The Strategy For Improving Competitiveness to win the ASEAN Economic Community (AEC)
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UNDERSTANDING HOW SMEs CREATIVE INDUSTRIES CAN IMPROVE INNOVATION PERFORMANCE

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Abstract. This study aims to understand factors which affect innovation performance in SMEs creative industries. SMEs in Indonesia have proved its existence. SMEs were able to survive in the financial crisis of 1998 and the economic crisis of 2008 while many large companies being collapse. Literature review from previous studies found that the innovation performance can be formed if an organization adopts a market-oriented strategy, an innovation-oriented strategy and a service-oriented strategy in their business models. The third strategy can not be realized if SMEs does not have an excellence in term of service culture. This study seeks to interpret causal correlation that shape innovation performance into a structural relationship model. Model testing is done using a sample of 300 respondents' of SMEs creative industries in Bengkulu Province. The data were obtained using a questionnaire instrument distributed by purposive sampling. The results showed that only market orientation strategy and service innovation strategy which effectively impacting on innovation performance. This study is also proved that market orientation can be created if an organization having good service culture. The significance of this relationship shows that SMEs that have a strong service culture tend to be market oriented. Market orientation and service orientation conducted by SMEs will affect innovation performance.

Keywords: service culture, market orientation, service innovation, service orientation, and innovation performance.

INTRODUCTION

Data from various countries show that Small and Medium Enterprises (SMEs) have important role for their national economies. As an example, European Commission report in 2011 states that the number of micro enterprises in 27 countries that joined the European Union (EU-27) of about 19 million companies (91.84%) and absorb 39.6 million workers (29.7%) (Daaskalakis, et al., 2013). Central Bureau of Statistics Sweden states that in 2005 approximately 98% companies hiring employees just less than 250 people (Agdal and Chetty, 2007). Singapore which is a neighbor of Indonesia has 80 thousand companies that contribute added value to the economy of this country of about 30% and employs about 40% of the workforce in this sector (Ghosh, et al., 2001).

In Indonesia, SMEs have to prove its existence. They were able to survive in the financial crisis of 1998 and the economic crisis of 2008. This is because their ability to adapt quickly to a changing environment and make decisions more quickly and decisively, without going through the procedures and bureaucracy. The contribution of SMEs to GDP Indonesia can not be underestimated. According to the report from State Minister for Cooperatives Small and Medium Enterprises in 2012 approximately 44.45% Indonesian GDP sourced from SMEs. In addition, SMEs can create jobs in a very large amount, i.e about 97.24% of the workforce in Indonesia or about 101.722 million workers.

Although the majority of SMEs able to survive in conditions of economic crisis, it does not mean SMEs do not face obstacles in their activities. One of the factors that hinder the development of SMEs is low competitiveness compared with large companies. The inability of SMEs achieve economies of scale, meant to describe the higher production costs (O'Dwyer, et al., 2009) and ultimately have an impact on the selling price of the product is more expensive compared to large enterprises. Other constraints faced by SMEs are (1) lack of resources, both financial, time, and knowledge of marketing, (2) lack of specific expertise (owner generally not a specialist), and (3) a limited impact on the market (Gilmore, et al., 2001).

In addition to its limitations and constraints, SMEs have several advantages better than the big companies. Ghosh, et al. (2001) research result concluded that one factor of success SMEs has excellent performance is the capability of a good market orientation. Another advantage is because SMEs more innovative (Hughes, 2006). Forrest (1990) believes that small companies can not compete with the use of economies of scale against large companies, but they have a competitive advantage lies in the development of innovative products or processes. In addition to the development of innovative products and processes, SMEs can initiate and implement innovations in technology and administration (Safavou, et al., 2004). According to O'Dwyer, et al. (2009), when the SMEs facing limited growth conditions and compete with competitors that have big resources, SMEs can compete by combining innovation and
pioneering work. Pioneering SMEs resulting from the adoption of the business structure, strategy and culture are flexible.

Researchers such as Becker and Homburg (1999) and Matsuno et al. (2002) found the tendency of companies to innovate only is not enough, because the company requires market orientations that have a positive impact on the performance of organizations. Results from other studies found that small firms that innovate can increase their chances to survive in competition and growth (Cefis and Marsili, 2003; de Jong and Marsili, 2006). Therefore, market-learning oriented firms produce innovation that is more profitable than technologically-oriented firms. Salavou et al. (2004) concluded that market-oriented SMEs tend to face fierce competition situation. However, they have a tendency to be more innovative.

Other researchers have also revealed the role of the organization in creating innovation. For example, research carried out by O'Reganet, et al. (2006) concluded that innovation is driven by corporate culture, leadership and strategic planning. Results of research Humphreys, et al. (2005) showed that organizational culture is much more important in promoting innovation in comparison with companies that focus to new products, technologies, and processes. Service culture within an organization is key in generating innovation leadership and ultimately the company can create and implement these innovations successfully (McAdam et al., 2010). Other opinions on the relevance of innovation and corporate culture raised by John and Davies (2000) and Carroll (2002). According to them, innovation from SMEs is the embodiment of the corporate culture that encourages participation, networking, inclusion, and experiments across the organization.

LITERATURE REVIEW

Service Culture

Service culture is defined as a culture that focuses on customers (customer-centric culture) to be able to meet customer expectations and produce superior value through the development of services and competencies performance (Beitelspaeh, et al., 2011, pg.215). Additional views submitted by Grönroos (2000) which defines service culture as "a culture where respect for service excellence grow, and the provision of services to internal and external customers is considered as a way of life and is considered as one of the most important norm for all members of the organization". According to Zeithaml and Bitner (2000), this definition has implications on employee behavior. First, service culture will arise if there is an appreciation for good service. This expression does not mean that the service provider has an advertising campaign that emphasizes the importance of service, but people know that good service is appreciated and valued. The second point asserts that the definition of service excellence provided to internal and external customers. Promising excellent service to external customers are not enough. Everyone in the organization deserves excellent service quality. Employees who are satisfied with the internal services tend to meet the needs of external customers. Finally, in service culture context, service excellence is the way of life of all people and service excellence an important norms in the organization.

Service Orientation

Research which was studying of service climate in organizations is increasingly gaining interest among academics lately. The interest of researchers stimulated by the results of research studies conducted by Lytle, Hom, and Mokwa (1998) and Schneider, White, and Paul (1998). Their research is based on the strategic philosophy should be done by service organization to achieve competitive advantage through the creation of more value to customers. The emphasis on more value obtained through the presentation of excellent service to customers. Lytle and Timmerman (2006) stated that delivery of service excellence is not enough simply to prioritize presentation of superior service to external customers but also to provide good service to internal customers. Organizations oriented to service excellence adheres to the idea that excellent service is a strategic priority and the service greatly influenced the creation of superior value, competitive advantage, growth, and profitability (Lytle and Timmerman, 2006).

Lytle, Hom, and Mokwa (1998) define organizational service orientation as: "An organization-wide embracement of a basic set of relatively enduring organizational policies, practices and procedures intended to support and reward service-giving behaviors that create and deliver "service excellence."

Definitions are almost same was stated by Schneider, White, and Paul (1998). They conducted a study to learn about a climate for service in terms of consumer perception about the quality of service. Schneider, White, and Paul (1998) mentions that a climate for service is: "Employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality."

The similarity of the definition put forward by the two groups of researchers has provoked a polemic that service climate is deemed equal to the service orientation. Lytle, Hom and Mokwa (1998) states that service orientation is a dimension of organizational climate as a whole. Therefore, practices,
procedures, and policies that provide support to delivery of excellent service to customers will provide direct implications for service climate. Kelley (1992) argued that service climate is one of the characteristics of service delivery and quality of service that differentiates an organization to another. Kelley (1992) also mentioned that the results of service climate include individual behavior in organizations. Opinions Kelley (1992) implies that organization that have a positive service climate engaged in the practices, procedures, and certain policies that encourage employee behavior in presenting an excellence service.

Market Orientation

Kohli and Jaworski (1990) looked at market orientation as an attempt by an organization to understand their customer (needs and preferences) as a whole in the current and in the future. Understanding customer as a whole means that not only focus on the customer, but also an understanding of the external factors that can influence customer behavior such as competition and government regulations. In this case, the view of Kohli and Jaworski (1990) more emphasis on the process or behavior within market orientation. It is of course different from the opinion and Narver Slater (1995) who view the market orientation as a part of culture. Market orientation is defined by Slater and Narver (1995) as (1) culture which positioned the highest priority on the creation of favorable earnings and maintenance of superior customer value without ignoring the interests of other key stakeholders and (2) provide the norms of behavior for the development of the organization and the ability respond quickly to the information in the market.

Kohli and Jaworski (1990) states that the market orientation can be explained by three constructs, namely intelligence generation, intelligence dissemination, and responsiveness. Other researchers, Narver and Slater (1990) states that the market orientation construct consists of three components of market orientation in terms of aspects of behavior (customer orientation, competitor orientation, and interfunctional coordination) and two decision criteria (long-term focus and profitability). Customer orientation with respect to the company's efforts to seek information about consumer needs (current needs and requirements in the future) and take action based on this information while competitor orientation relating to the company's efforts to seek information about the strengths and weaknesses of competitors, strategies and the ability of the company itself in the long term, and to take action on this information. Meanwhile, the company's efforts to coordinate action taken in the creation of value for customers by distributing information about competitors and customers internally is interfunctional coordination. The conclusion made by Narver and Slater (1990) concerning customer orientation, competitor orientation, and interfunctional coordination as part of the construct of market orientation is consistent with that expressed by Kohli and Jaworski (1990).

Moreover, Kohli and Jaworski (1990) states that the market orientation should be viewed as a process rather than as a cultural. Narver and Slater (1990) also define market orientation as a culture that is highly effective and efficient in creating behavior for the creation of more value for consumers. Furthermore, market orientation can be divided into three components: customer orientation, competitor orientation, and coordination between functions. Similarly Deshpande, et al. (1993) which states that the market-oriented culture that leads to the pattern of distribution of values and beliefs that put the interests of consumers as the main. Market-oriented organization committed to the business strategy to attract and give satisfaction to the consumer.

Service Innovation

Innovation is essential for any company that wants to remain competitive (Darroch and McNaughton, 2002). To be successful in the increasingly fierce competition, the company's main task is to understand the perceptions, needs, and desires of the market and then create products with superior value. Considering superior value is highly subjective and exists only in the minds of customers, companies also need to learn their opinion about the values of products. In another sense, companies need to conduct research on the opinions and perceptions of customers about what consumers get from consuming the product (product benefits) and what they have to sacrifice to obtain a product (product costs). Learning from customer needs and competitor behavior reflects a thorough understanding on both and ultimately provide valuable input to the process of innovation (Wcerawardena, 2003).

According Wcerawardena (2003, hal.412), innovation is defined as: "...application of new ideas for the company and create added value for the company either directly or indirectly to customers, regardless of whether the novelty and value-added embodied in products, processes, work systems organization or marketing system".

External factors that can affect innovation in SMEs is the type of market (Sebora et al., 1994), strategic orientation, market orientation, and the level of competition (Laforet, 2008 and Salavou, et al., 2004). In the literature, the factors relating to competition, in particular industry concentration and barriers to entry have been known as the main determinants of innovation (Kraft, 1989). In this case,
Kraft (1989) argues that the lack of competition makes innovation less necessary. Other studies, such as Dasgupta (1980) concluded that companies operating in the environmental characteristics of the greater competition, lower concentration and barriers to entry are not difficult to tend to have better performance in product innovation. But on the other hand, Abernathy and Utterback (1978) has a different opinion, that intense competition may eliminate the desire to innovate. According O’Regan and Ghobadian (2005), the company that gives greater attention on innovation and operates in a highly dynamic environment has the characteristics of short product cycles, rapid technological change and intense competition.

Meanwhile, Godfrey, et al. (1995) defines service innovation as an innovation in process and product innovation in existing services within the organization. Service innovation is described as a development of the activity of the company in providing value added to the product or the company’s core services for the company’s core services to make products more attractive in the eyes of consumers. Development is done to involve interaction with customers and products associated with existing services or new service products. Johne and Storey (1997) argued that the company should develop service products appropriately and in accordance with the interests of consumers since the service interaction is an important part of the company’s offerings. Service innovation is then adjusted with an assortment of product delivery or value-added services to enhance the customer service experience. Service innovation can be influenced or affected by the product’s core services.

Innovation Performance

The company’s fruitfulness to delivering customer satisfaction, increase market share and win competition inseparable from company’s ability to continue developing sustainable innovation. Innovation has provided benefits for the company and these innovations give something valuable and unique in the eyes of consumers, while competitors are not able to do so. Conversely, innovation performance becomes more difficult to achieve when innovation created easily imitated or substituted for other products by competitors (Laursen and Salter, 2006; Tsai, 2009). Innovation performance with respect to the results achieved by the company is how much the company has introduced new products or improve its services in the market (Wang, 2015).

Research Hypotheses

Hypothesis in this study are:
- H1: Service culture have significant effect on market orientation
- H2: Service culture have significant effect on service innovation
- H3: Service culture have significant effect on service orientation
- H4: market orientation have significant effect on innovation performance
- H5: service innovation have significant effect on innovation performance
- H6: service orientation have significant effect on innovation performance

RESEARCH METHOD

Research Design

Type of research used in this study is causal, which aims to investigate the possibility of a causal link that explains phenomenon (Cooper and Schindler, 2008; Sekaran and Bougie, 2010). In addition, this research is quantitative research, which aims to clarify and examine the effect of market orientation, service innovation and service orientation on the innovation performance. The role of a service culture is also a review of the investigation in this study. This study will only be done at a particular time that would indicate a phenomenon to answer research questions that will be examined, so this study was using research design of cross sectional (Neuman, 2006, h.36; Cooper and Schindler, 2011, h.142). The methods used in this study were interviews with leaders in the public sector and a survey using a questionnaire as a basis to analyze about self-belief or behavior (Neuman, 2006, h.273).

Sampling Design

The study population was all SMEs creative industries in the city of Bengkulu. The number of the population cannot actually be known because there is no accurate data on SMEs creative industries in Bengkulu. Because no sampling frame that can be used as a reference to use probabilistic sampling techniques, the sampling technique used is non-probabilistic sampling. This study uses data collection methods that are accidental. Questionnaires will be distributed to SMEs creative industries in the city of Bengkulu. With respect to the number of variables indicators of this research and application of SEM analysis, respondents who had filled and sent back the questionnaire as many as 300 people.

Data Analysis Method

The analytical method used in this research is Structural Equation Modeling (SEM). SEM is a multivariate statistical technique that allows testing of a relatively complex structural relationships simultaneously. SEM is a combination of the two methods of analysis, confirmatory factor analysis and
path analysis. Confirmatory factor analysis aims to describe or confirm empirically the characteristics or the structure of a construct or latent variables seen by the manifest variables or indicators conceived as a shaper of the latent variable. While the path analysis is a causal relationship between the latent variable and not manifest variables (Ferdinand, 2000).

In SEM, the model fit test is done by using Goodness-of-test (GOF). Basically, GOF measurement consists of three, which is absolute fit measures, incremental fit measures, and parsimonious fit measures. From many measurement of GOF, at least six measurements that most frequently used which is follows:

<table>
<thead>
<tr>
<th>GOF Criterion</th>
<th>Decision Criterion</th>
<th>Boundary of Acceptance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>Chi-square = 0 (perfect fit)</td>
<td>$χ^2$ value</td>
</tr>
<tr>
<td>RMSEA</td>
<td>RMSEA = 0 (perfect fit)</td>
<td>0.08 (fit model criterion)</td>
</tr>
<tr>
<td>GFI dan AGFI</td>
<td>0 (doesn’t fit) - 1 (perfect fit)</td>
<td>0.90 (fit model criterion)</td>
</tr>
<tr>
<td>TLI dan NNFI</td>
<td>0 (doesn’t fit) - 1 (perfect fit)</td>
<td>0.90 (fit model criterion)</td>
</tr>
<tr>
<td>NFI</td>
<td>0 (doesn’t fit) - 1 (perfect fit)</td>
<td>0.90 (fit model criterion)</td>
</tr>
</tbody>
</table>


Interpretation of the results is done based on the output AMOS program that includes: path diagram, output of measurement model, output of structural model and decomposition of correlation between variables. After estimating the model, researchers can still make modifications to the model developed, if these estimates have production levels are not as expected.

**Structural Equation Modelling**

There are two steps that need to be done in testing the research model using SEM, namely 1) testing of measurement model, and 2) testing of structural model.

1) **Testing of Measurement Model**

Measurement model used to test a set of items of measurement used to represent the underlying constructs (Hair et al., 2010, h.695). An application of SEM aims to assess the contribution of each indicator variable to represent the underlying constructs and measures how well the combination of a set of indicators represents the constructs (reliability and validity). From the results of testing reliability constructs in the measurement model using Cronbach’s alpha can be concluded that all variables in the model meets the required reliability criteria. Reliability testing is also done using construct reliability because assessed better in assessing the reliability of each variable in the model. The results of reliability testing using construct reliability consist with test results using Cronbach’s alpha is found that every variable in the model proved to be statistically reliable. Measurement model testing is also performed using the value of average variance extracted (AVE). AVE value serves to assess construct validity in the model. AVE value ≥ 5 shows that the indicators used were able to present well the underlying latent constructs. Results of analysis showed that all latent constructs have value AVE ≥ 5 which proves that the proposed latent variable proved statistically valid.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Construct Reliability</th>
<th>Cronbach alpha</th>
<th>AVE</th>
<th>√AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Culture</td>
<td>0.832487</td>
<td>0.836</td>
<td>0.573542</td>
<td>0.757326</td>
</tr>
<tr>
<td>Market Orientation</td>
<td>0.835591</td>
<td>0.845</td>
<td>0.564625</td>
<td>0.751415</td>
</tr>
<tr>
<td>Service Innovation</td>
<td>0.847935</td>
<td>0.841</td>
<td>0.525325</td>
<td>0.724793</td>
</tr>
<tr>
<td>Service Orientation</td>
<td>0.780342</td>
<td>0.783</td>
<td>0.414756</td>
<td>0.644016</td>
</tr>
<tr>
<td>Innovation Performance</td>
<td>0.826845</td>
<td>0.812</td>
<td>0.547564</td>
<td>0.739976</td>
</tr>
</tbody>
</table>

2) **Testing of Structural Model**

After testing the measurement model that includes the validity and reliability on all latent variables, the next step is to test the structural model. There are two stages in testing the structural model, namely goodness of fit and test the significance of the path coefficients. Testing of structural model can be described in Figure 1.

Modelling structural relationship aims to examine the relationship between variables in the model proposed. The test results of the structural model to measure the extent to which the proposed model is able to represent real phenomena observed. There are several criteria used to test the suitability index models. Goodness of fit index results from the proposed model can be described in Table 3.
Figure 1 Structural Relationship Modeling using AMOS 16.0

Table 3 Goodness of fit index

<table>
<thead>
<tr>
<th>Goodness of fit index</th>
<th>Expected value</th>
<th>Index</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute fit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\chi^2$ (Chi square)</td>
<td>Kecil</td>
<td>582.790</td>
<td>good</td>
</tr>
<tr>
<td>RMSE of approximation</td>
<td>$&lt; 0.08$</td>
<td>0.078</td>
<td>good</td>
</tr>
<tr>
<td>Goodness of fit index</td>
<td>$&gt; 0.90$</td>
<td>0.864</td>
<td>good</td>
</tr>
<tr>
<td>Incremental fit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Goodness of fit</td>
<td>$&gt; 0.90$</td>
<td>0.875</td>
<td>good</td>
</tr>
<tr>
<td>Comparative Fit Index</td>
<td>$&gt; 0.95$</td>
<td>0.927</td>
<td>good</td>
</tr>
<tr>
<td>Tucker Lewis Index</td>
<td>$&gt; 0.95$</td>
<td>0.916</td>
<td>good</td>
</tr>
<tr>
<td>Parsimonious fit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>$\leq 5.00$</td>
<td>1.994</td>
<td>very good</td>
</tr>
</tbody>
</table>

The test result of the proposed structural model shows that not all of the criteria of suitability models get good results. Goodness of Fit Index (GFI) provide acceptable results which means that the proposed model can still statistically acceptable because the value fit model is not far adrift of the required. RMSEA value and Parsimonious Fit Index (CMIN/DF) shows that the model produces a good fit the criteria, so statistically the structural model has been able to interpret. Correlations between variables in the structural model are summarized in the following table.

Table 4 Correlation in the model

<table>
<thead>
<tr>
<th>Covariances</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Culture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>predictive</td>
<td>Market Orientation</td>
<td>0.646</td>
<td>0.094</td>
<td>7.376</td>
</tr>
<tr>
<td>Budaya Layanan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>predictive</td>
<td>Service Innovation</td>
<td>0.176</td>
<td>0.259</td>
<td>1.756</td>
</tr>
<tr>
<td>Budaya Layanan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>predictive</td>
<td>Service Orientation</td>
<td>0.142</td>
<td>0.214</td>
<td>0.712</td>
</tr>
<tr>
<td>Market Orientation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>predictive</td>
<td>Innovation Performance</td>
<td>0.476</td>
<td>0.119</td>
<td>6.733</td>
</tr>
<tr>
<td>Service Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>predictive</td>
<td>Innovation Performance</td>
<td>0.562</td>
<td>0.108</td>
<td>7.242</td>
</tr>
<tr>
<td>Service Orientation</td>
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<tr>
<td>predictive</td>
<td>Innovation Performance</td>
<td>0.357</td>
<td>0.198</td>
<td>4.712</td>
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</tbody>
</table>

Summary results of testing the correlation between variables in the model revealed that only three of the six hypotheses proposed that proved significant, whereas the other three hypotheses are not proved significant. The results of the correlation between variables will be described in the next section.

CONCLUSIONS AND RECOMMENDATIONS

This study aims to develop structural equation modeling between constructs of service culture, market orientation, service innovation, service orientation and innovation performance partially and simultaneously. Modelling the relationship between construct is needed to be able to conceptualize the real phenomenon of observation into the conceptualization of structural equation model. Modelling the relationship between five variables proposed in this study is also based on the findings and the conceptualization of previous studies. Based on the results of hypothesis testing, it is found that only three of the six proposed hypothesis proved significant, while the other three hypotheses are not proved significant. Hypothesis that proved significant in this study is 1) the relationship between service culture
on market orientation; 2) the relationship between market orientation on innovation performance; 3) the relationship between service innovation on innovation performance. The significance of this relationship shows that SMEs that have a strong service culture tend to be market oriented. Market orientation conducted by SMEs will affect innovation performance. Furthermore, service innovation by SMEs also has an impact on innovation performance.

As an empirical study, the results of this research could yield useful findings for policy makers in an effort to encourage the creation of innovations in SMEs creative industries. From the findings of this research note that an important factor affecting innovation performance of SMEs is market orientation and service innovation. Furthermore, market orientation can be created if SMEs have a strong service culture. These research findings illustrate that if SMEs want to survive amid fierce market competition and a dynamic market, SMEs should be market oriented. Market orientation includes three essential components, namely customer orientation, competitor orientation, and coordination between functions. Market orientation based on the findings of this study can be created if SMEs have a strong service culture. SMEs that have a strong service culture will tend to be market-oriented and will eventually establish innovation performance.

The results also show that the innovation performance of SMEs shape a commitment which emphasizes on service innovation. If SMEs want to enable employees to be innovative, the important factor to consider is encouraging employees to be sensitive to the needs and desires of customers. Identify the needs and desires of customers are not enough if the organization does not realize it in the form of real action. This is popular with the term of service innovation, which is the embodiment of a real application attribute organizations in developing new services to meet the needs and wishes of the users of the service.

Besides useful for small business owners, this study is also expected to provide benefits for researchers further. Results of this study still need to be verified the reliability when applied to other research. Researchers can replicate, modify, or develop the conceptual framework of this research on advanced research that tries to observe the same topic. For further research the results of this study can also be used as a reference and comparison with other similar studies. This study provides theoretical implications in expanding and adding new direction in the research that investigating relationship modelling between service culture, service orientation, market orientation, service innovation, and innovation performance.

Lastly, managerial recommendations are also given for SMEs that want to develop innovation performance in their business which are expected can develop better market orientation and good service innovation in the organization. Market orientation will enable employees (internal marketing) perform a variety of innovative services in accordance with the needs and desires of customers, anticipating competitors' strategies, and good coordination between functions within the organization. Good service innovation can boost innovation performance for SMEs.

REFERENCES


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