

The Effect of Entrepreneurial Orientation, Customer Orientation, and Knowledge Sharing on Innovation Capability and Business Performance (Study on Tourism-Based MSMEs in Banyuwangi Regency)

Ahmad Fauzen*, Muhammad Iqbal², Yusri Abdillah³

Faculty of Administrative Science, University of Brawijaya, Malang, Indonesia

Abstract

Tourism is a potential sector to be developed in order to stimulate Indonesia's economic growth. Along with the depletion of natural resource reserves which have become the foundation of extractive industries, the government must begin to develop other renewable sectors to increase economic growth. In this study, explained the influence of entrepreneur orientation, customer orientation and knowledge sharing on innovation capability and business performance. This type of research is explanatory research, using a questionnaire primary data collection tool distributed to tourism-based MSME owners in Banyuwangi Regency. The sample in this study was a saturated sample, by making all tourism-based MSME owners in Banyuwangi Regency a sample of 94 respondents. The data analysis technique using smart PLS 20.0 was chosen to analyze the influence of variables in this study. The results showed that entrepreneur orientation, and customer orientation had a positive and significant effect on innovation capability and business performance, knowledge sharing had a significant positive effect on innovation capability, but knowledge sharing was not significant for business performance.

Keywords: entrepreneur orientation, customer orientation, knowledge sharing, innovation capability and business performance.

INTRODUCTION*

Tourism is currently one of the industries needed not only by developing countries but also the world community. The development of the tourism sector in the world is one of the symbols of the progress of a country. Many developed and developing countries have made the tourism industry as one of the country's foreign exchange earners, namely Indonesia [1]. In general, there are some benefits that are expected to be obtained in the development of the tourism sector, namely increasing urbanization growth as a result of the development of tourism infrastructure and facilities in a region or destination area. Activities of several industries related to tourist services such as transportation companies, accommodation, hotels, restaurants, regional arts, furniture companies and others. MSMEs have an important role in the regional economy, because unemployment due to the labor force that is not absorbed in the workforce is reduced. In entrepreneurship, an entrepreneur needs several aspects to make his business a higher scale. These aspects are entrepreneurial

orientation, customer orientation, knowledge sharing, and innovation capability [2] [3].

One of the regions in Indonesia which is currently incessantly increasing its economy by supporting the existence of MSMEs, namely Banyuwangi Regency by relying on tourism. Banyuwangi Regency, which has the widest area in East Java, is actively pushing for developments in the tourism sector. The Banyuwangi District Government seeks to optimize the tourism-based economic sector. The strategy was carried out so that the area nicknamed "The Sunrise of Java" did not only rely on extractive industries based on natural resources. This increase is certainly an achievement of Banyuwangi district, which can prove that the local government has succeeded in carrying out city branding.

The selection of research locations in Banyuwangi Regency is also based on the Banyuwangi Regency Tourism Development Master Plan (RPIK) which is a document that contains a comprehensive plan for tourism development in Banyuwangi. The Banyuwangi Regency Tourism Development Master Plan (RPIK) is a reference in the preparation of tourism programs in Banyuwangi. Previous research by [4] also mentions RPIK explaining the proper development of tourism potential from the product, market, human resources, management, and so on so that it can grow positively and sustainably for regional

Correspondence address:

Ahmad Fauzen

Email : fauzanfiaub@gmail.com

Address : Faculty of Administrative Science, University of Brawijaya, Malang, Indonesia

development and community welfare. The plan also regulates the role of each stakeholder related both across sectors, across actors, and across regions to encourage the development of tourism in a synergistic and integrated manner.

In accordance with the explanation on the background described, the purpose of this research is to explain the influence of Entrepreneurship Orientation, Customer Orientation, Knowledge Sharing on innovation capability and MSME Performance on MSMEs in the Tourism Sector in Banyuwangi district. Furthermore, the purpose of the research is to test the model to understand the most important variables that can have the greatest effect on the performance of MSMEs. This study uses the method of PLS (Partial Least Square) analysis. Based on the objectives of the study, researchers chose the title "The Influence of Entrepreneurial Orientation, Customer Orientation, and Knowledge Sharing on Innovation Capability and MSME Performance"

Based on the description, the formulation of the problem in this study is as follows:

1. How is the influence of Entrepreneur orientation on Innovation Capability in SMEs in Banyuwangi?
2. How is the influence of Customer Orientation on Innovation Capability in MSME players in Banyuwangi?
3. What is the influence of Knowledge Sharing on Innovation Capability in MSME players in Banyuwangi?
4. What is the effect of Entrepreneur Orientation on Business Performance on SMEs in Banyuwangi?
5. What is the effect of Customer Orientation on Business Performance on MSMEs in Banyuwangi?
6. 6. What is the effect of Knowledge Sharing on Business Performance on MSMEs in Banyuwangi?
7. What is the effect of Innovation Capability on Business Performance on MSME players in Banyuwangi?

MATERIAL AND METHOD

This study uses a quantitative approach that is quantifying data and generalizing on the results obtained from samples representing the population studied [5]. Researchers describe quantitatively (numbers) some trends, behaviors, or opinions of a population by examining samples from the population [6]. Based on the nature of

the analysis, this research includes explanatory research, namely research that explains the causal relationship between variables through hypothesis testing [5]. Explanatory research in this study was implemented to find out and explain the influence of Entrepreneur Orientation, Customer Orientation and Knowledge Sharing on Innovation Capability and Business Performance.

Data Collection

In this case the researchers collected data in the form of responses through questionnaires filled by business owners / MSMEs in Banyuwangi tourism sector related to entrepreneurial behavior towards the ability of entrepreneurs to innovate and the performance of MSMEs which were then quantified, analyzed and interpreted so as to find important findings related to research problems. Explanatory research in this study was implemented to find out and explain the influence of Entrepreneur Orientation, Customer Orientation and Knowledge Sharing on Innovation Capability and Business Performance.

This research was conducted at the Tourism Sector MSME in Banyuwangi Regency, East Java Province. The selection of MSMEs in the tourism sector was chosen because of the increasing need to support tourism in Banyuwangi Regency. The abundant natural beauty and the role of the surrounding communities and local governments that coordinate to organize tourism objects to support tourism in Banyuwangi Regency. This study took the population of all the small and medium enterprises (MSMEs) in the tourism sector which are in the tourism and cultural services of Banyuwangi Regency, East Java Province. This can be illustrated according to the following data. Here is a list of MSMEs in Banyuwangi Regency.

Tabel 1. Total number of MSMEs in the Tourism Sector in Banyuwangi Regency

No	Type of Business	Amount
1.	Tourist Travel Bureau	21
2.	Travel Agency	12
3.	Homestay (Shelter House)	61
Total		94

Source : Tourism and cultural services of Banyuwangi district (2018)

The hypothesis proposed in this study are as follows:

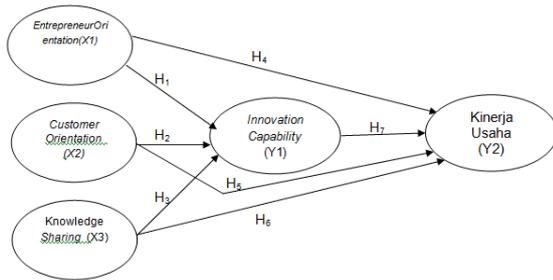


Figure 1. Model of Research Hypothesis

RESULT AND DISCUSSION

Based on the results of the respondents' characteristics of MSME owners in the tourism sector in Banyuwangi with 94 respondents, the results showed that the majority of MSME owners in the tourism sector in Banyuwangi were male, as many as 65 people (69.1%) and 29 women (20.9%). The owners of MSMEs in Banyuwangi city are at most 36-39 years old with a percentage of 22.3%. senior high school education as many as 56 people (59.6%). The average business established by them stands for 2-6 years. The tourism sector is the most type of homestay business.

The testing of the hypothesis model of this research uses Smartpls2 application which is done in three stages, first is the measurement of the outer model, the second is the measurement of the inner model and the last is the testing of the hypothesis.

There are three criteria in using data analysis techniques with SmartPLS to assess the outer model, Convergent Validity, Discriminant Validity and Composite Reliability. Based on the results of convergent validity (value of loading factor) shows that all loading factor values are from indicators of Entrepreneurial Orientation (X1), Customer Orientation (X2), Knowledge Sharing (X3), Innovation Capability (Y1) and Business Performance (Y2). greater than 0.60, this indicates that the indicators are said to be valid. Based on the cross correlation measurement of this study, it can be seen that as a whole the indicators of entrepreneurial orientation, customer orientation, knowledge sharing innovation capability and business performance variables produce a greater loading factor than the cross correlation in other variables. Thus it can be stated that each indicator is able to measure latent variables that correspond to the indicator.

Based on composite reliability value on entrepreneur orientating variable of 0.976, customer orientation variable is 0.960,

knowledge sharing variable is 0.926, innovation capability variable is 0.906 and business performance variable is 0.960. These results show composite reliability values greater than 0.7. Thus, based on composite reliability calculations all indicators are declared reliable in measuring latent variables. Furthermore, Cronbach's Alpha value for entrepreneur orientating variable is 0.973, customer orientation variable is 0.950, knowledge sharing variable is 0.953, innovation capability variable is 0.886 and business performance variable is 0.952. The results show that all variables produce Cronbach's Alpha values greater than 0.6. Thus, based on Cronbach's Alpha calculations all indicators that measure entrepreneurial orientation, customer orientation, knowledge sharing, innovation capability and business performance variables are stated reliably in measuring their latent variables.

The second stage of the analysis of this study uses the inner model. Inner model analysis in this study can be seen based on R-square value (R2) and Q-Square predictive relevance (Q2). The result of R2 innovation capability variable is 0.766 or 76.6%. This can show that the innovation capability variable can be explained by entrepreneurial orientation, customer orientation and knowledge sharing by 76.6% or in other words the contribution of entrepreneurial orientation, customer orientation and knowledge sharing variables to the innovation capability variable is 76.6%, while the remaining 23.4% is the contribution of other variables not discussed in this study. Furthermore, the R-square variable business performance is worth 0.595 or 59.5%. This can indicate that the diversity of business performance variables can be explained by entrepreneurial orientation variables, customer orientation and knowledge sharing of 59.5%, or in other words the contribution of entrepreneurial orientation variables, customer orientation and knowledge sharing to business performance by 59.5%, while the remaining 40.5% is the contribution of other variables not discussed in this study.

Q-Square predictive relevance (Q2) is 0.736 or 73.6%. This can indicate that the diversity of intention variables can be explained by the overall model of 73.6%, or in other words the contribution of entrepreneur orientation variables, customer orientation, knowledge sharing, innovation capability to overall business performance is 73.6%, while the remaining 26.4%

is the contribution of other variables not discussed in this study.

Tabel 2. Hypothesis testing is the third stage in inferential statistical analysis of this study

Hypothesis	Variable Eksogen	Variable Endogen	Direct Coefficient	T Statistics
H ₁	Entrepreneur Orientation	Innovation Capability	0,092	3,053
H ₂	Customer Orientation	Innovation Capability	0,416	21,311
H ₃	Knowledge Sharing	Innovation Capability	0,497	24,548
H ₄	Entrepreneur Orientation	Business Performance	0,106	3,921
H ₅	Customer Orientation	Business Performance	0,321	10,677
H ₆	Knowledge Sharing	Business Performance	0,040	1,752
H ₇	Innovation Capability	Business Performance	0,434	13,283

Hypothesis testing is the third stage in inferential statistical analysis of this study. The results of hypothesis testing of this study indicate that hypotheses 1, 2, 3, 4, 5 and 7 are accepted while hypothesis 6 is the effect of knowledge sharing on business performance rejected. This will be explained in detail as follows:

1. The effect of Entrepreneurial Orientation (X1) directly affects Innovation Capability (Y1) of 3,053. The test results show that the value of t statistics > 1.96. This means that there is a significant effect of entrepreneurial orientation on innovation capability while the coefficient of direct effect of entrepreneurial orientation on innovation capability of 0.092 states that entrepreneurial orientation has a positive and significant effect on innovation capability. This means that the better the entrepreneurial orientation when the innovation capability tends to be better. This also means that business owners must have a clear business concept, high creativity, courage in taking risks, competitive aggressiveness and being able to see market opportunities to gain a competitive advantage, the greater the business owner has these characteristics, the higher the

opportunity to improve their abilities in innovate.

- The effect of Customer Orientation (X2) directly affects Innovation Capability (Y1) of 21.311. The test results show that the value of t statistics > 1.96. This means that there is a significant effect of customer orientation on innovation capability while the customer orientation coefficient on the innovation capability of 0.416 states that customer orientation has a positive and significant effect on innovation capability. This means that the better the customer orientation, the innovation capability tends to be better. The results of this study indicate that the customer orientation hypothesis has a significant effect on the innovation capability of business owners to increase their business positively. This confirms that the more business owners focus on how to create customer satisfaction, the more their ability to innovate will also increase by getting information obtained from customers. The owner of the Banyuwangi Regency MSME tourism sector in developing a focused product that must be considered is how to create customer satisfaction by increasing the ability to innovate.
- Effect of Knowledge Sharing (X3) directly affects Innovation Capability (Y1) of 24,548. The test results show that the value of t statistics > 1.96. this means that there is a significant effect of knowledge sharing on innovation capability while the direct effect knowledge sharing coefficient of innovation capability of 0.497 states that knowledge sharing has a positive and significant effect on innovation capability. This means that the better knowledge sharing, the innovation capability tends to be better. The results of this study show that knowledge sharing has a significant effect on the ability to innovate MSME owners who are engaged in the tourism sector in Banyuwangi district and the hypothesis is accepted in a positive direction. This means that with MSMEs the Banyuwangi Regency Tourism Sector in sharing knowledge between MSMEs is able to increase innovation capabilities. The more MSMEs carry out activities where knowledge in the form of (information, skills, and expertise) is exchanged to other people, friends, colleagues, superiors, subordinates and communities in an organization will also increase the ability to innovate.

4. The effect of Entrepreneurial Orientation (X1) directly affects Business Performance (Y2) of 3.921. The test results show that the value of t statistics > 1.96 . this means that there is a significant effect of entrepreneurial orientation on business performance. While the direct effect coefficient of entrepreneurial orientation on business performance is 0.106, it is stated that entrepreneurial orientation has a positive and significant effect on business performance. This means that the better entrepreneurial orientation, the business performance tends to be better. The results of this study indicate that the entrepreneurial orientation hypothesis has a significant effect on business performance received positively. This confirms that the greater the entrepreneurial orientation of MSME owners engaged in the tourism sector in Banyuwangi district, the higher the performance of the MSMEs themselves. This is indicated by the results of descriptive statistics which show that the average entrepreneurial orientation variable of 3.57 indicates that the entrepreneurial orientation variable is in good criteria. This means that owners of small and medium enterprises engaged in the tourism sector of Banyuwangi Regency in conducting entrepreneurial orientation can improve business performance. The more MSMEs carry out entrepreneurial activities ranging from innovation, dare to take risks, proactively in business activities, and also increase business performance.
5. The effect of Customer Orientation (X2) has a direct effect on Business Performance (Y2) of 10.677. The test results show that the value of t statistics > 1.96 . this means that there is a significant effect of customer orientation on business performance while the customer orientation direct effect coefficient on business performance of 0.321 states that customer orientation has a positive and significant effect on business performance. This means that the better customer orientation, the business performance tends to be better. The results of this study indicate that the customer orientation hypothesis has a significant effect on business performance positively received. This confirms that the greater the customer orientation of MSME owners engaged in the tourism sector in Banyuwangi district, the higher the performance of the MSMEs themselves. This is indicated by the results of descriptive statistics which show the average customer orientation variable of 3.62 indicates that the variable entrepreneurial orientation is in good criteria. This means that the owner of the Banyuwangi Regency Tourism Sector Credit Card in conducting customer orientation is able to improve the business performance of MSME in the Banyuwangi Regency Tourism Sector. The more MSMEs carry out activities that are customer-oriented in business activities the more their business performance increases. MSMEs The customer-oriented Banyuwangi Regency Tourism Sector always strives to explore what the company can provide by bundling the best goods or services
6. Based on the results of the tests statistically, it directly shows that Knowledge Sharing (X3) has a positive but not significant effect on Business Performance (Y2). In the test results it shows that the statistical relationship between knowledge sharing and business performance is 1,752. The test results show that the value of t statistics > 1.96 which states that knowledge sharing has no significant effect on business performance. While the direct effect knowledge sharing coefficient on business performance of 0.040 states that knowledge sharing has a positive effect on business performance. So this shows that knowledge sharing has a positive effect on business performance but is not statistically significant. The results of research in Banyuwangi District show knowledge sharing / knowledge sharing in the form of (information, skills and expertise) exchanged to other people, friends, colleagues, superiors, subordinates, communities and fellow MSMEs who are engaged in the tourism sector in Banyuwangi in good terms. , but its influence directly on business performance in MSMEs in Banyuwangi is not significant. This means that by sharing knowledge between fellow umkm, coworkers, superiors and subordinates does not necessarily immediately improve the performance of the business or the MSME. This can be caused if only by sharing knowledge without definite action, it will not directly improve business performance.
7. The effect of Innovation Capability (Y1) directly affects Business Performance (Y2) of 13,283. The test results show that the value of t statistics > 1.96 . This means that there is a

significant effect of innovation capability on business performance. Whereas the direct effect coefficient between innovation capabilities to business performance of 0.434 states that innovation capability has a positive and significant effect on business performance. This means that the better the innovation capability, the business performance tends to be better. The results of this study indicate that the hypothesis innovation capability has a significant effect on business performance received positively. This confirms that the greater the innovation capability of MSME owners engaged in the tourism sector in Banyuwangi district, the higher the performance of the MSMEs themselves. This is indicated by the results of descriptive statistics which show that the average innovation capability variable of 3.60 indicates that the entrepreneurial orientation variable is in good criteria. This means that MSME owners must dig up information about strategies and plans that are carried out to improve their ability to innovate and find out what will become a market trend in the future. Therefore, the need to innovate in order to compete so that the performance of the business will increase. The more MSMEs carry out innovation activities the higher their business performance increases.

CONCLUSION

The results of this study prove that MSMEs engaged in the tourism sector in Banyuwangi district must have clear business concepts, high creativity, courage in taking risks, competitive aggressiveness and being able to see market opportunities to gain competitive advantage. The tourism sector MSMEs in Banyuwangi Regency must be able to maintain their entrepreneurial orientation to continue to innovate. This is in line with the opinion [7] which explains to be successful, a company needs autonomy from strong leaders or creative individuals, without restrictions imposed by the company's bureaucracy. MSMEs must also be able to create new values and position superiority in order to deliver products or services with unique features and or lower costs than competitors. Banyuwangi Regency's MSME tourism sector can exploit a valuable combination of resources which competitors do not do.

This research is in line with [8] which explains that Knowledge sharing has a significant effect on the capability of innovation. Knowledge sharing

has a significant effect on product innovation and process innovation [9]. In this study knowledge sharing has a significant effect on the ability to innovate mobile MSME owners in the tourism sector in Banyuwangi district. The difference in the results of this study may be possible differences in the object of research and the general condition of the respondents. The owners of the Banyuwangi Regency MSMEs in conducting entrepreneurial orientation were able to improve business performance. The more MSMEs carry out entrepreneurial activities ranging from innovation, dare to take risks, proactively in business activities, and also increase business performance. This research is in line with the opinion [10] in his study explaining that there is a significant effect of entrepreneurial orientation on business performance. Whereas [11] explains that all dimensions of Entrepreneurial Orientation simultaneously show little direct effect on company performance. Therefore, an effective Entrepreneurial Orientation can be a good predictor of company performance. MSME Owners Banyuwangi Regency Tourism Sector must be proactive in entrepreneurial orientation and dare to take opportunities and not be afraid of taking risks.

The results of this study indicate that there is no significant effect between Knowledge Sharing on the Performance of MSMEs in MSMEs in the tourism sector in Banyuwangi Although statistically there is no significant effect but there is a positive influence between knowledge sharing and business performance. In another sense that MSMEs in the Banyuwangi Regency Tourism Sector in sharing knowledge among MSMEs can improve business performance but are unable to improve business performance directly but by sharing knowledge of MSMEs the tourism sector in Banyuwangi will have value that can be used to innovate products that will be offered, so as to be able to improve business performance. The results of this study conflict with research [12] which explains that knowledge sharing affects employee performance positively and significantly in improving business performance. This means that the better the knowledge sharing, the better the business performance. In other words, to produce good performance, the company needs a good system. This system is not only an existing regulation or standard but also involves parties directly related to human resources. One management system

that offers a discipline that treats intellectuals as managed assets is knowledge management [13].

Based on this explanation, innovation focuses on three main things, namely: new ideas, namely a thought in observing an ongoing phenomenon, product or service, namely the next step of the existence of new ideas that are followed up with various activities, studies, and experiments thus giving birth to a more concrete concept in the form of products and services that are ready to be developed and implemented and improvement efforts, namely a systematic effort to make improvements and make continuous improvements. Therefore business owners must have more talent in enhancing their ability to innovate to gain competitive advantage and achieve higher performance.

ACKNOWLEDGEMENT

The author would like to thank Mr. Iqbal and Mrs. Yusri, as a supervisor.

REFERENCES

- [1] S. H. Wijanto, *Structural Equation Modeling dengan LISREL 8.8: Konsep dan Tutorial*, Yogyakarta: Graha Ilmu, 2008.
- [2] Asegaff and Wasitowati, "Knowledge Sharing Sebagai Sumber Inovasi dan Keunggulan Bersaing pada Usaha Mikro Kecil dan Menengah (UMKM) Sektor Batik," in *2nd Conference in Business, Accounting, and Management*. 2(1), 2015.
- [3] K. Tajeddini, "Effect of Customer Orientation and Entrepreneurial Orientation on Innovativeness: Evidence from The Hotel Industry in Switzerland," *Tourism Management*, vol. 31, pp. 221-231, 2010.
- [4] S. Setyaningsih, "Using Cluster Analysis Study to Examine The Successful Performance Entrepreneur in Indonesia," vol. 4, pp. 286-298, 2012.
- [5] Arikunto and S. , *Prosedur Penelitian Suatu Pendekatan Praktik*, Jakarta: PT Rineka Cipta, 2016.
- [6] J. W. Creswell, *Research Design : Pendekatan Kuantitatif, Kualitatif, dan Mixed*, Yogyakarta: Pustaka Pelajar, 2016.
- [7] G. Lumpkin and G. Dess, "Linking two dimensions of entrepreneurial orientation to business performance: The moderating role of environment and industry life cycle," *Journal of Business Venturing*, vol. 16, pp. 429-451, 1996.
- [8] H. L. Fen, "Knowledge Sharing and Firm Innovation Capability: An Empirical Study," *International Journal of Manpower*, vol. 28, pp. 315-332, 2007.
- [9] S. Alhuseini and E. , "Knowledge Sharing and Innovation: An Empirical Study in Iraqi Private Higher Education Institutions," *International Conference on Intellectual Capital and Knowledge Management and Organisational*, 2013.
- [10] J. Wicklund and D. Shepherd, "Knowledge-Based Resources, Entrepreneurial Orientation, and The Performance of Small and Medium-Sized Businesses," *Strategic Management Journal*, vol. 24, pp. 1307-1314, 2003.
- [11] M. Hughes and R. Morgan, "Deconstructing The Relationship Between Entrepreneurial Orientation and Business Performance at The Embryonic Stage of Firm Growth," *Industrial Marketing Management*, vol. 36, pp. 651-661, 2007.
- [12] H. Rudiyanto, *Pengaruh Knowledge Sharing Behavior Terhadap Kinerja Karyawan Staf Administrasi PT. Guna Layan Kuasa (Gulaku) Kantor Pusat Jakarta*, Jakarta: Universitas Indonesia, 2012.
- [13] M. Glassman and E. D. Honeycutt, "The Effects of Culture and Human Resources Management Policies on Supply Chain Management Strategy," *Journal of Business Logistics*, vol. 23, pp. 11-17, 2002.