

## FORMING INDICATORS FOR CSR PROGRAM, INNOVATION, LEARNING ORIENTATION AND PERFORMANCE SMES” IN MALANG

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### ABSTRACT

The purpose of this study is to study the confirmatory factors of CSR programs, SM innovation, learning orientation and the performance of Small and Medium Enterprises Malang City. The unit of analysis used is Small and Medium Enterprises (SMEs) in Malang City that get 198 government and private CSR programs from 198 SMEs. Analytical tools used are confirmatory factor analysis (CFA) techniques. The results show that the strongest environmental oriented CSR indicators as a form of variable corporate social responsibility (CSR). Indicator of process innovation is the most dominant indicator in measuring SM innovation variables. The commitment to learning indicator is the most dominant indicator measuring learning orientation variables. Financial performance indicators are the most dominant indicator in measuring SME performance variables.

**Keywords:** HR Practice, OCB, Turnover Intention

### 1. INTRODUCTION

Small and Medium Enterprises have a strategic role in national economic development, because in addition to playing a role in economic growth and employment, it also plays a role in the distribution of development results. This sector also proves to be more resilient in the face of a crisis, so that the development of SMEs' needs attention from both the government and the community in order to develop more competitive. SMEs' activities still encounter obstacles and problems, including: Internal factors of SMEs' such as lack of capital, limited human resources (HR), weak business networks and market penetration capabilities. While the external factors of SMEs' such as: the business climate is not yet fully conducive, the limited facilities and infrastructure, the implications of regional autonomy, the implications of free trade, the nature of products with a short lifetime, and limited market access (Rosid, 2012).

SMEs' also face many problems, namely limited working capital, low human resources, and lack of mastery of science and technology (Sudaryanto and Hanim, 2002). Another obstacle faced by SMEs' is the connection with unclear business prospects and unstable planning, vision and mission. This happens because generally SMEs' are income gathering that is raising income, with the following characteristics: is a family owned business, using technology that is still

relatively simple, lacks access to capital (bankable), and there is no separation of business capital with personal needs.

SMEs' cannot achieve their performance without the support of Corporate Social Responsibility (CSR) programs. Understanding CSR programs as corporate social responsibility to improve the performance of the SME sector is a form of the responsibility of large companies. Guzman et al (2016) explained that the provision of CSR programs to SMEs' can improve the financial performance and marketing performance of the SME sector. The results obtained indicate a positive and significant relationship between CSR and SME performance. Kamyabi (2013) examines the provision of CSR programs to the SME sector in an effort to improve the financial performance of SMEs'. The CSR programs provided include the areas of staff activity, customer activity, environment activity and community activity that significantly affect the performance of SMEs'.

CSR programs carried out by the company as their business strategy, as a form of corporate social responsibility provide many contributions to the community and the SME sector. CSR programs provide many benefits for the SME sector, in particular can improve the performance of SMEs' in real terms. CSR has a positive correlation and a significant influence on the performance of UKM .ras., Et al (2009) explain the existence of a significant relationship between the provision of CSR programs and financial performance. Increasing the provision of CSR will improve the financial performance of UKM. Ali., Et al (2010) stated that CSR programs directly affect Employee Organizational Commitment and organizational performance. Employee Organizational Commitment mediates the influence of CSR on organizational performance.

Some studies in measuring company performance do not take into account the orientation of learning and innovation by the company. Some studies link learning orientation and innovation in measuring performance in large companies that have a lot of resources to reduce risk from company activities (Keskin, 2006). However, some studies see the importance of innovation used for small businesses (SMEs') as an effort to improve the performance of UKM (Acs and Audretsch in Nybakk, 2012). Research conducted by Nybakk (2012) measures the financial performance of SMEs' as seen from their effects both directly and indirectly between learning orientation and firm innovativeness as seen from the aspect of product innovation, the process of innovation and business system innovation. The results of the study explain that there is a significant influence of business innovation on the financial performance of SMEs'. Innovation provides many opportunities and opportunities for SMEs' to develop further in the face of new challenges, Zhang & Chen (2014) focus on research measuring the effect of innovation on SME performance seen from several aspects including types of innovation, constraints, impacts and strategies. Research studies explain that SME innovation is a challenge in innovative practice. SME innovation is faced with constraints, impacts and strategies as an effort to improve SME performance. Rosli (2013) used 284 samples of SMEs' from the food and beverage sector, textiles (clothing) and wood-based sub-industries throughout Malaysia. The results show that product innovation and process innovation have a significant influence on

performance. The results of the research reveal the importance of SME innovation (process and product innovation) which empirically contributes to the performance of more innovative SMEs'.

Serna, et al (2016) SME innovation becomes a capacity that needs to be developed to improve business performance. Several studies in Mexico identified the strategic orientation of the innovation as an attempt to realize good SME performance. The 350 SME research sample distributed questionnaires to top management or owners to assess the effect of SME innovation and its effect on performance. The results of the study explain that innovation has a positive impact on performance. Good innovation capacity will produce good company performance. Saunila., Etal (2013) has the purpose of studying the effect of SME innovation on SME performance. The study was conducted through web-based surveys on SMEs' with 311 respondents out of 2,400 SMEs' selected as populations. The results of the study explain the correlation between innovation and performance of SMEs', in addition there is a positive and significant effect of SME innovation on performance

Anton (2016) aims to analyze the performance of SMEs' in selected industry groups in Indonesia and to develop a theoretical model of SME competitiveness. This study uses quantitative design with a multivariate model. We developed three estimation models by using multiple regression analysis. SMEs' must strengthen the level of innovation and business strategies to improve their business performance. SME owners in three clusters always create product innovations, such as developing new designs or finding more economical raw materials as an effort to improve performance.

Learning orientation is considered important for developing competitive advantage and improving financial performance over time. Calantone et al. (2002) found a direct relationship between learning orientation and financial performance, and Senge in Nybakk (2012) states that learning has a positive influence on company performance, so the company must be directly involved in developing the knowledge of its employees. Learning orientation can help companies improve their products and services, increase sales so that they can retain customers on a larger scale based on the information and knowledge they have. Learning priorities can also increase the knowledge they have and allow them to utilize resources more effectively so that they can ultimately improve Company performance. Minin Muslin (2015) examined the influence of entrepreneurial orientation and learning orientation on SME performance. The sample of research was 200 SMEs' from the electronics and electricity sector, 250 SMEs' from the food and beverage industry were randomly selected. The results of the study explained that Learning orientation had the most significant influence on the performance of SMEs' with the highest coefficient value compared to the variables innovativeness, proactiveness and risk taking.

Hafeez et al (2013) examined the effect of learning orientation on the performance of SMEs' in developing countries in Pakistan. Structural Equation Modeling (SEM) has been used to analyze research conducted in 352 SMEs' in Pakistan. The results of the study explain that Technological Innovation and

Learning orientation have a significant influence on the performance of SMEs'. Sulyanto & Rahab (2012) examined the effect of market orientation, innovation and learning orientation on SME performance. Data collected from 150 SMEs' in Banyumas Regency. The results of the study explain that Learning orientation does not have an effect on SME performance, while market orientation and innovation have a significant influence on SME performance.

Learning orientation in the last decade has become an important factor to achieve competitive advantage, where the SME sector that has faster learning ability will gain more knowledge and information than its competitors. Eshlaghy & Maatofi (2011) with learning orientation in an organization will provide a more dynamic environmental change in the learning process, behavioral changes that will improve company performance. As many as 82 samples from UKM in Tehran with the aim of measuring organizational commitment in the learning process (learning orientation), openness knowledge and vision, innovation influence on the performance of SMEs'. The results of the study explain that there is a positive correlation and significant influence between Learning Orientation on performance.

Eris., Et al (2012), examines the effect of market orientation, learning orientation and innovation on SME performance. The purpose of this study was to determine the reciprocal relationship of these variables and their impact on the performance of SMEs' in Turkey by using Structural Equation Modeling. The results showed that learning orientation had a significant effect on performance through UKM innovation. Biodun (2016) explained that companies with learning orientation the high is able to improve company performance. The purpose of the study was to measure the relationship between learning orientation (LO), entrepreneurial orientation (EO), recycling ability (RC) and export performance (EP) and to determine the mediating effect of entrepreneurial orientation on learning orientation, recycling ability on the performance of SMEs' in Nigeria. The results of the study explain that learning orientation has a significant effect on performance with p value of 0.02. Baker and Sinkula (1999a); Farrel and Oczkowski (2002) stated that there was a significant effect of learning orientation on SME performance. While Santos-Vijande (2005) with a sample of 272 companies in France stated that learning orientation did not have a significant influence on SME performance.

## **2. LITERATURE REVIEW**

### **2.1. Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is a concept where companies decide voluntarily to contribute to a society to be better (Lubis, et al, 2006). Factors that influence the implementation and disclosure of corporate social responsibility are among others political economy theory, legitimacy theory, and stakeholder theory (Deegan 2002). uryakira (2014) describes four factors in the implementation of Corporate Social Responsibility (CSR), namely: 1) the implementation of labor-oriented CSR, 2) the implementation of market-oriented CSR, 3) the

implementation of community-oriented CSR and 4) the implementation of CSR environmentally oriented. Whereas Herpen et al (2003) looked at the implementation of CSR in terms of environmental concerns, customer relations, community and Integrated quality. While Chochius Timo (2006) explained the indicators of CSR program for SMEs' were divided into Internal CSR Stakeholders with indicators of labor (employee) and environment, while External CSR Stakeholders are represented by indicators of suppliers or business partners (Suppliers / Business partners), consumers (Consumers) and the community (Community). In the pyramid of social responsibility, Carroll (1979) explains that the conceptualization of four parts of responsibility Corporate social responsibility in total includes the idea that corporations not only have economic and legal obligations, but also ethical and philanthropic responsibilities.

## 2.2. SMEs' Innovation

Innovation itself was initially studied more in large companies, most traditionally associated with large multinational companies (Vossen, 1998). The initial concept of innovation was economic and entrepreneurial development (Rosli & Sidek, 2013). Innovation consists of elements of creativity, research and development (R & D), innovation in new processes, new products and new technologies (Lumpkin and Dess, 2001). Kuratko and Hodgetts (2004), innovation is a change and increase in resources in creating added value ( new wealth) for SMEs'. Innovation is also seen as a process of creating ideas, developing inventions from products, processes to customer service (Thornhill, 2006). Innovation plays an important role not only for large companies, but also for SMEs' (Jong and Vermeulen, 2006; Anderson, 2009). Innovation strategies and openness to innovation in small industries (SMEs') will be able to develop partnerships and capacity of SMEs' with the resources they have (Gurau & Lasch, 2011).

Lesakova Libica (2009) SME innovation is not only a very important determinant of the success of SME development. SMEs' are required to innovate because they are under pressure in market competition. From this point of view the ability to compete in innovation plays a very important role as a factor of competitive advantage of SMEs'. Kemp et al (2003) are: 1) product innovation, 2) process innovation, 3) output innovation. The initial concept of innovation development has several elements, namely research and development, process innovation, product and service innovation and technological innovation (Lumpkin and Dess, 2001) While Rosli and Sidek (2013) elements of innovation include: 1) product innovation, 2) process innovation, 3) market innovation. While Nyland may Erland (2012) mention the SME innovation indicators consist of: 1) product innovation, 2) process innovation and 3 ) business system Innovation.

## 2.3. Learning Orientation

Learning orientation is the process of developing employees through increasing competence, skills and knowledge (Nurn & Tan, 2010). Learning

orientation is a manifestation of the tendency of organizations to learn and adapt (Mavondo, Chimhanzi, & Stewart, 2005). Learning orientation helps SMEs' (Small and Medium Enterprises) to develop the ability to compete and survive in the market (Rhee, Park, & Lee, 2010). Learning orientation as a tool for SMEs' (Small and Medium Enterprises) to create a community in fostering relationships between SMEs' (Liu, 2013) Eshlaghy (2011), Mahmood (2013), Martinette (2014) states that elements of learning orientation consist of: 1) Commitment to learning, 2) shared vision and 3) open mindedness. While Nurn & Tant (2010) learning orientation seen in terms of: 1) Managerial Commitment, 2) System perspective and 3) openness and experimentation. While Abiodun (2016) explained that the indicators of learning orientation: 1) commitment to learning and 2). Open mindedness. Nibakk Erlend (2012) describes a learning orientation indicator consisting of 1) commitment to learning, 2). Shared Vision 3). Open mindedness and 4). Intra-organizational knowledge sharing.

### **2.3. SMEs' Performance**

The company's ability is evaluated based on performance (Bonn, 2000). This means that performance is a mirror for the company. The level of achievement of a company's goal generally defines the company's performance (Achrol and Etzel, 2003). Tsang et al (1999) explained that performance can be measured through financial performance, customer satisfaction, internal processes and learning and growth. Bittici et al (2000) in his research describes a business measured from; level of sales, sales costs, assets owned, brand image and fixed assets owned by the company. In the context of SMEs', Taticchi (2010) explained that the scale of performance measurement for SMEs' usually uses financial performance, such as ROI, and ROE. While Hudson, et al (2001) performance is measured using several dimensions including; financial performance, operational performance (time dimension, quality and flexibility) and cultural aspects in dealing with the environment (through the dimensions of human resources).

## **3. RESEARCH METHODS**

### **3.1. Population and Sample**

In this study, the unit of analysis used is Small and Medium Enterprises (SMEs') that get the help of CSR programs located in the city of Malang and meet the criteria of 460 business units. Based on a population of 460 SMEs', then using Isaac and Michael's table with a 5% sampling error level obtained a total sample of 198 SMEs'. Sampling using probability sampling method, with Proportional Area Random Sampling technique, which is proportional sampling for each each region.

### **3.2. Research Instruments**

The research instrument is a tool used by researchers in collecting data by measuring a variable that contains an indicator. The variables in this study can be explained as follows:

**Table 1 Research Variables Operational Matrix**

Variables	Indicators	Source
CSR Program	Market oriented (CSR1) Enviromental-oriented (CSR2) Labour-oriented (CSR3) Society-oriented (CSR4)	Turyakira <i>et.al</i> (2014);Herpen et al (2003); Salavaou (2008); Maignan&Ferrell (2004)
Learning Orientation	Commitment to Learning (LO1) Shared Vision (LO2) Open mindedness (LO3)	Suliyanto (2012); Mahmood (2013); Martinette (2014); Liu (2012), Nurn&Tan (2010), Eshlaghy (2011)
SMEs'' innovation	Product innovation (IN1) Process innovation (IN2) Bussiness System Innovation (IN3)	Nybakk Erlend (2012); Sidek (2013);Lesakova (2009); Martines <i>et.al</i> (2016), Rosli and Sidek (2013)
SMEs'' Performance	Financial Performance (P1) Innovative Performance (P2) Production Performance (P3) Marketing Performance (P4)	Albahussain (2015); Li <i>et al</i> (2006), Omega (2006). Hafeez <i>et.al</i> (2013); Meutia (2013); Nybakk Erlend (2012)

### 3.3. Analysis Method

Data analysis used in the study uses confirmatory factor analysis (CFA) techniques. While CFA is used for research where researchers already have knowledge about the structure of the underlying latent variables. Based on empirical theory or research, the person concerned makes a postulate / assumption / reasoning relationship between the measurements observed with the underlying underlying factors, and then tests the structure of this hypothesis statistically. The conclusion is that the CFA model focuses on the underlying latent variables. In other words, this analysis model focuses on the extent to which these observed variables are generated by the underlying latent variables. Thus, the strength of the entire regression path from all of these factors towards all variables observed directly (regression coefficient / factor loadings) is the focus of the analysis. Because it only focuses on the relationship between factors and all measured variables, especially CFAs called measurement models in the perspective of Structural Equation Modeling (SEM).

## 4. RESULT AND DISCUSSION

### 4.1. Results of Confirmatory Factor Analysis

The measurement results of dimensions or indicator variables that can form latent variables with CFA are explained as follows:

#### 4.2. Results of Confirmatory Factor Analysis Variable CSR Programs

Determination of dimensions that can be used as indicators of CSR program variables is based on the factor loading value of each indicator. A summary of the CFA test results on the indicators that form CSR program variables is shown in Table 2.

**Table 2. Factors Loading ( $\lambda$ ) Measuring Variable CSR Programs**

Indicators and Variables			FL	CR	p
Market oriented	<--	CSR Programs	0.451	6.589	0.000
Enviromental-oriented	<--	CSR Programs	0.931	18.413	0.000
Labour-oriented	<--	CSR Programs	0.930	18.530	0.000
Society-oriented	<--	CSR Programs	0.861	-	

Based on Table 2 it can be explained that the indicators that make up the CSR program variable have a factor loading (FL) value with a significance level of (p) <0.05 and a C.R value that shows a number greater than 2.0. Thus all of these indicators are important indicators as forming the strongest CSR programs and indicators of environmentally oriented CSR as a form of CSR program variables.

#### 4.3. Results of Confirmatory Factor Analysis of SMEs' ' Innovation Variables

Determination of dimensions that can be used as indicators of the SMEs'' innovation variables is based on the factor loading value. A summary of the CFA test results on the indicators that make up the SME innovation variable is shown in Table 3.

**Table 3. Factors Loading ( $\lambda$ ) Measuring Variables of SMEs'' Innovations**

Indicators and Variables			FL	CR	p
<i>Product innovation</i>	<--	SMEs'' innovation	0.907	-	-
<i>Process innovation</i>	<--	SMEs'' innovation	0.982	26.346	0.000
<i>Bussiness System Innovation</i>	<--	SMEs'' innovation	0.945	23.738	0.000

Based on Table 3 it can be explained that the indicators that make up the SME innovation variable have a factor loading (FL) value with a significance level of (p) <0.05 and a C.R value that shows a number greater than 2.0. Thus all of these indicators are important indicators as the strongest form of innovation of SMEs' and process innovation indicators as a form of SMEs'' innovation variables.

#### 4.4. Results of Confirmatory Factor Analysis Learning Orientation Variables



Determination of dimensions that can be used as indicators of learning orientation variables based on the factor loading value. A summary of the CFA test results on the indicators that form the learning orientation variables is shown in Table 4.

**Table 4. Factors Loading ( $\lambda$ ) Measuring Variables Learning Orientation**

Indicators and Variables			FL	CR	p
<i>Commitment to Learning</i>	<--	learning orientation	0.809	9.256	0.000
<i>Shared Vision</i>	<--	learning orientation	0.702	8.881	0.000
<i>Open mindedness</i>	<--	learning orientation	0.789	-	

Based on Table 4 it can be explained that the indicators that make up the learning orientation variable have a factor loading (FL) value with a significance level of (p) <0.05 and a C.R value that shows a number greater than 2.0. Thus all of these indicators are important indicators as the formation of learning orientation and the strongest commitment to learning indicators as forming learning orientation variables

#### 4.5. Confirmatory Factor Result Analysis of SMEs' Performance Variables

A summary of the CFA test results on the indicators that shape SMEs' performance variables is shown in Table 5

**Table 5. Factors Loading ( $\lambda$ ) Measuring SMEs' Performance Variables**

Indikator dan Variabel			FL	CR	p
<i>Financial Performance</i>	<--	SMEs' performance	0.950	-	
<i>Innovative Performance</i>	<--	SMEs' performance	0.936	26.646	0.000
<i>Production Performance</i>	<--	SMEs' performance	0.944	27.379	0.000
<i>Marketing Performance</i>	<--	SMEs' performance	0.586	9.629	0.000

Based on Table 5 it can be explained that the indicators that make up the SMEs' performance variable have a factor loading (FL) value with a significance level of (p) <0.05 and a C.R value that shows a number greater than 2.0. Thus all of these indicators are important indicators as a form of SMEs' performance and the strongest financial performance indicators as a form of SMEs' performance variables.

## 5. DISCUSSION

### 5.1. CSR Program Variables

Corporate Social Responsibility (CSR) is a concept where companies decide voluntarily to contribute to a society to be better (Lubis, et al, 2006). Factors that influence the implementation and disclosure of corporate social responsibility include political economy theory, legitimacy theory, and stakeholder theory (Deegan 2002). In this study, the Corporate Social Responsibility Program indicators refer to Turyakira et al (2014), Herpen et al (2003), Maignan & Ferrell (2004), Timo (2006) and Salavaou (2008) namely CSR market-oriented, CSR-

oriented environment, labor-oriented CSR (workforce) and community-oriented CSR.

Based on the measurement model, it is known that the value of loading the indicator environmentally oriented CSR has a greater value than other indicators. This means that the indicator of the strongest environmentally oriented CSR as a form of variable corporate social responsibility (CSR). These results can be explained that corporate social responsibility (CSR) will have meaning if the CSR is environmentally oriented, which is applied in CSR programs can provide support to SMEs' about environmental concerns, CSR programs can provide support to SMEs' in cultural events and CSR programs can train on SMEs' are concerned about reducing waste.

These results reinforce the opinion of Turyakira (2014) that there are four factors in the implementation of Corporate Social Responsibility (CSR), namely: 1) the implementation of labor-oriented CSR, 2) the implementation of market-oriented CSR, 3) the implementation of community-oriented CSR and 4) the implementation of environmentally oriented CSR . Whereas Herpen et al (2003) saw the implementation of CSR in terms of: environmental concerns, customer relations, community and Integrated quality. While Chochius Timo (2006) describes indicators of CSR program stakeholders to be divided into Internal CSR Stakeholders with indicators of labor (employee) and environment (environmental), while External CSR Stakeholders are represented by indicators of suppliers or business partners (Suppliers / Business partners), consumers (Consumers) and community (Community).

## **5.2. SMEs' Innovation Variables**

Innovation consists of elements of creativity, research and development (R & D), innovation in new processes, new products and new technologies (Lumpkin and Dess, 2001). Kuratko and Hodgetts (2004), innovation is a change and increase in resources in creating added value ( new wealth) for SMEs'. Innovation is also seen as a process of creating ideas, developing inventions from products, processes to customer service (Thornhill, 2006). Innovation plays an important role not only for large companies, but also for SMEs' (Jong and Vermeulen, 2006; Anderson, 2009).

Based on the measurement model of SME innovation variables, it is known that the value of loading the process innovation indicator factor has a greater value than other indicators. This means that the indicator innovation process is the most dominant indicator in measuring SME innovation variables. These results can be explained that SMEs will have innovation if the innovation is oriented to the process described in actively seeking solutions to improve the production process, early adopters of the production process, better in creating production processes compared to competitors and believe in creating new production processes is an important process for the success of SMEs

These results corroborate the opinion of Lesakova Libica (2009) that SME innovation is not only a very important determinant of the success of SME development. SMEs are required to innovate because they are under pressure in

market competition. From this point of view the ability to compete in innovation plays a very important role as a factor of competitive advantage of SMEs. The initial concept of innovation development has several elements, namely research and development, process innovation, product and service innovation and technological innovation (Lumpkin and Dess, 2001). While Rosli and Sidek (2013) elements of innovation include: 1) product innovation, 2) process innovation, 3) market innovation. While Nybakk Erland (2012) mentions SME innovation indicators consisting of: 1) product innovation, 2) process innovation and 3) business system Innovation.

### **5.3. Learning Orientation Variables**

Learning orientation is the process of developing employees through increasing competence, skills and knowledge (Nurn & Tan, 2010). Learning orientation is a manifestation of the tendency of organizations to learn and adapt (Mavondo, Chimhanzi, & Stewart, 2005). Learning orientation helps SMEs (Small and Medium Enterprises) to develop the ability to compete and survive in the market (Rhee, Park, & Lee, 2010). Learning orientation as a tool for SMEs (Small and Medium Enterprises) to create a community in fostering relationships between SMEs (Liu , 2013).

Based on the measurement model of learning orientation variables, it is known that the value of the commitment to learning indicator loading factor has a greater value among other indicators. This means that the commitment to learning indicator is the most dominant indicator in measuring learning orientation variables. These results can be explained that SMEs will have a learning orientation if they are able to develop employee skills, develop employee skills, learning to employees is an investment, understanding of business units as the key to competing and learning is the basic in maintaining the viability of SMEs

These results corroborate the opinions of Rhee, Park, & Lee, (2010) that learning orientation helps SMEs to develop competitiveness and survive in the market. Liu, (2013) revealed that learning orientation as a tool for SMEs to create a community in fostering relationships between SMEs Eshlaghy (2011), Mahmood (2013), Martinette (2014) states that elements of learning orientation consist of: 1) Commitment to learning , 2) shared vision and 3) open mindedness. Whereas Nurn & Tant (2010) learning orientation viewed in terms of: 1) Managerial Commitment, 2) System perspective and 3) openness and experimentation. Abiodun (2016) explained that the indicators of learning orientation: 1) commitment to learning and 2). Open mindedness. But Erlend (2012) describes a learning orientation indicator consisting of 1) commitment to learning, 2). Shared Vision 3). Open mindedness and 4). Intra-organizational knowledge sharing.

### **5.4. SMEs' Performance Variables**

The company's ability is evaluated based on performance (Bonn, 2000). This means that performance is a mirror for the company. The level of achievement of a company's goal generally defines the company's performance

(Achrol and Etzel, 2003). Based on the results of the descriptive analysis, the mean perception index of respondents towards the performance of SMEs was 3.73. These results indicate that the average SME actor assesses the importance of the role of SMEs in developing a business that is demonstrated by being able to benefit from the total assets owned, able to benefit, innovate methods for work processes, reduce costs of offering new quality products and services to consumers with each of their product portfolios, making patents and paying attention to production elasticity, production suitability, with an efficient delivery process to consumers, increasing market share and total sales in SMEs.

Based on the measurement model of SME performance variables, it is known that the value of the financial performance loading factor indicator has a greater value than other indicators. This means that financial performance indicators are the most dominant indicators in measuring SME performance variables, which is shown by SMEs being able to benefit from the total assets owned and SMEs are able to benefit from their business activities.

These results corroborate the opinion of Tsang et al (1999) explaining that performance can be measured through financial performance, customer satisfaction, internal processes and learning and growth. Bittici et al (2000) in his research describes a business measured from; level of sales, sales costs, assets owned, brand image and fixed assets owned by the company. In the context of SMEs. Taticchi (2010) explained that the scale of performance measurement for SMEs usually uses financial performance, such as ROI, and ROE. While Hudson, et al (2001) performance is measured using several dimensions including; financial performance, operational performance (time dimension, quality and flexibility) and cultural aspects in dealing with the environment (through the dimensions of human resources).

## 6. CONCLUSION

The strongest indicator of CSR that is environmentally oriented as a variable for corporate social responsibility (CSR). These results can be explained that corporate social responsibility (CSR) will have meaning if the CSR is environmentally oriented, which is applied in CSR programs can provide support to SMEs about environmental concerns, CSR programs can provide support to SMEs in cultural events and CSR programs can train on SMEs are concerned about reducing waste. Indicator of process innovation is the most dominant indicator in measuring SME innovation variables. These results can be explained that SMEs will have innovation if the innovation is oriented to the process described in actively seeking solutions to improve the production process, early adopters of the production process, better in creating production processes compared to competitors and believe in creating new production processes is an important process for the success of SMEs. The commitment to learning indicator is the most dominant indicator in measuring learning orientation variables. These results can be explained that SMEs will have a learning orientation if they are able to develop employee skills, develop employee skills, learning to employees is an investment, understanding of business units as a key in competing and learning is the basis for maintaining the viability of SMEs.

Financial performance indicators are the most dominant indicators in measuring the performance variables of SMEs, which are shown by SMEs able to benefit from the total assets owned and SMEs are able to benefit from their business activities.

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