Effect of Market Orientation, Marketing Capability, Product Innovation on Performance

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The economic crisis experienced by Indonesia in 1997, at which time the orientation of economic growth relied on the development of large businesses. Large businesses are expected to encourage the growth of micro, small and medium business. However, it turned out that the crisis had stopped the success of Indonesia's economic development, which resulted in many large businesses experiencing bankruptcy and large-scale termination of employment. In contrast to large businesses, micro and small businesses recover faster from the crisis, and workers who are affected are absorbed into these micro and small businesses. Speed of recovery of micro and small businesses due to the more flexible nature of the business, relatively small capital, and generally does not depend on imported raw materials and foreign debt. Also, many micro and small businesses have sprung up and have begun to have an important role in Indonesia's national economy. In 2017, micro and small businesses made a stagnant ante to Indonesia GDP (Gross Domestic Product) of 60.34%. Therefore, it is important to maintain the stability of the performance or even improve it. The purpose of this study was to analyse the effect of market orientation, marketing capabilities, and product innovation on the performance of micro and small businesses, especially in West Jakarta. The number of samples is determined using the Slovin formula, which is 270 samples of 835 population, micro and small business people in West Jakarta City who already had a Micro Small Business License. While data collected using a questionnaire it was analysed using SPSS software. The results indicate that the most influential on the business performance is product innovation and followed by marketing capability, then the last is market orientation.

Key words: *Market orientation, marketing capability, product innovation, business performance, micro and small business.*

322

Introduction

When Indonesia experienced an economic crisis, this condition had an impact on large scale businesses where many businesses had collapsed and even went bankrupt. Another case with small and medium businesses where they can survive because they do not use many imported raw materials and instead become a lifesaver belt from the impact of the economic crisis (Andalan & Hikmah, 2013). In contrast to large scale businesses where micro and small businesses recover more quickly from crises and workers affected by layoffs by large scale businesses are absorbed into these micro and small-scale businesses. The speed of recovery of micro and small-scale businesses, mainly due to the more flexible nature of the business, the relatively small capital, and in general is not dependent on imported raw materials and foreign debt. The bankruptcy of conglomerate businesses and the resilience of micro and small-scale businesses in dealing with the economic crisis in Indonesia, many gave birth to new MSEs (Smecda, 2010). The role of small and medium enterprises is very important in economic development, especially in the provision of labour and sources of income for low-income groups. According to Choiri (2018), in 2017, micro-small businesses (MSEs) made a significant contribution to the Gross Domestic Product (GDP) in Indonesia, amounting to 60.34%. Also, micro and small businesses (MSEs) have also proven to be the most effective absorbent of labour, around 97.22% in 2017. Therefore, micro and small businesses are very influentialin the Indonesian economy. In other words, the impact of the performance of micro and small businesses is an important factor for the stability of the economy in Indonesia and it attracts researchers to find out what factors affect the performance of micro and small businesses from the perspective of market orientation, marketing capability and product innovation.

According to the Indonesian Banking Development Institute (LPPI) and Bank Indonesia (BI) in 2015, a factor that can affect the performance of micro and small enterprises (MSEs) is the ability to read market needs is still not sharp, so it has not been able to capture the needs desired by the market accurately. Djamilla Abbas (2018), business performance can also be assessed from the success in managing sales by identifying the needs and desires of consumers through the creation of customer value and customer satisfaction. In realising these objectives, companies must be able to develop market orientation strategies so that MSEs can improve their business performance well.

In addition, a factor that can affect the performance of MSEs is the ability of marketing. Marketing capability is also very important in driving the growth of micro and small Enterprises. A study conducted in Nigeria (2015) revealed that most SME owners lacked basic marketing knowledge skills such as marketing research, market segmentation, and marketing planning and marketing control (Ebitu, Ufot, & Olom, 2015). According to LPPI and BI (2015), most MSEs still relied on a simple method of mouth to mouth marketing. Not all of MSEs use social media or the internet as a marketing tool despite current industry 4.0 changes.

In MSEs, product innovation provides opportunities for companies to attract more consumers. Product innovation activities require company resources to develop and implement new ideas, and freedom for individuals to develop their ideas. However, some business people are not yet aware of the importance of product innovation. Thus, the creativity of the business owner is needed to support innovation.

The Scope of Research

This research focuses on MSEs in the West Jakarta area. As for the authors' consideration of researching MSEs in West Jakarta because according to the economic census conducted by the Central Statistics Agency (BPS) in 2016 that West Jakarta as one of the administrative cities in DKI Jakarta province which is the city with the largest number of MSEs units in Jakarta, namely 306,129 of the total 322,049 businesses or 26.51% of the total micro-small businesses in Jakarta (see table 1). This large number indicates that West Jakarta has a greater economic potential compared to other areas in DKI Jakarta.

Table 1: Number of MSMEs in DKI Jakarta Province

Regency / City	Scale				Total
	Micro	**Small**	**Medium**	**Large**	
(1)	(2)	(3)	(4)	(5)	(6)
The Thousand Islands	3 510	232	30	1	3 773
South Jakarta	193 383	31 340	20 166	2 918	247 807
East Jakarta	221 993	32 123	11 579	1 076	266 771
Central Jakarta	119 504	28 757	12 783	1 830	162 874
West Jakarta	**268 050**	**38 079**	**14 420**	**1 500**	**322 049**
North Jakarta	193 836	23 985	13 236	1 320	232 377
Total of DKI Jakarta	**1 000 276**	**154 516**	**72 214**	**8 645**	**1 235 651**

Source: BPS Economic Census (2016)

Table 2: Number of micro and small businesses in West Jakarta by District

Number	District	Total
1	Kembangan	120
2	Tambora	107
3	Tamansari	130
4	Kali Deres	127
5	Palmerah	75
6	Kebon Jeruk	43
7	Grogol Petamburan	132
8	Cengkareng	101
	Total	**835**

Source: Mayor of West Jakarta (2018)

Research Purpose

This study aims to analyse the effect of market orientation on the performance of MSEs in West Jakarta; analyse the effect of marketing capabilities on the performance of MSEs in West Jakarta; analyse the effect of product innovation on the performance of MSEs in West Jakarta; and analyse the effects of market orientation, marketing capabilities, and product innovations simultaneously on the performance of MSEs in West Jakarta.

Literature Review

LPPI; Bank Indonesia; The World Bank (2015) classifies the criteria for micro, small, medium and large businesses according to number of employees, assets and turnover as follows

Table 3: Classification of Micro, Small, Medium and Large Business

Business Scale	Criteria		
	Asset	Turnover	Number of employees
Micro	< 50 million	< 300 million	10
Small	> 50 million – 500 million	> 300 million – 2,5 million	30
Medium	> 500 million – 10 billion	> 2,5 million – 50 billion	< 300
Large	> 10 billion	> 50 billion	> 300

Source: LPPI; Bank Indonesia; The World Bank (2015)

Business Performance

Performance is the result of an evaluation of the work that has been done compared with criteria that have been set together (Robbins in Rai, 2008). On the other hand, Ahuya explained that performance is a process or way of work carried out by an individual or a group in the organisation (Rai, 2008). Performance is an important thing that must be achieved by every company because performance is a reflection of the company's ability to manage and allocate its resources. Wirawan (2009), performance is the output produced by the functions of a job within a certain time. Measurement of business performance is not enough to only measure financially as profit, but also non-financial measurement like service quality, customer satisfaction, overall program effectiveness is needed (Kotane, 2012).

Market Orientation

According to Mauzano in Sugiyarti (2016), explains the market orientation is the focus of the business unit's strategic planning in meeting several demands in the form of all functions in the business and able to absorb all important information that influences purchasing, inter-functional and divisional decision making, and division as a function of good coordination and has a commitment in carrying out marketing activities. Best (2009) suggests that to achieve a strong market orientation, a business needs to adopt a market-based management philosophy. In the journal Setiawan (2012), Naver and Slater define market orientation as the most effective organisational culture in creating superior value for buyers and performance in business and consists of 3 behavioural components namely customer orientation, competitor orientation and inter-functional coordination.

Marketing Capability

Kotler and Keller (2009) define marketing capabilities as an organisational function and a series of processes to create, communicate, and provide value to customers and manage customer relationships. The objectives of marketing capability according to Hasan (2013) include among others maximising profits, maximising market share, maximising sales, increasing brand image, increasing customer satisfaction, providing value and maintaining market orientation stability. According to Assauri (2007) marketing capability is the result of work performance related to the flow of goods and services from producers to consumers. Understanding of marketing capabilities according to Saladin (2003) is a total system of business activities designed to plan, determine market orientation, promote and distribute goods that can satisfy desires and achieve the target market and company goals. According to Gáti (2015), there are several dimensions of marketing activities such as classic marketing tools, entrepreneurial orientation, ability to adapt, the importance of marketing, marketing communication skills, market orientation, marketing performance, and company performance.

Product Innovation

Product innovation is the keyto organisational success, increasing market share and business performance (Hassan et al., 2013). This is also supported by the theory of Kotabe in Tamamudin (2012) which shows that the higher the product innovation that is carried out by the company will improve the company's performance through increasing buying decisions. Another study by Rosli and Sidek (2013) stated about the impact of innovation on MSEs in Malaysia, and it was found that innovations in MSEs were classified into several types of innovations, namely product innovation, process innovation, and market innovation. The product innovation attributes according to Kotler & Armstrong 2004 include product quality, product features, product style and design.

Research Framework

The framework of this research as follows

Figure 1. Research Framework
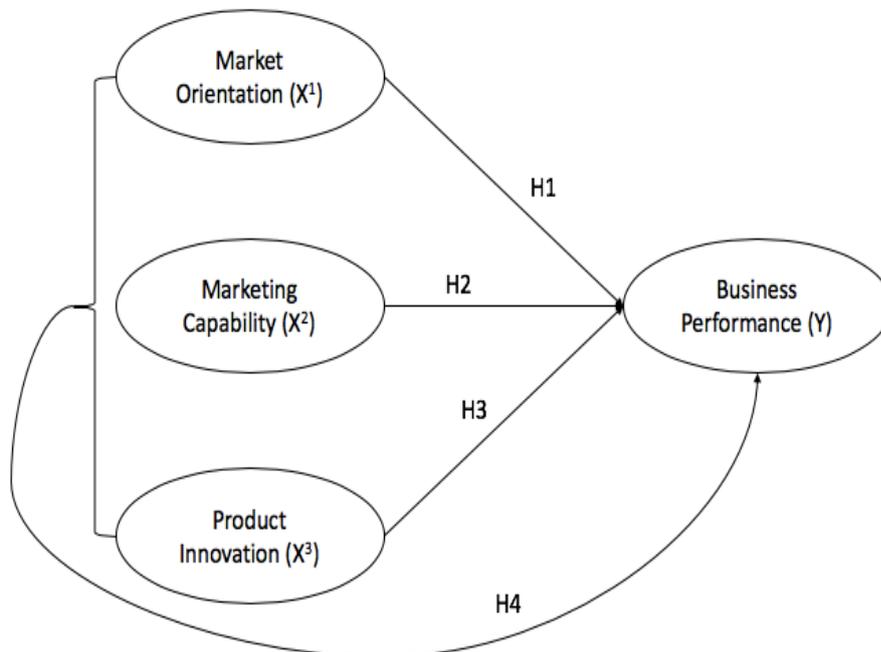
Source: Authors (2019)

Hypothesis 1, market orientation relationship to business performance
Ho : market orientation does not affect business performance
Ha : market orientation has an effect on business performance

Hypothesis 2, marketing capability relationship to business performance

Ho : marketing capability does not affect business performance

Ha : the marketing capability has an effect on business performance

Hypothesis 3, product innovation relationship to business performance

Ho : product innovation does not affect business performance

Ha : product innovation has an effect on business performance

Hypothesis 4, market orientation, marketing capability and product innovation relationship to business performance

Ho : market orientation, marketing capability and product innovation does not affect business performance

Ha : market orientation, marketing capability and product innovation has an effect on business performance

Method

Quantitative research is research methods based on the philosophy of positivism, used to examine populations or specific samples, collecting data using research instruments, analysing quantitative or statistical data to test established hypotheses (Sugiyono, 2017). This study adopts a quantitative approach because the research aims to test the hypothesis as a temporary answer to the study by analysing data using statistics. This study is a one-shot study and cross-sectional studies. Cross-sectional studies are research that can be done by collecting data once, through a period of time in a few days or a few weeks or several months to answer questions in research (Sekaran and Bougie, 2013). While data collection using questionnaires using 5 Likert scale.

The population of micro and small business in West Jakarta who already have a permit is 835 and then determine the size and number of samples using the following Slovin formula and the result of the calculation is 270.445355 sample and rounded up to 270 samples. The results of data collection were analysed using SPSS.

Results and Discussion

Based on the results of filling out the questionnaire obtained the profile of respondents:

a. Based on residence.100% respondents who live in West Jakarta

b. Based on the type of goods. 50% of respondents sell food and beverage products, 26% of respondents sell clothes, 11% of respondents sell cosmetics, 1% of electronics, 1% of textiles, 1% of accessories and 10% of others

c. Based on education. 44% senior high school, 6% diploma, 45% undergraduate and 5% master's degree

d. Based on the type of business entity. 80% are trading companies, 4% are limited liability companies, 8% are limited partnership, 4% are firms, 2% are foundations and 2% are other
e. Based on gender. 59% male and 41% is female
f. Based on respondent age. 28% aged under 25 years, 26% aged 26-35 years, 34% aged 36-45 years and 12% aged 46-55 years
g. Based on business age. 46% of respondents whose business age is between 2-3 years, 36% of respondents whose business age is less than 1 year, 8% whose business age is between 4-5 years, 5% whose business age is 5-6 years, 5% whose business age is the same with or more than 7 years.
h. Based on the number of employees. 49% under 3, 23% has 4-6 employees, 12% has 7-9 employees, 5% has 10-13 employees, 11% above 14 employees
i. Based on the market. 85% national, 15% national and international.

Validity Test

The validity testing function is to measure if each indicator variable being tested is valid or not, and the result shows that all of the variables are valid (see table 4)

Table 4: Validity Test

Variable	rCount		rTable	Result
Market Orientation	0.26	>	0,1194	Valid
Marketing Capability	0.38	>	0,1194	Valid
Product Innovation	0.39	>	0,1194	Valid
Business Performance	0.22	>	0,1194	Valid

Source: Data Processing Result (2019)

Reliability Test

The reliability testing function is to measure the extent to which the measurement is carried out without bias and is consistent in each indicator variable being tested and the result shows that all of the variables are reliable (see table 5).

Table 5: Reliability Test

Variable	rCount		rTable	Result
Market Orientation	0.559	>	0.1194	Reliable
Marketing Capability	0.735	>	0.1194	Reliable
Product Innovation	0.755	>	0.1194	Reliable
Business Performance	0.464	>	0.1194	Reliable

Source: Data Processing Result (2019)

Normality Test

The normality testing function is to see whether a data is distributed normally or not. Normality test is conducted by researchers using the Kolmogorov Smirnov test which states if the Asymp.Sig (2-tailed) value is greater than 0.05, then the data is normally distributed (Ghozali, 2016).

Figure 2. Normality Test

NPar Tests

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		270
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.21029156
Most Extreme Differences	Absolute	.049
	Positive	.049
	Negative	-.029
Test Statistic		.049
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: Data Processing Result (2019)

Figure 2 shows that market orientation, marketing capability and product innovation are normally distributed.

Multicollinearity Test

The multicollinearity testing function is to test whether the regression model found a correlation between independent variables. If the tolerance value is more than 0.10 and the VIF value is not more than 10, then it can be concluded that the regression model does not have multicollinearity. Multicollinearity test results show that there is no multicollinearity between independent variables in the regression model to be studied and can be seen in table 6 below.

Table 6: Multicollinearity Test

Collinearity Statistic		
Variable	**Tolerant**	**VIF**
Market Orientation	0.354	2.824
Marketing Capability	0.343	2.918
Product Innovation	0.275	3.639

Source: Data Processing Result (2019)

Heteroscedasticity Test

Heteroscedasticity test is performed to test whether, in a regression model, residual variance inequality occurs from one observation to another. If the value of sig is greater than Alpha, then heteroskedastic does not occur and vice versa if the value of sig is smaller than Alpha, then heteroskedastic occurs. Heteroscedasticity test results show that there was no heteroscedasticity in the regression model and can be seen in table 7 below

Table 7: Heteroscedasticity Test

Correlations				
Variable	**Sig**		**Alpha**	**Result**
Market Orientation	0.557	>	0.05	heteroscedasticity does not occur
Marketing Capability	0.843	>	0.05	heteroscedasticity does not occur
Product Innovation	0.204	>	0.05	heteroscedasticity does not occur

Source: Data Processing Result (2019)

T-Test

Based on a simple regression analysis performed using IBM SPSS Subscription software, it shows that

a. Market orientation (X^1) has a positive and significant effect on micro and small business performance (Y) in West Jakarta (see. Figure 3) and seen from RSquare; it can be concluded that changes in micro and small Business Performance (Y) can be explained by market orientation (X^1) of 41.7% and the rest 58.3% is explained by others (see Figure 4).

Figure 3. Simple Regression T-Test Coefficient Hypothesis 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.832	.165		11.103	.000
	ORIENTASI_PASAR	.569	.041	.646	13.843	.000

a. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

Figure 4. Determination of Coefficient Hypothesis 1

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646[a]	.417	.415	.24029

a. Predictors: (Constant), ORIENTASI_PASAR
b. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

b. Marketing capability (X^2) has a positive and significant effect on micro and small business performance (Y) in West Jakarta (see. Figure 5) and seen from RSquare; it can be concluded

that changes in micro and small Business Performance (Y) can be explained by marketing capability (X^2) of 48.4% and the rest 51.6% is explained by others (see Figure 6).

Figure 5. Simple Regression T-Test Coefficient Hypothesis 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.552	.162		9.604	.000
	KEMAMPUAN_PEMASARAN	.621	.039	.696	15.869	.000

a. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

Figure 6. Determination of Coefficient Hypothesis 2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696[a]	.484	.483	.22594

a. Predictors: (Constant), KEMAMPUAN_PEMASARAN

b. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

c. Product innovation (X^3) positively and significantly effect on micro and small business performance (Y) in West Jakarta (see. Figure 7) and seen from RSquare. It can be concluded that changes in micro and small Business Performance (Y) can be explained by product innovation (X^3) of 48.9% and the rest is explained by other variables that not examined in this study by 51.1% (see Figure 8).

Figure 7. Simple Regression T Test Coefficient Hypothesis 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.703	.151		11.287	.000
	INOVASI_PRODUK	.590	.037	.699	16.008	.000

a. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

Figure 8. Determination of Coefficient Hypothesis 3

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.699[a]	.489	.487	.22499

a. Predictors: (Constant), INOVASI_PRODUK

b. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

Based on the multiple regression analysis conducted, it shows that:

a. Micro and Small Business Performance (Y) can be explained by Market Orientation (X^1), Marketing Capability (X^2), and Product Innovation (X^3) by 54.7% and the rest 45.3% is explained by others (see figure 9).

Figure 9. Determination of Coefficient Hypothesis 4

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743[a]	.552	.547	.21147

a. Predictors: (Constant), INOVASI_PRODUK, ORIENTASI_PASAR, KEMAMPUAN_PEMASARAN

b. Dependent Variable: KINERJA_USAHA

Source: Data Processing Result (2019)

b. Market Orientation (X^1), Marketing Capability (X^2), and Product Innovation (X^3) positively and significantly affect on Micro and Small Business Performance (Y) in West Jakarta (see figure 10).

Figure 10. ANOVA Test F of the Multiple Regression Hypothesis 4

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.642	3	4.881	109.138	.000^b
	Residual	11.896	266	.045		
	Total	26.538	269			

a. Dependent Variable: KINERJA_USAHA

b. Predictors: (Constant), INOVASI_PRODUK, ORIENTASI_PASAR, KEMAMPUAN_PEMASARAN

Source: Data Processing Result (2019)

Conclusions

This study aims to analyse the relationship of market orientation, marketing capabilities, and product innovation on the business performance of MSEs in West Jakarta. The conclusions obtained from the results of data analysis show that market orientation, marketing capability and product innovation variables partially affect the performance of MSEs in West Jakarta; that market orientation, marketing capability and product innovation variables simultaneously influence the performance of MSEs in West Jakarta; that the variable which has the most significant influence is the product innovation variable followed by the marketing capability variable and finally the market orientation variable.

Further Research

The authors suggest that further research be carried out by expanding the scope of research such as in different industries, various sector industries, more respondent, other Jakarta regions or even outside Jakarta.

Acknowledge

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