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SME PERFORMANCE IMPROVEMENT : INTEGRATION OF INTERNAL RESOURCE, MARKET ORIENTATION, AND BUSINESS ETHICS IN EAST JAVA

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Abstract: *The study is meant to understand Integration of Internal Resources, Market Orientation, Business Ethics To Increasing SME'S Performance in GERBANGKERTASUSILA Province of East Java. Internal resources are measured using 7 resources (1) physical resources, (2) the resources of the reputation of the company, (3) the power of the brand resources, (4) technology resources, (5) financial resources, (6) and human resources (7) resources of the Organization. Market Orientation using 3 measured procedure of analysis namely 1. Customer Oriented 2. Competitor Oriented 3. International Coordination. Business ethics is measured using (1). CSR,(2) Trust (3) 5K characteristics (Kattabelletje, Conspiracy, Connection, Collusion, and Commission). While the performance Variables measured from 4 perspectives (1) the customer's Perspective, the Financial Perspective (2), (3) Internal Process Perspective (4) Learning and growth perspective of HR.Whereas the results of the data processing with software PLS not all hypothesis proved to be influential in a significant way. The implications of this research were the business ethics as an intervening variable fully mediating the influence of internal resources and market orientation on the performance of Food and beverage SMEs in GERBANGKERTASUSILA of East Java*

Keywords: *Internal Resources (SDI), Market Orientation (MO), Business Ethics, Performance.*

INTRODUCTION

In the 21st century this is the increasingly turbulent business environment conditions and chaotic, originally business economy and relatively stable and predictable this century is full of uncertainty, increasingly complex, and rapidly changing, but all companies are faced with the same business environment (Elitan and Anatan, 2007) the business environment like this cannot be controlled by a company which can be controlled only the resources owned by the company itself. Therefore, there are comprehensive studies that developed the concept of a market orientation is done in a decade 1980 - the 1990s and the result of invalid constructs-market orientation invalid constructs that are used in interpreting the concept of marketing implementation Kohli and Jaworski (1990) States that the orientation of the market is related to the company's performance.

In line with the opinion of Purwohandoko et.al (2015:94), it is stated that the key to success is to achieve the objectives of the organization which is capable of delivering customer's satisfaction effectively and efficiently to produce interest for the company

LITERATURE REVIEW

Wernerfelt (1984) in Barney and Arikan (2000) developed a theory of sustainable competitive advantage based on resources. Barney and Arikan state that internal resources that can be controlled by the company are a stable source of profit compared to external resources. Hill and Jones (1998), distinguish between resources and capabilities Resources are viewed more physically and in the short term and easy to reproduce, while the capabilities are the intellectual capabilities possessed by companies that are invisible but able to create corporate excellence and difficult to imitate competing companies such as organizations .

In line with that opinion organizational resources are the resources that non-physical companies have to measure the organizational structure in formal reporting and planning, implementation, and supervision (Barney, 1991). Organizational resources are all managerial activities that generate task structures and authority relationships, including organizational design, job design, and job analysis (David, 2003).

The results of a research entitled Etihcs business (Salehi, Saeidinia and Aghaei, 2015) state that business ethics in organizations require value -based leadership of top management actions, including the planning and adoption of appropriate standards of conduct, and openness and continuous efforts to improve performance ethical organization. While research entitled Business Ethics and Corporate Social Responsibility Attitudes Among SME Leader in Romania (Cruz, Vaduva, Fotea, and Neagoie, 2015) states there is a strong positive relationship between positive behavior toward business ethics and CSR. Similarly, the research of (Flsscher and Nijhof, 2012) under the title Implications of Business Ethics of Quality Management resulted solely by combining personal care with process controls enabling to achieve the highest level of quality of products / services produced by the company, so as to provide consumer satisfaction and retention will occur.

RELATIONSHIP BETWEEN VARIABLES

Influence between internal resources (SDI) with market orientation (OP)

Efforts to meet the desires and needs of consumers and actions in reacting to the dynamics of competition by the company should be supported by adequate internal resources. Therefore, the starting point of a market-oriented company will require the support and availability of sufficient internal corporate resources. This proposition is in the opinion of Grant (1991) in David (2003) when consumer preferences and technology to serve rapidly change, then defines what the company can do to produce performance is the internal resource that the company has to win the competition (Kohli and Jaworski 1990) Based on David (2003), Wernerfelt (1984) and Kohli and Jaworski (1990) point out that the availability of Internal resources is a prerequisite for market-oriented companies in implementing their market orientation. Based on the study of relationships between variables of internal resources with market orientation, it can be formulated the following hypotheses:

H1: The stronger the company's internal resources, the more the company's market orientation.

Influence between internal resources (SDI) and Business Ethics (EB)

In implementing good business ethics requires strong organization and professional leadership so that ethical behavior such as honesty and openness is needed value-based leadership so that the resulting planning can produce optimal organization in accordance with the results of research entitled business ethics (Salehi, Saidininia, Aghaei, 2015). Based on the study of relationships between variables internal resources with business ethics, it can be formulated hypothesis as follows:

H2 : The stronger the company's internal resources, the better the implementation of its business ethics as its commitment.

Influence between market orientation (OP) and Business Ethics variable (EB)

Market-oriented companies will seek to respond to consumer needs continuously to realize consumer needs better than those provided by competitors (Jaworski and Kohli, 1990). In addition the company will also place customer satisfaction as the main target (Kotler and Keller, 2009). In order to meet these objectives the company will seek to improve its ethical business practices to maintain public trust as its market (Echevarria-Cruz, Vaduva, Fotea, Neagoie, 2015). Based on the study of the relationship between market orientation variables with business ethics, it can be formulated hypothesis as follows:

H3 The stronger the company's market orientation, the more ethical business conduct

The Influence between Business Ethics (EB) of Companies with Company Performance (KP)

Research (Flsscher and Nijhof, 2012) results in that simply combining personal care and process control allows to achieve the highest level of quality. Based on the study of the relationship between business ethics variables with company performance, it can be formulated hypothesis as follows:

H4 Increasingly the company builds its ethical business, the more its company performance increases

Influence between variables Resource Internal (SDI) company with Performance company (KP)

The theory of resources was first published in two articles published in 1984 by Wernerfelt titled A Resource Based View of the firm (RBV) and Rumelt under the title Toward Strategic Theory of the firm. Foss (1997) argues that superior performance in companies varies by the different internal resources they possess and their utilization and research results generalize that (1) systematically differentiates each firm from controlling the resources needed to implement the strategy that has been formulated, (2) differences in implementation and these findings support two basic assumptions of economics, namely (1) differences in resource support within the firm will lead to differences in performance, (2) the company always tries to improve its economic performance. Grant (1991 in Hit et al. (2001) argues that the company's strategic move in generating more important performance is to identify resources as the internal corporate domain domain rather than conduct an analysis of its external environment because the offered strategy based on the external environment will be easily imitated and many companies can do the same strategy, so performance will not be able to generate. As Grant (1991) illustrates in Hit et al, the following five steps are steps to produce sustainable performance:

Step 1. Identify the company's internal resources to study the strengths and weaknesses of the company compared to competitors. Resources (input into a firm's production process)

Step 2. Determine what capabilities a company has that allows for better than its competitors. Capability (capacity of an integrated set of resources to integrate performance a task or activity.

Step 3. Determine the potential of resources that can lead to sustainable competitive advantage. Competitive Advantage (ability of a firm to outperform its rivals)

Step 4. Choosing the best strategy to exploit internal resources capability / capability to opportunities in the external environment. An attractive Industry (an industry with opportunities that can be exploited by firm's resources and capabilities.

Step 5. Generate above average profit. Superior returns (Earning of above average returns)

Basing the study of relationships between variables internal resources with performance variables, it can be formulated hypothesis as follows:

H5 The stronger the company's internal resources, the stronger the Company Performance

Influence between Market Orientation variables (OP) with company performance (KP)

Market Orientation plays an important role in maintaining customers or seeking new customers that impact on market share increase because the company is able to recognize the wants and needs of customers, to know the strength of competitors to position the company in the competition and able to perform cross-functional coordination to produce performance that can satisfy consumers and buy re-product produced as a customer and add new customers and at the end generate profits for the company. (Best, 2000) Based on the study of the relationship between variables of market orientation with variable company performance, it can be formulated hypothesis as follows:

H6 The stronger the implementation of the company's market orientation, the greater the company's performance.

Integration of internal resource variables (SDI), market orientation (OP) and Business Ethics as a basis for improving company performance

H7. The stronger the internal resources and execution activity of market orientation as the basis for the formulation and implementation of business ethics, the stronger the performance of the company's performance improvement is proven because the four criteria of mediation test are fulfilled.

This means that the position of business ethics as an intervening variable, fully mediate the influence of internal resources and market orientation on the performance of SMEs Food and beverage company in GERBANGKERTASUSILA Jatim

METHODOLOGY

This research is quantitative research using primary data. From the answers to the questionnaire given to the SME's in Gerbangkertasusila

East Java as a sample in this research.

HYPOTHESIS TESTING

Table 1. Result of Linearity Testing

Free Variable	Control variable	F	Sig	Conclusion
SDI	OP	41.10	0,00	Linier
SDI	EB	45,48	0,00	Linier
SDI	KP	36.49	0,00	Linier
OP	EB	37,03	0,00	Linier
OP	KP	49,55	0,00	Linier
EB	KP	53,88	0,00	Linier

Source: Output PLS, 2017

Table 2 The Load of Validity Convergent Test

Construct	Indicator	Original sample Estimate	Mean of sub sample	Std. Dev	T-Stat
Internal Resources (SDI)	SDI1	0,658	0,618	0,151	4,346
	SDI2	0,839	0,850	0,033	25,291
	SDI3	0,740	0,745	0,077	9,583
	SDI4	0,677	0,679	0,103	6,559
	SDI5	0,784	0,767	0,082	9,550
	SDI6	0,738	0,748	0,077	9,548
	SDI7	0,832	0,833	0,051	16,424
Market Orientation (OP)	OP1	0,816	0,814	0,039	20,734
	OP2	0,845	0,843	0,048	17,674
	OP3	0,896	0,892	0,031	29,237
Competition Strategy (SB)	SB1	0,860	0,859	0,037	23,318
	SB2	0,878	0,870	0,047	18,868
	SB3	0,506	0,472	0,199	2,548
Work Ethic of SME's (KU)	KU1	0,857	0,856	0,032	26,375
	KU2	0,862	0,857	0,043	19,968
	KU3	0,852	0,835	0,057	15,053
	KU4	0,875	0,879	0,038	23,028

Source: Output PLS, 2017

Table 3 Discriminat Validity Test

Construct	Indicator	SDI	OP	EB	KP
Internal	SDI1	0.719	0.404	0.470	0.345
resource	SDI2	0.848	0.404	0.488	0.440
	SDI3	0.754	0.317	0.411	0.284
SDI5	SDI4	0.686	0.308	0.549	0.378
SDI6					0.398
SDI7					0.522
					0.515

Source: Output PLS, 2017

Table 4. Average Variance Extracted (AVE) and Correlation Between Latent Variable

Construct	Average Variance Extracted (AVE)	VAVE	Korelasi Variabel	Laten
SDI	0.587	0.766	rSDI,OP	0.634
OP	0.673	0.820	rSDI,EB	0.671
EB	0.590	0.768	rSDI,KP	0.606
KP	0.742	0.861	rOP,EB	0.661
			rOP,KP	0.655
			rEB,KP	0.711

Source: Output PLS, 2017

From the table 4, it indicates that the value of AVE > 0,50 for each latent variable which means that the original variable score has fulfilled the assigned criteria. The comparison among latent variable can be explained as in the following:

1. Variable Resource Internal (SDI) AVE value of VAVE 0.757 lower than the correlation with market orientation 0.805, but greater than the correlation with competitive strategy 0.726 and performance of SMEs is a result of SDI 1 Resource physical SMEs foods beverages in Gerbangkertasusila in East Java shows the lowest loading.
2. Variable market orientation (OP). The AVE value is V0,853 higher than its correlation with SDI (0.805), competitive strategy (0.713) and MSME performance of Food and Beverage (0.739). These results indicate that market indicators have good disclosure validity to measure their variables.
3. Variable Competitive Strategy (SB) 0,762 AVE value is higher than the correlation with Market Orientation (.713), and Internal Resources (0.726) and MSME Performance of foods and drinks (0.772). it indicates that the indicators of a Competing Strategy have good discriminant validity in measuring its latent variables.
4. Variable performance of the SME foods and drinks with root value VAVE is 0.863 higher than the correlation with Market Orientation (0.739), Internal Resources (0.735) and Competitive Strategy (0.772) then these results indicate that SMEs per-

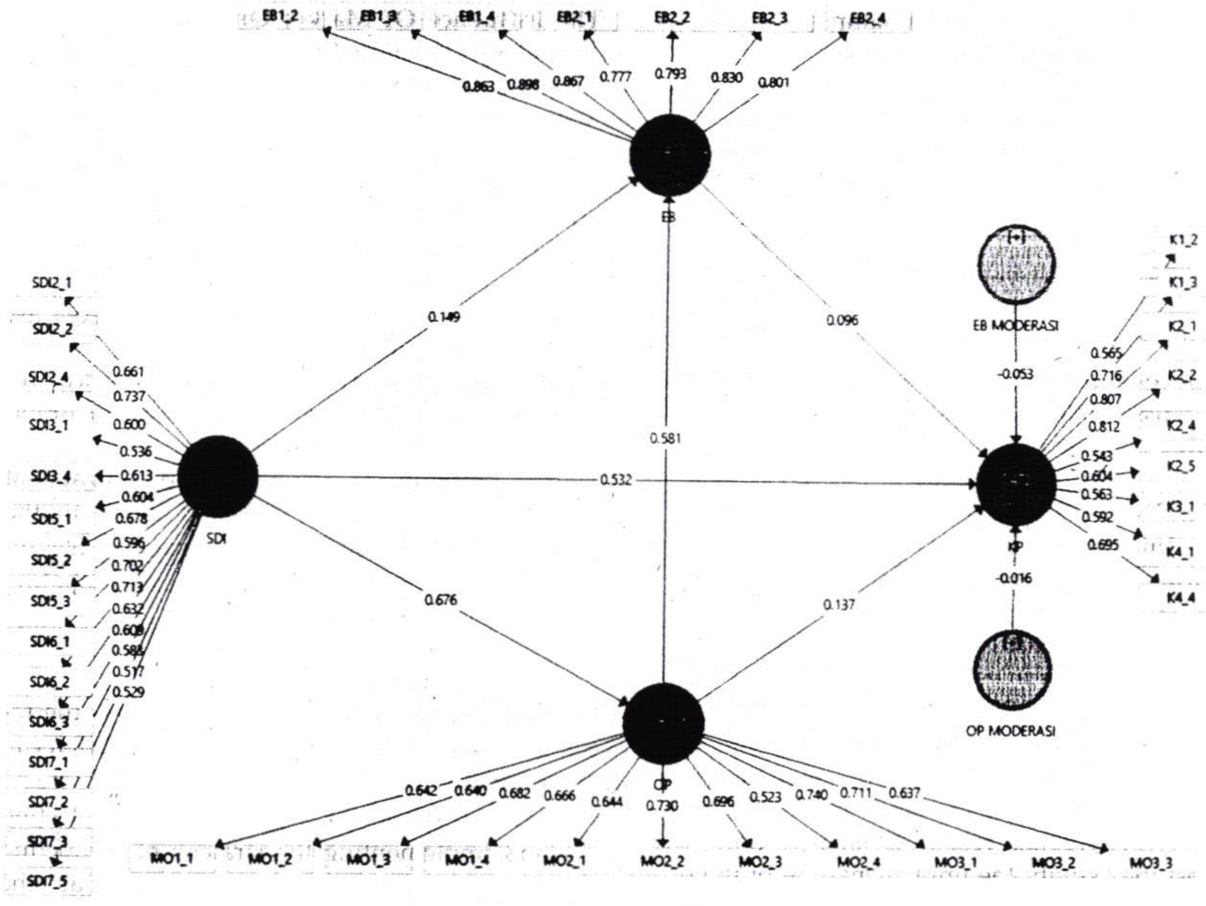

Figure 1. Inner Model

formance indicators of food and drinks have Validity as A good discriminant in concealing its latent variables.

Table 5. Composite Reliability

Construction	Composite Reliability
Internal Resources (SDI)	0,902
Market Orientation (OP)	0,889
Competition Strategy (SB)	0,803
Work Ethics of SME (KU)	0,920

Source: Output Smart PLS

Based on the results of the discriminant validity test table 5 it can be interpreted that the discriminant validity measurements have met the criteria, either measured by (1) comparing with cross-loading, (2) Average Variance Extracted (AVE) and (3) comparing AVE square roots with Correlation between latent variables, then the overall correlation between variables meet the requirements, both convergent validity test and discriminant validity has met the criteria and validity is good.

SCOPE OF RESEARCH

This research conducted on SME of food and drink in GERBANGKERTASUSILA, East Java in the year 2017.

SAMPLE

The technique of sampling technique used was a survey by providing questionnaires by choosing SME food and drink sales turnover increased steadily over the last 2 years in the hopes of SME of food and beverages that are operationally profitable in business in order to fill out the questions on the questionnaire prepared selection of food and drink SME as appropriate sample by the criteria of as many as 60 SME of food and beverages.

Table 1 Criteria Sample

No	Criteria	Total
1	SME'S food and drink	78
2	SME'S food and drinks the last 2 years not riding her sales turnover	18
Total Sample		60

DATA SOURCES

Data collected from primary data collected from the dissemination of questionnaires from 60 SME's selected that qualify as research samples.

FINDINGS/DISCUSSION

The Influence Of Internal Resources Towards Market Orientation

Proven internal resources of physical resources, resources the SME reputation power Brands, technology resources, Financial Resources, human resources, and organizational resources to SME of food and beverage in the GERBANGKERTASUSILA East Java have the effect on orientation market it means the more powerful internal resources owned SME the boost the activity the implementation of the orientation its market.

Influence Of Competing Strategies On Performance

Proven to be the more appropriate food and drink in SME GERBANGKERTASUSILA East Java formulate strategies to compete for increases performance of its SME'S.

Market Orientation's Influence On Performance

Proved to be the stronger market orientation of the implementation activities of SME'S of food and drink in GERBANGKERTASUSILA East Java then the ever-increasing performance of its SME'S.

Influence Of Internal Resource On Performance

Proved to be the stronger internal physical resources, resources, resources the SME'S reputation power Brands, technology resources, Financial Resources, human resources, and organizational resources to SME'S of food and drink in the GERBANGKERTASUSILA East Java also has increased its influence on the performance of its SME'S.

The Influence Of Market Orientation Towards A Strategy Of Competing

Proved to be the stronger market orientation, customer perspective competitor and cross SME'S of food and beverage functions in GERBANGKERTASUSILA East Java also has increased its influence on the strategy of competing for SME'S.

The Influence Of Internal Resources Against Competing Strategy

Proved to be the stronger internal physical resources, resources the resource strength of Brand reputation, technological resources, Financial Resources, human resources, and organizational resources to SME'S of food and drink in the GERBANGKERTASUSILA East Java also has increased its influence on the strategy of competing for SME'S.

6. CONCLUSION / IMPLICATION

Based on the outline of the problem and the results of the test of Partial Least Square (PLS) it can be concluded that:

1. Internal Resources are the basis for selecting and implementing the strategy of competing for SME'S of food and drinks at the GERBANGKERTASUSILA in East Java.
2. The stronger market orientation of SME'S conducted food and drink at GERBANGKERTASUSILA in East Java, also increasing the ability of SME'S to select and implement a strategy to compete. because some of the excess; among others have the completeness of information about customers, competitors and the power of cross-functionality, so that it is able to improve the performance of SME'S of food and drinks at the GERBANGKERTASUSILA in East Java.
3. Internal resources to SME'S of food and drink GERBANGKERTASUSILA in East Java directly cannot improve performance because it has reduced the presence of competing for strategies so that the precision of variable decided to select and implement a strategy to compete was the one who was able to improve the performance of SME'S.

RECOMMENDATION

For SMALL MEDIUM ENTERPRISES:

Although all variables thought to because only variable SDI means and strategies to compete only able to improve the performance of SMALL MEDIUM ENTERPRISES of influenced by other variables, then it is recommended to pay attention to external factors remain SMALL MEDIUM ENTERPRISES SMALL MEDIUM ENTERPRISES like markets et all.

For the next Research

Look for other models another data that allegedly can improve the performance of SMALL MEDIUM ENTERPRISES of food and drinks in GERBANGKERTASUSILA, East Java.

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