a change in the way in which products are created and distributed. Process innovation is a form of innovation that emphasizes new methods of operation by creating new technologies or developing existing technologies. While product innovation changes in the products or services the organization offers. Product innovation is the result of the creation and introduction of products radically or modification of existing products. Then organizational innovation is a new

method of managing, coordinating, and overseeing employees, activities, and responsibilities.

Investment is the attribution of sources in the long term to generate profits in the future (Mulyadi, 2001; 284). According to Abdul Halim in Fahmi Irham's (2014; 8) book, investment is essentially a placement of funds at the moment in the hope of making a profit in the future. Obviously the process of seeking profits by investing is something that requires analysis and deep calculation by not ruling out the principle of prudence (prudent principle). In its activities, investments are generally known to exist in two forms, namely real investment, and financial investment (Fahmi Irham 2014 p. 9). Real investment is a real investment that generally involves the purchase of tangible productive assets such as factory establishment, mining opening, plantation opening and others. Financial investment is a financial act involving written contracts such as common stock and bonds.

According to Pleffer & Salancik (1978), business performance is defined as the company's ability to make acceptable actions and results (Pleffer & Salancik 1978). But the performance of the company must be conceptualized and operationalized, and can be measured in several ways. Alasadi and Abdelrahim (2007) stated that the performance of SMEs can be seen from the satisfaction of owner / manager (dependent variable) on profit, turnover, break even point, and business development. According to Leitner and Gueldenberg (2006), Oke, et al (2007), Murat and Baki (2011), indicators of sales growth, employment growth and income growth.

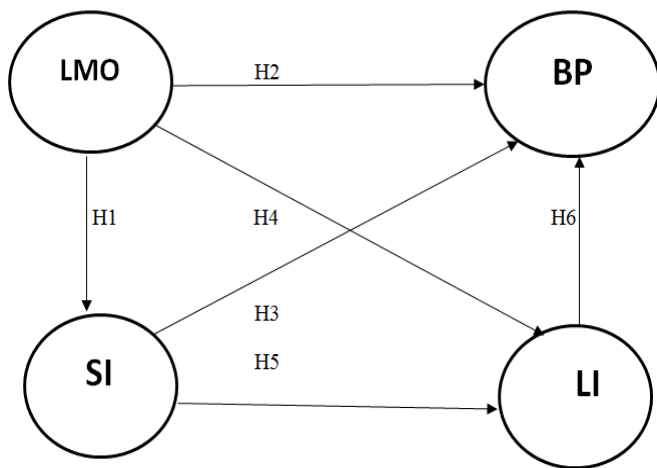
## Methodology

The population of this study is entrepreneur of SMEs the home industry in the area of DKI Jakarta on the grounds that this region is the largest base of SMEs in supporting the economy in the Capital Jakarta. Respondents are owners or managers, because the success of a company is strongly influenced by the participation of the owners / managers themselves. The sampling technique used purposive sampling to get 92 respondents.

Test Validity is used to indicate the extent to which a statement in a questionnaire is able to reveal something that the questionnaire will measure. This validity test ensures that each statement will be classified on the construct validity. If a statement is able to reveal something that will be measured by a questionnaire, then the questionnaire is called valid.

Test Reliability is used to measure whether a respondent's response. If the respondent is consistent in answering the statement in the questionnaire, then the data is reliable. A construct or variable is said to be reliable if the SPSS statistical test gives a value of loading factor  $>$  0.60 (Ghozali 2005).

The model used in this research is the model of causality or relationship or influence, therefore the analysis technique used is path analysis. Through SEM will be known influence between variables, models or structural equations, and the results of testing goodness of fit. The model in this study describes the relationship between variables that can be seen in the picture below.



Based on the above model, the hypothesis used in this study there are six, namely:

1. H1: There no significant relationship between the market leadership orientation and innovation strategy
2. H2: There no significant relationship between the market leadership orientation and investment level
3. H3: There no significant relationship between the investment level and business performance

**Results and Discussion**

Based on the test on the test table of validity tested by using the help program SPSS version 21 for windows shows that the validity test results provide a good value with note that the value of r count in the Corrected Item-Total Correlation column of all questions is greater than the correlation coefficient ( r ) a minimum of 0.286. Therefore it can be concluded that all the items of the statement on the questionnaire are valid. Based on the value of Cronbach's Alpha on Cronbach's Alpha column if Item Deleted all items of question is greater than 0.60, thus it can be concluded that the overall variables in this study are reliable so that it can be accepted and used for further analysis.

**Table 1. Path coefficient and T Statistics Value Related Among Variables**

Related Among Variables	Path coefficient	T Statistics
investment -> Performance	0.401482	3.243723
Market Leadership Orientation-> investment	0.726015	13.261370
Market Leadership Orientation -> Performance	0.086930	0.688314
Market Leadership Orientation -> Innovation	0.842526	29.136359
Innovation -> investment	0.767705	7.195343
Innovation -> Performance	0.308220	3.520956

The Structural Equations associated research model,

$$SI = 0.843 LMO$$

$$LI = 0.768 SI + 0.079 LMO +$$

$$BP = -0.206 LMO + 0.401 LI + 0.31 SI$$

1. Relationship between Orientation of market leadership and innovation strategy

The orientation of market leadership has an effect on innovation strategy with t value 29,136 higher than table value equal to 1.96 at alpha level 0.05. This explains that a person has market-oriented leadership will encourage thinking to be able to innovate in all areas of either process, marketing or product innovation that will certainly come up with increased sales

Leaders and innovation are two things that must always go hand in hand. That is, where there is a leader then there is innovation and new ideas. There must be an improvement plan. To do so, the leader must know the context and situation of the institution he leads. Every idea must be learned in depth So innovations and new ideas that emerge are not tacky and subsequently realistic. Then why should innovate? Innovation is a means to respond to the challenges of change. New developments happen all the time, even in seconds. The job of a leader is to observe the change and prepare itself and its institutions to deal with the changes that will take place. Here, the intelligence of seeing the future or vision is the key to a leader's success.

Of course, continuous innovation will endlessly bring goodness for himself and his institution. Look at Apple led by Steve Jobs is very innovative, now began to step over the hegemony of Microsoft in the IT gadget market. No other and no is innovation and the vision of Steve Jobs who seemed to never stop.

A leader must have good innovations to continually change in reference to be better suited to the times. Organizations that are able to continually make knowledge creation are called learning organizations.

2. Relationship between Orientation of market leadership and investment

The orientation of market leadership affects the investment with a t value of 13.26 which is greater than the value of the table of 1.96 at the alpha level of 0.05. This explains that a person has a market-oriented leadership will try to develop the business activities and then he's trying to find the funds or the amount of investment needed to develop business activities.

To be a good leader can manage finances well. Leaders need to be a good manager, especially in finance, either professionally or personally. Many leaders today have realized the importance of having a strong financial foundation to enable them to feel more secure and do what they know is right for their organization, rather than taking action that can protect their own position within the organization. Therefore, if a leader is concerned about money issues, it will be difficult for them to inspire others. That is some effective leader strategy that can be done to develop a company or organization that is a leader must know how to manage good finance in the form of investments or funds running.

3. Relationship between Innovation Strategy affect and level

of investment

Innovation Strategy affects the level of investment with a value of 7.195 t statistic larger than the table value of 1.96 at alpha level 0.05. This explains that innovation strategies undertaken by entrepreneur with various ways of innovation will have an impact on the amount of investment needed to develop the business activities.

The need for a new innovation in developing business activities will have a direct impact on how the funds or investments required for these ideas or creativity can be implemented or applied. This is one of the reasons why many innovations are found but not implemented to be applied because the investment to be planted is still in doubt and there is no confidence to start it.

4. Relationship between Innovation Strategy and level of performance

The Innovation Strategy affect the level of performance with the value of t statistic 3.52 is greater than the value of the t table of 1.96 at alpha level 0.05. This explains that innovation strategies undertaken by business actors with various ways of innovation will have an impact on the company's performance that result in the development of business activities.

5. Relationship between Investment and business performance

The Investments affect the business performance with the value of t statistic 3.24 is greater than the value of the t table of 1.96 at alpha level 0.05. This explains that the amount of investment earned by entrepreneur will encourage innovation that will develop the business performance.

6. Relationship between Orientation of market leadership and business performance

The orientation of market leadership has no direct effect on business performance with a t value of 0.688 which is smaller than the table value of 1.96 at the alpha level of 0.05. This explains that a person has market-oriented leadership will not immediately encourage performance improvement but he will encourage the thought to be able to innovation and invest in advance which would certainly impact on improving performance.

### Conclusions and recommendations

1. Investment and Innovation have significant relationship with the Business Performance.
2. Innovation and Market Leadership Orientation have significant relationship with the Investment.
3. Market Leadership Orientation have no significant direct relationship with the Business Performance..

### Recommendations

1. Financial institutions need to lessen their requirement and reduce interest rate. In addition, procedure for taking the loan need to be short and simple in order to encourage more people coming to these institutions as a main source of their capital. Besides, financial institutions should have more supportive services with free of charge, such as providing information about market, real estate, foreign exchange rate, so on.

2. University should help the entrepreneur to apply the new innovation created.
3. University should give training to the entrepreneur about a good leadership for entrepreneur

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