Innovation Policy For Enhancement Of Smes Performance
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Abstract: This study aims to analyze the performance of SMEs affected by innovative policies and innovation performance. Innovative policies consist of organization innovation policy and production innovation policy. SMEs performance consists of production performance, marketing performance and financial performance. The unit of analysis used in research is the organization. Respondents in this study are the owners or managers of SMEs because in SMEs, the owner is usually a concurrent manager. The number of samples in this study was 140 SMEs craft industry in Karawang Indonesia. The analytical tool used is a path analysis with partial least square. The results showed that the hypotheses put forward were all supported. Organization innovation policy has a significant positive effect on innovation performance. Production innovation policy has a significant positive effect on innovation performance. Innovation performance has a significant positive effect on production performance, ranking performance and financial performance.

Index Terms: Innovation policy, innovation performance, SMEs performance.

1 INTRODUCTION
Indonesia, with enormous wealth potential good natural resources, cultural diversity, and human resources, need to promote creativity and innovation in national development to optimize its potential wealth. A creative economy based on creative capital, human resources, has the opportunity to encourage the competitiveness of the Indonesian nation in the future. Innovation has become one of the focus of attention, mainly based on the reason that innovation has occupied a strategic position in society through the birth of innovative organizations on the one hand, and the end of traditional organizations on the other hand [4]. Tuan et al. [18] state that company performance is a multidimensional concept, with three Indicators namely production, finance and marketing or consequences such as growth and profit. This can be measured by objective or subjective indicators. First, production performance is defined as achieving organizational success in increasing speed, quality, flexibility and cost-efficiency of daily operational activities that have an impact on improving market position and profitability [6]. Second, market performance is defined as an effort to measure the level of performance, which includes sales turnover, number of customers, profits, and sales growth [19]. Third, financial performance is the determination of certain measures that can measure the success of an organization or company in generating profits. The growth of the creative industry still needs support from various parties, so that it has a major contribution to economic development. It is proven that the development of the creative industry in 2015 showed a positive picture, the sector grew 5.76% or above the average national economic growth of 5.74%, with an added value of Rp 641.8 trillion or 7% of national GDP [9], in terms of manpower, this sector can absorb 11.8 million workers or 10.7% of the national workforce, followed by the number of business units reaching 5.4 million units or 9.7% of the total business unit. Contributions Practical research is expected to contribute insights to the business miro, small and medium enterprises, especially in the handicraft industry about the importance of innovation activity on the performance of the Organization, so that it can be considered in decision-making for Micro, small and medium enterprises in making innovations.

2 LITERATURE REVIEW
1.1. Innovation Policy
Policy or innovation activity is a series of technological, organizational, financial and commercial activities as part of the innovation process and/or which results in innovation. Research and development activities, equipment and engineering/industrial engineering development, manufacturing start-up and pre-production development, marketing of new products, acquisition of disembodied technology, acquisition of embodied technology, and design. In line with the type of innovation suggested from Gunday et al. [6] adopted and studied four types of innovations namely: product innovation, process, marketing and organizational innovation, which determine the overall innovation of an organization. Product innovation is usually associated with creating new markets or enhancing existing products [2]. Whereas process innovation is associated with the sequence and nature of the production process, which increases the productivity and efficiency of production activities [5]; [16] in [10]. Marketing Innovation is a company's ability to publicize and sell products based on understanding consumer needs, the state of competition, costs and benefits and acceptance of innovation [21]. Organizational innovation involves changes in administrative processes or organizational structure related to the basic work activities of an organization and management. Changes in the structure and procedures of this organization can facilitate the creation of new products and processes [2].

1.2. Innovative Performance
Innovative performance is a combination of overall organizational achievements as a result of renewal and improvement efforts made considering various aspects of the company's innovation, for example, products, processes, marketing, organizational structure etc. Therefore, innovative performance is a composite construct [7]. Based on various innovative performance indicators that are related, such as, with new patents, new product announcements, new projects, new processes, and new organizational arrangements. Innovative product performance is the introduction of new goods or services that significantly increases the intended characteristics or usages; including significant improvements in technical specifications, components and materials, included software, user-friendliness or other functional characteristics [12]. The innovative performance of the process is the implementation of new or significantly increased production or delivery methods. This includes significant changes in engineering, equipment and/or software by reducing unit costs of production or delivery, to improve...
quality, or to produce or produce new products. Innovative marketing performance is the implementation of new marketing methods that involve significant changes in product packaging design, product placement, product promotion or pricing. Organizational innovative performance is the implementation of new organizational methods that involve significant changes in the company's business practices, organizational structure, work placement or external relations of the company [13]; [11].

1.3. SMEs Performance
Performance is a description of the level of achievement of the implementation of tasks in an organization, to realize the goals, objectives, mission, and vision of the organization [1]. Production performance is defined as achieving organizational success in increasing speed, quality, flexibility and cost-efficiency of daily operational activities which have an impact on improving market position and profitability [6]. Market performance is defined as an effort to measure the level of performance, which includes sales turnover, number of customers, profits, and sales growth [19]. Financial performance is the determination of certain measures that can measure the success of an organization or company in generating profits [11].

1.4. Relationship of Innovation policy to Organizational Performance
Innovation has an influence that can improve organizational performance in several aspects. Especially on four different performance dimensions used in the literature to represent company performance [6]. These performance dimensions are innovative performance, production performance, market performance and financial performance. Innovation is very influential on company performance by generating or improving market positions that have an impact on competitive advantage and performance [12]; [15]; [6]. A large number of studies focus on the relationship between innovation and performance. This relationship provides a positive assessment of innovation which increases company performance [3]. Therefore, the conclusion drawn is that the adoption of innovation activities from time to time has a positive influence on company performance [6]. Gunday et al. [6] concluded there is a direct and significant relationship between innovation and the company's future performance. In the same way, the Subramanian & Nikolanta [17] study in Gunday et al. [6] put some additional evidence in support of the positive influence of innovation on company performance. They analyze the relationship between company innovation, organizational characteristics and organizational appearance [11].

H1: The Innovation Policy has an effect on innovative performance.

1.5. The Relationship of Innovation with Innovative Performance
Innovative performance is a combination of overall organizational achievements as a result of renewal and improvement efforts that consider various aspects of innovation in the company, namely processes, products, organizational structures, etc. Therefore innovative performance is a composite structure [7]; [18] based on various related performance indicators, such as, with new patents, new product announcements, new projects, new processes, and new organizational arrangements. Different innovation activities have a positive influence on the company's innovative performance [6]. Then the influence of this type of innovation can lead to increased production and markets through innovative performance. In this case, innovative performance has an effective relationship as a role that brings positive influence or impact from innovation into various aspects of company performance.

H2: Innovative performance has an effect on production performance.

1.6. The Relationship of Innovative Performance with Organizational Performance
Innovative performance is seen in the literature as one of the most important drivers compared to other aspects of organizational performance, and this is triggered by the formation of a learning orientation that continually makes improvements, updates, exploration, learns from failure and adapts quickly on changing competitive environments [6], Han et al. [8]; Gunday et al. [6] emphasize that innovative performance as a synergistic combination of technical and administrative innovation results that positively contributes to organizational growth and profitability. They confirmed that innovative performance, especially in the form of successful new products, has an impact on increasing sales and market share because it contributes sufficiently to the satisfaction of existing and new customers [14]; [20]; [6]. Innovative is missing the link between strategic orientation and organizational performance. The influence of innovative performance related to non-financial aspects of company performance, such as increased customer satisfaction or production speed, will provide higher financial benefits going forward. It is also possible to emphasize that in addition to the success of new products, success in marketing innovation, process and organization together causes an increase in customer satisfaction and attention to customers making the company more innovative.

H3: Innovative performance has an effect on marketing performance.


3 RESEARCH METHOD
This research is a survey research using a questionnaire as a data collection tool. The sample in this study were all SMEs handicrafts in the Karawang area of West Java, totaling 140 SMEs. The instrument used to measure innovation policies was adopted from Gunday et al. [6]. [2] and [10]. The innovative performance was adopted from Hagedoorn & Clodt. [7]. And company performance was adopted from Bastian, [2] and Gunday et al. [6]. The sampling technique uses convenience sampling. The analytical tool used is PLS-SEM 3.2.8.

4 RESULTS
The testing results using a structural equation model with Partial Least Square technique can be seen in Table 1, which shows that all proposed hypotheses are accepted. This hypothesis test can be observed from the calculated t value greater than t-table (1.96) and p-value> 0.05.
Table 2. Path Coefficient Between Variables

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Original Sample (O)</th>
<th>T Statistic (O/STDEV)</th>
<th>P-Values</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>IP → FP</td>
<td>0.764</td>
<td>15.023</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>IP → MP</td>
<td>0.836</td>
<td>22.641</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>IP → PP</td>
<td>0.867</td>
<td>33.326</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>OIP → IP</td>
<td>0.609</td>
<td>5.326</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>PIP → IP</td>
<td>0.351</td>
<td>3.206</td>
<td>0.001</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Based on the p-value presented in Table 1. Then all proposed hypotheses are supported. The SMEs Performance Model proposed in this study has a relatively high R² of 76.1%. Innovation performance is influenced by organization policy and production innovation policy of 78.1%. The remaining 21.9% is influenced by other variables outside the research model. R² for production performance is 75.1%. R² for market performance is 69.8%, and R² for financial performance is 58.3%.

5 DISCUSSION
The results of the PLS-SEM analysis that has been carried out in this study indicate that innovation activities have a positive effect on innovative performance at the handicraft in Karawang. The results of this study are in accordance with previous studies, namely research conducted by Tuan et al. [18] and Gunday et al. [6]. This means that if innovation activities get better, innovative performance will also get better, and vice versa. The level of innovation policy on productions and organizations in fact does have a positive relationship with the success of innovative good performance innovative productions, and innovative organizations at the craft industry in Karawang Indonesia. All SMEs that are incorporated are very important to pay attention to the factor of innovation activities to have a good and successful innovative performance. The results of the PLS-SEM analysis showed that innovative performance had a positive effect on production performance at the handicap centre in Karawang. The results of this study are by previous studies, namely, research conducted by Li and Chi, [11] and Gunday et al. [6]. This means that if innovative performance gets better, production performance will also get better, and vice versa. The positive effect of innovative performance on production performance is surprising. If SMEs that are incorporated want to increase the success of their production performance, it is important to consider innovative performance factors. The results of the PLS-SEM analysis showed that innovative performance had a positive effect on market performance at the handicraft centre in Karawang. The results of this study are by previous studies, namely, research conducted by Li and Chi, [11] and Gunday et al. [6]. This means that if innovative performance is getting better, market performance will also get better, and vice versa. The positive effect of innovative performance on market performance is not surprising. The success in creating innovative products, processes, marketing, and organizations, in fact, will certainly have a positive impact on customer satisfaction, total sales, and market share in the craft industry center in Karawang. If SMEs that are incorporated want to improve the success of their market performance, it is important to consider innovative performance factors.

6 CONCLUSIONS AND SUGGESTIONS
Based on the hypothesis testing that has been done, it can be seen in the fourth hypothesis "the effect of innovative performance on financial performance" where the score is the lowest, the assessment shows that it should SMEs can do benchmarking to more advanced SMEs as well as businesses engaged in bamboo crafts. This is done to find out how more advanced SMEs can consider their innovative performance and in managing each SMEs in the Craft, Center must focus and mobilize resources to create improvements in the organizational structure, in this case, innovating to improve innovation activities because innovation activities have a positive influence on innovative performance and ultimately affect the SMEs performance variables namely production, markets, and finance so that by increasing innovation activities can improve the performance of SMEs that are incorporated in handicraft centres in Karawang. Form a legal entity, in this case, a cooperative. Because with a legal entity, integration, long-term relationships and cooperation will be easier to achieve. Besides, assistance from the government and other institutions is more easily channeled if the craft centre is already in the form of a cooperative.

7 REFERENCES


