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*Corresponding author: Muhammad Mansur, Department of Management, Faculty of Economic and Business, Universitas Islam Malang, Malang, Indonesia

E-mail: muhammadmansur1957@gmail.com

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Business Strategy Approach to Informal Small Businesses in Increasing Productivity and Competitiveness

Muhammad Mansur^{1*}, Abdul Qodir Djaelani²

^{1,2} Department of Management, Faculty of Economic and Business, Universitas Islam Malang, Malang, Indonesia. Email: muhammadmansur1957@gmail.com¹, abdulqodir_fe@unisma.ac.id²

Abstract: The aim of this study analyzes (1) Performance on production capabilities, (2) Market orientation on performance, (3) Innovative on the performance, (4) Performance on work productivity (5) Production capacity on competitiveness, (6) Market orientation on competitiveness (7) Innovative on competitiveness (8) Work productivity on competitiveness (9) Performance on competitiveness. The research used primary data by surveying as many as 187 Informal small business respondents in Surabaya city as samples. Research data were analyzed using Structural Equation Modeling (SEM). The results of this study states: (1) Production capacity significantly on performance, (2) Market orientation was not significantly on performance, (3) Innovative have significant effect on performance, (4) work productivity have a significant effect on performance (5) production capacity of influential have significant effect on competitiveness, (6) Market orientation have a significant effect on competitiveness, (7) Innovative have a significant effect on competitiveness (8) Work productivity have significant effect on competitiveness (9) Performance have a significant effect on competitiveness (10) Production capabilities have a significant effect on competitiveness through Performance, (11) Market orientation do not have effect on competitiveness through performance, (12) Innovative have a significant effect on competitiveness through performance, (13) Work productivity have a significant effect on competitiveness through performance.

Keywords: Production Capability, Market Orientation, Innovative, Work Productivity, Business Performance, Competitiveness.

JEL Classification Code: F63, O1, L83

1. INTRODUCTION

The term informal sector was first coined by Keith Hart (1971) by describing the informal sector as part of the urban workforce outside the organized labor market (Sohal et al., 2022). What Hart describes is insufficient in understanding the informal sector's true meaning. The ambiguity of the definition of the informal sector is often complemented by a somewhat arbitrary that can be seen when one walks through the streets of a Third World city: street vendors, newspaper sellers, buskers, beggars, hawkers, prostitutes, and others. They are uncommitted and unskilled workers with low and irregular incomes.

One of the fundamental problems facing Third World countries is the spread of political economy contradictions in the evolution of urban growth in these countries. Population concentration growth in Third World countries' big cities is happening at a very high speed (Rifa'atussa'adah, 2017). However, the growth of these cities was not followed at a speed comparable to the development of industrialization. This phenomenon by experts is referred to as over-urbanization. This term describes that the rate of urbanization is too high to exceed the level of industrialization achieved by the evolution of society. Not all migration flows from villages to cities are large enough to be absorbed by the modern industrial sector in the city due to the limitations of the current industrial sector, and not all migrants have the skills or abilities to enter the modern industrial sector. This has resulted in



migrants who cannot enter the modern industrial sector preferring the informal sector, which is relatively easy to join. To survive, migrants who live in cities carry out everyday activities (both legal and illegal) as a source of their livelihood. This is done with consideration rather than being unemployed who have no income or have low and non-permanent income (Sohal et al., 2022; Tikkanen, 2002; Xu et al., 2022).

Several types of work are included in the informal sector: street vendors, such as stalls, cigarette sellers, newspaper and magazine sellers, snacks and drinks sellers, and others. The informal small business sector as an alternative sector for migrants is sufficient to contribute to urban development. In addition to opening job opportunities, the informal sector can also increase income for urban communities. However, the rapid growth of the informal sector without proper and planned handling will cause problems for the city (Eniola & Entebang, 2015; Kaya, 2022; Wahyuni & Sara, 2020). For this reason, the city government must be observant in dealing with the issue of the informal sector. Thus, the informal sector can thrive without disturbing the public interest, especially not disturbing the city's security, order, and beauty. The critical role of small businesses in the Indonesian economy, especially in absorbing a large enough workforce, is felt by developing and developed countries. Wardi & Trinanda (2022) states that in the era of the free market, the role of small businesses will be increasingly important and have very tough competition. Therefore, (Clohessy & Acton, 2019; Nguyen et al., 2021) states that managing small businesses is more challenging than large businesses because working in small companies has relatively limited human and financial resources (Ahokangas et al., 2022). In addition, small businesses can play an important role, especially in maintaining growth dynamics and expanding economic benefits for the wider community. Small businesses play a role not only in social aspects such as poverty alleviation and equal distribution of employment opportunities (Ehnberg et al., 2020). Still, they can also be a source of economic growth in the production sector. Therefore, the development of small businesses is included in the National Development Program so that they become more efficient businesses and can develop independently, increase people's income, create employment opportunities, and are increasingly able to increase their role in the provision of goods and services as well as various components both for the expansion of the domestic market. As well as foreign markets. The low performance of informal small businesses as measured by asset or investment growth, sales growth, own capital growth, and profit growth is due to low business and labor productivity. In addition, the low performance of informal small businesses is due to a market orientation that is less innovative, less proactive, and unwilling to take heavier risks (Distanont & Khongmalai, 2018; Oboh & Ajibolade, 2017; Sirin et al., 2022).

Furthermore, the low performance of informal small businesses is also caused by standard entrepreneurial orientation, such as lack of knowledge about the market, lack of understanding of market information, and lack of market contribution from the government. Furthermore, the low business performance is caused by organizational cultures such as lack of self-confidence, unknown company names, lack of hard work, the language used that is not familiar, and lack of empathy such as politeness behavior that is not upheld (Eniola & Entebang, 2015). The problems examined in the relationship model are company characteristics, education and training, business experience, cultural identity, entrepreneurship, business capabilities, government assistance programs, capital policies, market area, production policies, wage levels, and the relationship of influence on performance, which is reinforced by (Chen et al., 2022; Smith et al., 2022).

The role of informal small businesses in Indonesia is recognized as necessary in the national economy and cities, especially in areas such as increasing employment opportunities, income distribution, urban economic development in small businesses, and increasing non-oil and gas exports. So far, there have been many efforts made by the Government to assist the development of Small Businesses through various development programs or expansion of Small Businesses, including the partnership program between Medium and Large Enterprises and Small Businesses (Iqbal et al., 2020; Nurhialia et al., 2019). However, the development of informal Small Enterprises so far has been prolonged. One of the causes of the lack of success of the Small Business Development program in Indonesia in improving the condition or performance of the Small Business group from a weak and traditional position to a solid and modern work is that the emphasis on program orientation or government policy lies more on the social aspect than on the economic or business part. Experience so far shows that efforts to develop small companies still contain many weaknesses. The results of

research on informal small businesses in Indonesia show that financial problems are the most dominant due to limited working capital to develop casual small companies and limited access to banks. This study seeks to explain the optimization of work productivity. These innovative capabilities can affect the performance and competitiveness of small informal businesses in Surabaya. Business performance can be seen from the indicators: sales growth, profit growth, asset growth, and own capital growth (Sangha et al., 2019).

Similarly, competitiveness can be observed from various indicators: cost advantage, product differentiation, government policies, and market focus. Based on the literature review, small informal businesses' performance and competitiveness are influenced by factors: Production Capability, Market Orientation, Innovativeness, Work Productivity, Business Performance, and Competitiveness. Thus, the study's formulation of the problem put forward is (1). What is the role of production capability, market orientation, innovative attitude, and work productivity on competitiveness and business performance? (2). What are the implications of production capability, market orientation, innovative attitude, and work productivity on theoretical and managerial competitiveness and business performance?

2. Literature Review

Small businesses, especially in developing countries, such as Indonesia, also have a significant role in several problems in the economic and social fields, for example, poverty, unemployment, income distribution inequality, uneven development, urbanization, and several other economic and social issues. To determine the effect of the two independent variables on the competitiveness of small informal businesses through business performance, the following will be described:

2.1. *The Effect of Production Capability on the Performance and Competitiveness of Informal Small Businesses*

The concept of production capabilities in a company should remain oriented to the needs and desires of consumers. In practice, the idea of production capacity continues to evolve following technological advances and a constantly changing environment. Production activities include small businesses that start by controlling consumer needs, determining the products to be produced, the reasonable prices, and promoting and distributing these products. So, production activities to be marketed are some activities that are interconnected with each other as a system (Kotler, 2012). Production capability or capacity can be defined as the volume or number of products that production or company can produce in the period using the available resources at that time. The indicators for the variables of production capability are availability of goods, human resources, adapting to technological developments, able to compete with flexible prices, and facilitating service quality (Mishra & Yadav, 2021; Trianni et al., 2021). (Distanont & Khongmalai, 2018; Oboh & Ajibolade, 2017; Zebal et al., 2019) emphasizes the importance of orientation to current customers as a more cost-effective way to build a profitable. The importance of the concept of customer lifetime value is that the longer a company can retain customers, the more beneficial it is. According to prior studies (Behera et al., 2020; Kim et al., 2013; Roberts-Lombard, 2020), customer lifetime value can grow in various ways. The longer a customer buys a product/service from a particular company, the more dependent the customer is on the company's products and services. The less likely the customer will be tempted to switch to another company offering lower prices.

2.2. *The Effect of Market Orientation on the Performance and Competitiveness of Informal Small Businesses.*

In the operationalization of the marketing concept as an organizational philosophy that is still abstract into concrete actions, it is carried out through market orientation which aims to make the company obtain high performance in the long term through customer satisfaction (Oboh & Ajibolade, 2017). Although in getting it must go through a tight competition between companies of the same type. Therefore, companies must be able to create superior product competitiveness and be able to enter more freely into markets both domestically and abroad (Canto Primo et al., 2021;

Makovec Brenčič et al., 2012; O’Cass & Heirati, 2015). In line with the above thinking, there is a hypothesis that says that the higher the market orientation of an organization, the higher the performance will be (Marijati Sangen, 2005). In addition, there are also several research results that he put forward and can provide empirical support about the positive influence between market orientation and business performance, namely: research conducted by (Motyka et al., 2016), (Narver & Slater, 1990; Nurhilalia et al., 2019); (Gligor et al., 2020; Pinnington, 2011).

2.3. The Effect of Innovativeness on Business Performance and Competitiveness of Informal Small Businesses.

Thompson in (Andersen & Heilesen, 2015), states that innovation is a broader concept that discusses the application of new ideas, products, or processes. Meanwhile, Fujita et al. (2021) define innovation as a company mechanism to adapt to a dynamic environment. Product innovation is the level of change made through the implementation of new ideas, product processes, or something new, in line with market orientation and technology orientation developed by the craftsman company, which includes: variations in shape, color design, and quality. Product innovation in a company is a basic need that, in turn, will be able to create a competitive advantage (Sjödin et al., 2019). Thus, innovation is an essential function of management because innovation will determine superior business performance. Innovation is becoming increasingly important as a tool for survival, not only in growth but also in increasingly fierce competition and environmental uncertainty (Lichtenthaler, 2016). Product innovation has consequences for accepting changes to ideas, processes, or technology utilization that can bring changes to the output as something new and unique (Ko et al., 2018). Therefore, product innovation must be based on market orientation and technology orientation in line with the company's marketing and production process technology strategy.

2.4. The Effect of Work Productivity on Business Performance and Competitiveness of Informal Small Businesses.

Jeha et al. (2022) states that there are 7 (seven) key factors to be able to achieve a high level of productivity, namely: responsible management skills, extraordinary leadership, organizational simplicity, effective employees (what matters is quality, not quantity), challenging tasks (creativity and productivity), effective planning, and specialized managerial training. Thatcher et al. (2020) states that 7 (seven) factors affect work productivity, namely: changes in work ethics, development of scientific management, development of human relations, growth of labor organizations/labor unions, advanced technology, changes in government regulations, and shareholders. /capital owner responsible management expertise. Furthermore, Helmy et al. (2014) added that three factors affect employee productivity. First: Regarding the quality and physical ability of employees as measured by education, work experience, work motivation, work ethic, and physical fitness. Second, supporting facilities, namely the work environment and working conditions. Third, Supra facilities include industrial relations and government policies. Lari (2021); Starozhuk (2021) states that the factors that influence labor productivity are employee education and training, employee attitudes and motivation, employee welfare efforts, adjustment of labor use and employee piracy, and management worker cooperation.

From the various views put forward, it turns out that the factors that affect productivity are comprehensive. To achieve the growth of an informal small business, it is necessary to know what factors can affect labor productivity growth. In quantitative analysis, however, there are various opinions about the number of influencing variables, but it depends on the available data. The variables discussed in this paper are age, gender, education, work experience, number of dependents, income, work environment, and health status. These variables have 8 (eight) indicators are thought to affect work productivity. The relationship between age and performance will likely be an increasingly important issue in the future. At least for three reasons. First, there is a widespread belief that performance declines with age, and many people believe in it and act on it. Second is the reality that the workforce is aging. Third, most workers today no longer have to retire at the age of seventy years old.

2.5. The Effect of Business Performance on the Competitiveness of Informal Small Businesses.

The performance of small informal businesses is measured using financial parameters: sales growth, asset growth, profit growth, and working capital growth (Le, 2022). If economic performance has increased, it will be able to create company competitiveness and vice versa. This statement is supported by the results of research conducted by (Chuang & Lin, 2013). In addition, this study is supported by the results of research by Jamal (2005), who found that the performance of small businesses affects competitive advantage. According to (Brouthers & Brouthers, 1997), in the long run, the fundamental basis of above-average performance is a long-lasting competitive advantage.

2.6. The Influence of Competitiveness on the Performance of Small Informal Businesses.

Meanwhile, competitive advantage can be observed from the generic competition theory proposed by (Brouthers & Brouthers, 1997). Porter suggests three strategies to achieve high performance: cost advantage, product differentiation, and focus. Informal small businesses also try to gain a competitive advantage in the target segment. At the same time, in the cost focus, the company seeks a cost advantage in the target segment, while in the differentiation focus, the company seeks in the target segment (Rivard et al., 2006). Meanwhile, competitive advantage can be observed from the generic competition theory proposed by (Narver & Slater, 1990).

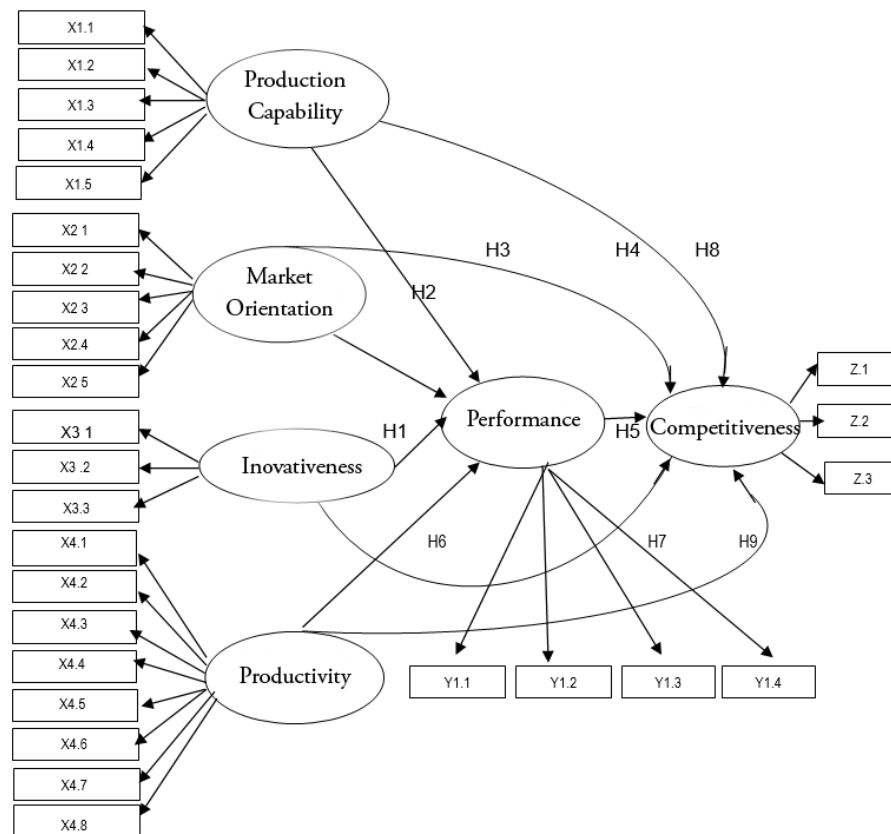


Figure 1: Conceptual Framework

Caption:

- Production Capability:**
 X1.1. Availability of goods
 X1.2. HR (Manpower)
 X1.3. Technology Mastery
 X1.4. Able to compete
 X1.5. Production quality

- Innovative:**
 X3.1. Customer Needs
 X3.2. Creation of Ideas
 X3.3. Product introduction

Work productivity	Market Orientation
X4.1. Age	X2.1. Customer
X4.2 Gender	X2.2. Competitors
X4.3. Education Level	X2.3. Coordination between functions
X4.4. Work Experience	X2.4. Long term orientation
X4.5. Income	X2.5. Profitability (economic welfare).
X4.6. Turnover	
X4.7. Cost	
Business Performance:	Competitiveness
Y1.1. Sales growth	Z.1. Cost advantage
Y1.2. Asset Growth	Z.2. Product differentiation
Y1.3. Profit Growth	Z.2. Market focus
Y1.4. Working capital growth	

2.7. Hypotheses

- H1: Production capability has a significant effect on performance.
- H2: Market orientation has a significant effect on performance.
- H3: Innovative has a significant effect on performance
- H4: Work productivity has a significant effect on performance.
- H5: Performance has a significant effect on competitiveness.
- H6: Production capability has a significant effect on competitiveness.
- H7: Market orientation has a significant effect on competitiveness.
- H8: Innovativeness has a significant effect on competitiveness.
- H9: Work productivity has a significant effect on competitiveness.
- H10: Production Capability has a significant effect on competitiveness.
- H11: Market orientation has a significant effect on Competitiveness through Performance.
- H12: Innovative has a significant effect on Competitiveness through Performance.
- H13: Work productivity has a significant effect on Competitiveness through Performance.

3. Research Method and Materials

3.1. Research Approach.

This research is directed to the informal small business groups spread across the city of Surabaya. These small informal businesses still have the potential to be developed and are very interesting to be researched on an ongoing basis. The selection of this location is based on the consideration that informal small businesses in the city of Surabaya have their style and characteristics. In addition, the data and information needed regularly are easily identified and obtained and are relevant to the main problems experienced by informal small businesses in the city of Surabaya. As for collecting data in this study using primary and secondary data, several data collection methods were used, namely observation and questionnaires with a Likert scale as coding for data collection. Then it was analyzed using descriptive statistics and Structural Equation Modeling (SEM) to get the results, and then concluded to answer the questions posed.

3.2. Population and Sample Criteria

To find out the population of small informal businesses in the city of Surabaya, the authors will refer to the results of previous studies, which found that the number of actors in the urban informal sector in the city of Surabaya was 1633 people, with an increase of 5% per year (Arung Lamba, 2009). With reference to the results of this study, it is estimated that the population of informal sector entrepreneurs in the city of Surabaya for 2020 is \pm 2,189 people.

3.3. Sample Criteria

There are several reasons the author has, so it is necessary to set sample criteria, i.e., Because there are too many small business actors in the surabaya city. Not well organized and also not well organized informal small business actors. The working days and hours of the informal small business actors have not yet been determined, so many are temporary workers (today, as actors or informal small business workers, they will no longer be, and vice versa). Based on the description, the informal small businesses studied in this study are businesses that do not yet have a legal entity (business registration letter), have small capital, and generally employ several hired people (whether they come from family or other people), and additional provisions as follows: following: Have been in business for at least two years continuously, Occupy a fixed place of business for at least three consecutive months and minimum sales turnover of IDR 30 million per year. From the total population of 2,189, then by using the Slovin formula. With a critical level of 7%, the number of samples used is 2,189 actors/person or 20% of the population. So that the sample value is obtained for as many as 187 people. The grouping of the research population above includes sellers of food, used goods, mixed goods, and services; for completeness, see the following table 1:

Table 1: Sample by Type of Business

No	Category	Population	Samples
1	Food vendors:		
	a. Meatballs/fried rice	99	8
	b. Martabak	33	3
	c. Fruit ice/ice teller	28	2
	d. Banana Culinary	96	8
	e. Tempe/Tofu	38	3
	f. Food stalls	90	8
	j. Fruits	120	11
	g. Vegetables	120	11
	Total	624	52
2	Second Hand seller		
	a. Used car parts	42	4
	b. Scrap metal	42	4
	c. Second hand clothes	82	7
	d. Buy and sell gold	79	7
	e. Others	83	7
	Total	328	29
3	Goods seller		
	a. Grocery	98	8
	b. Children's toy	84	7
	c. Glassess	68	6
	d. Mixed goods	167	14
	Total	417	35
4	Services		
	a. Small motorcycle workshop	50	4
	b. Tire repairs	50	4
	c. Rental car	115	10
	d. Barber	86	7
	e. Shoe Tailor	89	8
	f. Gold/silver craftsman	83	7
	g. Party Equipment Rental	60	5
	h. Rattan furniture	113	10
	i. Screen printing	87	7
	j. Others	87	7
	Total	820	69
	Summary of Type Small Business	2189	187

The reasons for choosing the 28 (twenty-eight) types of businesses mentioned above are based on the author's brief observations, which show that; These types of enterprises are mainly carried out by the informal small business community in the city of Surabaya, so they can represent small businesses. Other types of business contained in each business group; it is intended that; if there is still a type of business that did not have time to enter the existing group.

3.4. Research Method

The data analysis used in this research is quantitative analysis using 2 (two) analytical approaches; namely: Descriptive analysis approach and Structural Equation Modeling (SEM) analysis approach with the AMOS program (Sarstedt et al., 2014). Data analysis techniques used in explaining the phenomena in this study are descriptive statistical analysis techniques and Structural Equation Modeling (SEM) analysis with the criteria of Goodness of Fit Chi-square Index (Expected to be small), Significant Probability (≥ 0.05), RMSEA (≤ 0.08), GFI (≤ 0.90), AGFI (≥ 0.90), CMIN / DF (≤ 2.0), TLI (≥ 0.95), CFI (≥ 0.95) (Mashur et al., 2020); (Indahingwati et al., 2019); (Putra et al., 2019); (Hair et al., 2014).

4. Results and Discussion

4.1. Characteristics of respondents

1. Characteristics of Respondents by Gender

Table 2 shows that most of the respondents in this study were male, with a percentage of 55.1%, while the female was 44.9%. This indicates that male respondents are likelier to be informal entrepreneurs than women. This follows the empirical facts in this study that the male respondents are mostly business people.

Table 2: Characteristics of Respondents by Gender

No	Gender	Total	%
1	Men	103	55.1
2	Women	84	44.9
Total		187	100

2. Characteristics of Respondents by Age

According to Table 3, in this study, respondents aged 45-54 are the most dominant age, with a total of 78 people or a percentage of 41.7 percent; this shows that the respondents of informal business actors in this study are primarily respondents who have a productive age. Male, so in general, it can be said that most informal business actors are of formative age and own a business.

Table 3: Characteristics of Respondents by Age

No	Age (Years)	Total	%
1	25 – 34	22	11.7
2	35 - 44	30	16.1
3	45 – 54	78	41.7
4	55 – 64	57	30.5
Total		187	100

3. Characteristics of Respondents based on Education Level

Table 4 shows that the majority of respondents in this study were high school seniors and equivalent to as many as 59 people or 31.5%. Then 42 people or 22.5% Bachelor's, 40 people or 21.4% for diplomas, 29 people or 15.5% for junior high school, and the rest are 17 elementary school students or 9.1%. This shows that the level of education of informal service entrepreneurs, on average, has or received an undergraduate education.

Table 4: Characteristics of Respondents Based on Education

No	Education Level	Total	%
1	Elementary School	17	9.1
2	Junior High School	29	15.5
3	Senior High School	59	31.5
4	Diploma	40	21.4
5	Bachelor	42	22.5
Total		187	100,00

4. Characteristics of Respondents by Type of Business

Table 5 shows that the most informal small business actors, namely; 62 people or 33.2%, are in the service selling business group. The second most significant casual small business actor, 57 people (30.5%), are in the food seller business group. Then the everyday small business actors in third place are the business group selling mixed goods for as many as 36 people (19.2%). Finally, the informal small business actors are sellers of used goods by 32 or 17.1%.

Table 5: Characteristics of Respondents by Type of Business

No	Business Type	Total	%
1	Service	62	33.2
2	Food and Beverage	57	30.5
3	Mixed Goods Seller	36	19.2
4	Secondhand seller	32	17.1
Total		187	100

5. Characteristics of Respondents Based on Status of Place of Business

Based on the status of the place of business, the characteristics of the respondents from the results of the study found that; there are 5 (five) categories of business place status groups used by urban informal sector actors in the city of Surabaya in carrying out their activities. The business place status groups are leased status, usufructuary status, property rights status, general rights status, and nomadic status. The results showed that from 187 respondents, at most 60 people or 32,1% and moving or not having permanent status in one place, then 52 people or 27,8% who had settled status in one place, but it was a public place as long as they did not experience control from the officer. Furthermore, 32 people or 17,1% use a site with usufructuary status as assistance from the government or a grant, a further 25 people or 13,4% occupy a place of business with a rented group, and 18 people or 9,6% occupy a position with ownership status, to details can be seen in table 6 below:

Table 6: Characteristics of Respondents Based on Status of Place of Business Work

No	Business Status	Total	%
1	Rent	25	13.4
2	Right of Use	32	17.1
3	Right of ownership	18	9.6
4	General Rights	52	27.8
5	Keep moving from place to place	60	32.1
Total		187	100

4.2. Result

Analysis of research results using a structural equation model (Structural Equation Model / SEM) with confirmatory factor analysis (CFA) AMOS 21.0 program (Analysis of Moment Structure, Arbuckle, 1997). The benchmark used in testing each hypothesis is the critical ratio (CR) on regression weight with a minimum value of 2.0 in absolute terms. The criteria used are to test whether the proposed model is compatible with the data. The model fit criteria consist of 1) the degree of freedom must be positive and 2) the non-significant Chi-square required ($p < 0.05$) and above the accepted conservative ($p = 0.10$) (Hair et al., 2006), 3) incremental fit above 0.90, namely GFI

(goodness of fit index), Adjusted GFI (AGFI), Tucker Lewis Index (TLI), The Minimum Sample Discrepancy Function (CMIN) divided by degree of freedom(DF) and Comparative Fit Index (CFI), and 4) low RMSEA (Root Mean Square Error of Approximation). Confirmatory factor analysis examines the variables that define a construct that cannot be measured directly. Analyzing the indicators gives meaning to latent variables or confirmed constructs.

Furthermore, to determine the variables that can be used as indicators of production capability, market orientation, innovation, and work productivity, it can be observed from the loading factor value or lambda coefficient (λ), and its significance level, which reflects each variable as an indicator of production capability, market orientation, innovativeness and work productivity can be seen in table 7 below:

Table 7: Loading factor (λ) Measurement of production capability, market orientation, innovation and work productivity

Indicators	Loading Factor (λ)	Critical Ratio	Probability (p)	Result
X1.1	0,647	8,969	0,000	Significant
X1.2	0,803	Fix		
X1.3	0,703	9,486		
X1.4	0,564	7,488		
X1.5	0,618	7,338		
X2.1	0,646	7,172		
X2.2	0,665	7,399		
X2.3	0,63	Fix		
X2.4	0,693	7,643		
X2.5	0,566	6,505		
X3.1	0,37	3,837		
X3.2	0,618	Fix		
X3.3	0,557	5,147		
X4.1	0,365	4,674		
X4.2	0,636	8,384		
X4.3	0,768	Fix		
X4.4	0,572	7,484		
X4.5	0,467	6,015		
X4.6	0,682	9,005		
Y1.1	0,816	Fix		
Y1.2	0,658	7,448		
Y1.3	0,463	5,474		
Y1.4	0,495	5,831		
Y2.1	0,81	Fix		
Y2.2	0,838	10,423		

Loading factor measurement of production capability, market orientation, innovation and work productivity in Table 7 shows the test results of measurement of production capability, market orientation, innovative and work productivity variables from each indicator to explain the construct, especially the latent variable (unobserved variable). The test results show that all indicators are significant, so all indicators are included in the next test. Loading factor measurement of business performance and competitiveness variables in Table 7 shows the test results of measuring business performance variables and competitiveness of each indicator that explains the construct, especially the latent variable (unobserved variable). The results of the analysis after the final model obtained are as follows:

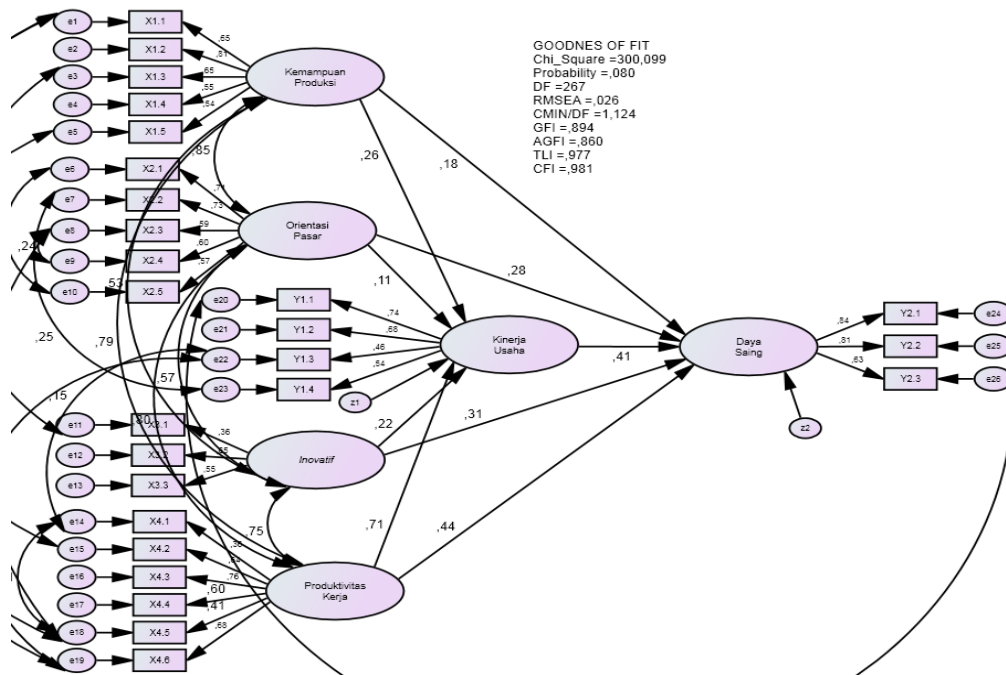


Figure 2: Measurement of the Relationship Model between variables

The results of the model test presented in Figure 2 are evaluated based on the goodness of fit indices in table 8 below with the model criteria and critical values that have data suitability presented.

Table 8: Evaluation of Criteria for Goodness of Fit Indices Overall Model

Goodness of fit index	Cut-off Value	Model*	Result
χ^2 - Chi-square	Expected small	300.099 < (0,05: 267 = 306.113)	Excellent
Probability	≥ 0.05	0.080	Excellent
CMIN/DF	≤ 2.00	1,124	Excellent
RMSEA	≤ 0.08	0.026	Excellent
GFI	≥ 0.90	0.894	Marginal
AGFI	≥ 0.90	0.860	Marginal
TLI	≥ 0.95	0,977	Excellent
CFI	≥ 0.95	0.981	Excellent

From the evaluation of the model, it shows that from the eight criteria proposed, it is seen that there are six that meet the requirements. Thus, the above model shows a good level of acceptance. Therefore, it can be concluded that the model is acceptable, so the overall model is said to follow the facts and can be analyzed further. Based on the empirical model proposed in this study, it is possible to test the proposed hypothesis through path coefficient testing on the structural equation model. Table 9 below is a hypothesis test by looking at the p-value. If the p-value is less than 0.05, then the relationship between the variables is significant.

Table 9: Hypothesis Result

HIP	Independent Variable	Dependent Variable	Direct Effect			
			Standardize	CR	P-value	Result
H1	Production capability	Business Performance	0,256	2,243	0,028	Significant
H2	Market Orientation		0,107	0,534	0,593	Not Significant
H3	Innovative		0,225	2,149	0,033	Significant

HIP	Independent Variable	Dependent Variable	Direct Effect			
			Standardize	CR	P-value	Result
H4	Work productivity		0,710	2,704	0,007	Significant
H5	Production capability	Competitiveness	0,181	2,157	0,032	Significant
H6	Market Orientation		0,275	2,136	0,034	Significant
H7	Innovative		0,314	2,184	0,030	Significant
H8	Work productivity		0,441	2,550	0,012	Significant
H9	Business Performance		0,409	2,890	0,004	Significant
Indirect Effect						
Independent Variable	Dependent Variable	Intervening Variables	Standardize	P-Value	Result	
Production capability	Competitiveness	Business Performance	0,105	0,038	Significant	
Market Orientation			0,044	0,300	Not Significant	
Innovative			0,092	0,042	Significant	
Work productivity			0,290	0,024	Significant	

4.3. Discussion

This discussion focuses on decisions resulting from hypothesis testing as an effort to answer the formulation of research problems. The results of the analysis of hypothesis testing are described as follows.

1. The Effect of Production Capability on Business Performance

Production activities include small businesses that start by controlling consumer needs, determining the products to be produced, the reasonable prices, and promoting and distributing these products. So production activities to be marketed are some activities that are interconnected with each other as a system. The results of descriptive statistical analysis obtained that the indicator of the availability of goods is the indicator with the highest average; this means that the informal business actors in this study agree that the number of business products so far can be measured from the amount of turnover used so that the quantity of production can be well maintained. Besides, the speed of supply of goods to be sold to consumers is an essential consideration for them. Many informal business owners find it challenging to find suppliers of goods at low prices and good quality. The speed of getting goods to sell to consumers and getting the right supplier is essential for the company. This is in line with the theory put forward by Donnely (1996): the ability to provide goods, especially to retailers, is the ability to get suppliers at lower prices with the same quality. Many companies find it challenging to find suppliers of goods with low prices and good quality. The speed of getting goods to sell to consumers and getting suitable suppliers is essential for informal business owners. Traders, as retailers selling various kinds of merchandise, often compete with other business owners to get new goods quickly. Producing goods with new suppliers is a must for business owners. Because sometimes traders can get goods from suppliers, not first hand but second or third hand, this will affect the price to be sold.

2. Effect of Market Orientation on Business Performance

The results of the study show that market orientation for informal businesses in Surabaya does not have a direct effect on business performance; however, if a market orientation that includes customers, competitors, coordination between functions, long-term orientation, and profitability (economic welfare) increases, it will not be able to show good business performance. In general, the test results of the applied model show that innovation can be increased through learning orientation and market orientation, where product innovation and competitive advantage generated by the company can improve marketing performance. Informal business actors should create relationships with their customers and provide quality service, innovation, product uniqueness, and more

competitive prices than their competitors. The results of respondents' answers can give an understanding that respondents agree that informal business actors should create relationships with their customers and provide quality service, innovation, product uniqueness, and prices that are more competitive than their competitors. This is in line with the theory put forward by (Wind and Robertstone (1993) that long-term orientation means that every manager must strive to create profitable long-term relationships with customers and long-term customer satisfaction in a way that is superior to competitors, which can generally be achieved with quality, service, innovation, product uniqueness, and more competitive prices. To fight competitors with the exceptional value generated, business owners must continuously find and implement new deals for their customers, which requires specific tactics and adequate investment. In the research of Jaworski & Kohli (1993), Berta Slater & Narver (1994) concluded that market orientation is a determining factor of business performance regardless of the external environmental conditions in which the company operates.

3. Influence of Innovativeness on Business Performance

The results of the variable demonstration show that innovation has a significant positive effect on business performance. Therefore, business owners must be able to create judgments and new ideas and offer innovative products. Thus, the question in this study is how the influence of market orientation and learning orientation on innovation and performance of business owners can achieve competitive advantage. The descriptive statistics of the innovative variable show that the respondents understand what the researcher means by being clever. The indicator with the highest average value for the creative variable is the customer needs of informal business actors who agree that having an exciting experience when using a product and before buying a product must be thoroughly considered. The results of the questionnaire distribution show that informal business actors in Surabaya are related to innovation, focusing on what is needed by the customer so that, based on the customer's needs, creative ideas are born that are also adapted to the culture contained in the physical form of the product. Informal business actors are more focused on the desire to provide more value to customers, even though the ideas that appear are still straightforward. Still, the focus remains on what the customer needs. However, nothing has been fully implemented, and some have been implemented.

4. The Effect of Work Productivity on Business Performance.

The variable relationship demonstrates that worker productivity has a significant positive effect on business performance. The results of this study indicate that the better the work productivity carried out by informal business actors, the more the business performance. The results of descriptive statistics show that the work productivity of the respondents is outstanding. The results of the calculation of the average work productivity variable of the six indicators are relatively balanced with each other. Age is an indicator with the highest average, and this means that informal business actors in this study agree that the age maturity level dramatically affects the work productivity of informal business actors. The higher the age level of informal business actors, the more likely they have maturity in thinking and making decisions, besides having experience in running their business. Human resource productivity can be described as a process function in terms of individual responses to performance measures expected by the company, which includes work design, empowerment processes, and mentoring. In terms of the individual itself having skills, abilities, and knowledge. Therefore, employees' performance (work productivity) is the result of a blending process between unique capabilities and individual attitudes towards work and organizational aspects.

5. Production Ability on Competitiveness

The results of this study are consistent with Porter's (1992) theory, which provides a strategy for dealing with competition known as generic competitive strategies. The generic competitive design is based on an analysis of the position of a company in the industry, whether the company's profits are above or below the industry average. A good company will have a high-income level even though the industry structure is less favorable and the average industry profit level is moderate. If so, the company can create a sustainable competitive advantage. To achieve this, companies can have two basic types

of competitive advantage, namely low cost or differentiation. The indicator of the availability of goods is one of the dimensions with the highest average value. This means that the number of business products so far can be measured from the amount of turnover used so that the quantity of production can be well maintained.

In addition to the availability of goods, human resources (HR) are essential, according to the answers of respondents from informal businesses, which indicate that respondents understand and realize that human resources are significant for achieving the production capability of an everyday business, both in terms of procurement of goods sale as well as the ability to manage the production itself. The company's ability to create employees who can work well is a challenge in itself; how it can make policies so that each employee continues to improve their abilities is a challenge. Customer service is essential; the results indicate that respondents understand that it is related to the production capability of informal small business actors, consisting of customers making repeat purchases and giving appreciation or positive comments regarding the products they have purchased. This is related to the benefits felt by customers regarding the products offered. The ability of business owners to provide optimal service to consumers is a very natural and excellent thing for business owners in terms of the small business field so that they feel more comfortable being loyal customers, which can influence other parties to be interested in becoming new customers for business owners.

6. Market Orientation to Competitiveness

The relationship between variables demonstrates that market orientation has a significant positive effect on competitiveness. This shows that the better the market orientation consists of customers, competitors, coordination between functions, long-term exposure, and profitability (economic welfare), the more competitive small informal businesses will be. Innovation is a company mechanism to adapt to a dynamic environment. Therefore, companies must be able to create assessments and new ideas and offer innovative products. Thus, the question in this study is how market orientation and learning orientation influence innovation and company performance to achieve competitive advantage in terms of customers, competition, coordination between functions, long-term direction, and profitability (economic prosperity). The results of the survey distribution show that the profitability indicator (economic welfare) is the indicator that has the highest average; this means that the informal business actors in this study agree that profitability or financial interest is achieved if the business carried out can provide the maximum benefits obtained by informal business actors and can increase additional business capital. This means that whatever the company does to satisfy customers, it must return to its primary goal, which is to create profitability. This shows that companies are not justified in establishing good relationships with customers to satisfy their needs and wants but must stick to the framework of their primary goal, namely creating profitability. Market orientation should focus on customers and establish customer satisfaction as essential to achieving goals. There are other factors in increasing competitiveness, namely coordination between functions in market orientation, meaning that informal business actors agree that in coordination between functions, informal business actors should support operations/sections to provide optimal service and value for customers and be responsive to customer needs.

7. Innovation Against Competitiveness

The results of our research demonstrate that innovation has a significant positive effect on competitiveness. This indicates that the more formal the creation, the more competitive small informal businesses will be. Informal business actors in doing business and innovating combine ideas based on experiences from their respective regions and armed with education and the needs of the community or potential consumers in the Surabaya area; this is based on the fact that customer needs are the choice of the most respondents because they realize the importance of this. In addition, informal business actors recognize that the product quality increases the product's value in terms of its attractive form and matter.

8. Work Productivity on Competitiveness

The variable testing demonstrates that worker productivity has a significant positive effect on competitiveness. This shows that better work productivity will increase the competitiveness of

informal small businesses. Our test results show that the age level indicator is the indicator that has the highest average; this means that the informal business actors in this study agree that the level of age maturity dramatically affects the work productivity of informal business actors. The higher the age level of informal business actors, the more likely they have maturity in thinking and making decisions, besides having experience running their business. Next is work experience and income. These results illustrate that the longer a person becomes an entrepreneur, the better work productivity and income will affect the increase in the work productivity of the informal business person. Three factors affect employee productivity: (1) employees' quality and physical ability as measured by education, work experience, work motivation, work ethic, and physical fitness; (2) supporting facilities, namely the work environment and working conditions. (3) sub-infrastructure covering industrial relations and government policies. Another research conducted in Korea by Yoon-Bae Ouh (1987) in Afnan (1996) stated that the factors that influence labor productivity are as follows: (1) employee education and training; (2) employee attitudes and motivation; (3) employee welfare efforts; (4) adjusting the use of labor and employee hijacking, (5) management worker cooperation. Research conducted by Afnan in 1996 with the objective of female workers found that the factors that affect the productivity of female workers are as follows: (1) wages; (2) motivation; (3) education and experience, (4) socioeconomic, (5) family dependents, (6) working conditions and facilities.

9. Business Performance on Competitiveness

A demonstration of the relationship between variables shows that business performance has a significant positive effect on competitiveness. This indicates that the better business performance, as reflected by indicators of sales growth, profit growth, asset growth, and own capital growth, the more competitive small informal businesses will be. Quantitatively, a company's performance can be seen from its performance to what was done in the past or by comparing it with its competitors in some factors, such as profit growth, investment growth, own capital growth, market share, sales growth, and production costs. The qualitative measure is in the form of questions asked to find out whether the integrated or comprehensive objectives, strategies, and plans of a company are consistent, appropriate, and can work or not. Judging from the item's capital growth factor, it means that informal business actors in this study agree that the presence of capital can provide a separate increase for informal small business actors, and the increase in cash flow in and out is one of the impacts of the growth of informal small business capital. Business performance can be assessed from several angles, and no one analytical technique or type of analysis is suitable for all different conditions. Performance indicators can be measured in addition to the internal and external aspects of the company. Performance measurement can be based on organizational effectiveness, efficiency, or society's benefit. Financial indicators are also things assessed in economic performance, including profits, cash flow, and increasing market share.

5. Conclusion

Based on the results of the research and discussion as stated in the previous section, at the end of this study, several conclusions can be drawn as follows:

1. Production capability affects business performance in informal small businesses in Surabaya. Production capabilities include the availability of goods, human resources (workforce), technology adjustment, competitive ability, and customer quality. This means that informal business actors in this study agree that production capacity is where small informal entrepreneurs can maintain the availability of goods they produce or sell.
2. Market orientation does not affect business performance in informal small businesses in the City of Surabaya. Market orientation includes customers, competitors, coordination between functions, long-term orientation, and profitability (economic prosperity). This means that informal small business actors in Surabaya have not entirely focused on competitors, long-term exposure, and coordination between functions.
3. Innovative effect on business performance in small informal businesses in Surabaya. With the existence of customer needs, creation of ideas, and sales of products (design). This means that

innovation always starts with an idea or creative thinking on a product; this idea arises due to the opportunities in a business.

4. Work productivity affects business performance in Informal Small Businesses in the City of Surabaya. This illustrates that understanding and understanding this work productivity variable as seen from the indicators, namely the level of age maturity, will affect the work productivity of entrepreneurs, education, the longer a person becomes an entrepreneur, the better productivity, income, turnover, and costs.
5. Production capability affects the competitiveness of small informal businesses in Surabaya. This means that the informal small business actors in this study agree that the advantages and focus of the market are to develop strategies to expand market share, diversify products or promote existing products to consumers widely and win the market competition by increasing product value, competitors.
6. Market orientation affects the competitiveness of small informal businesses in Surabaya. This means that the everyday small business actors in this study agree that profitability or economic welfare is achieved if the company can provide the maximum profits from informal small business actors and increase additional business capital.
7. Innovative influence on the competitiveness of small informal businesses in Surabaya. That innovation must adapt to customer needs, and an exciting experience is necessary when using the product. Before buying a product, it must be thoroughly considered.
8. Work productivity affects the competitiveness of small informal businesses in Surabaya. The higher the age level of informal business actors, it is possible to have maturity in thinking and to make decisions, besides having experience running their business.
9. Business performance affects the competitiveness of small informal businesses in the city of Surabaya. This illustrates that respondents understand and understand this business performance variable, which can be seen from the indicators: sales growth, profit growth, asset growth, and own capital growth.
10. Production Capability affects competitiveness through business performance in small informal businesses in Surabaya. Informal business actors can maintain the availability of goods they produce or sell, and everyday business actors focus on the market to formulate strategies and product verification so that production performance plays a role as perfect mediation in increasing the competitiveness of a product.
11. Market orientation affects competitiveness through business performance in informal small businesses in Surabaya. This means that informal small business actors in Surabaya have not entirely focused on competitors, long-term orientation, and coordination between functions. The role of business performance in mediating market orientation towards competitiveness has not been maximized so that the desired market orientation has not been able to beat competitiveness even though market players have improved business performance—the City of Surabaya. Informal business actors can adjust to customer needs and must have experience with interesting products with creative ideas or thoughts on a product. This idea arises due to the opportunities that exist in a business. For this reason, the role of business performance is said to be successful if it can increase competitiveness in the market.
12. Productivity affects competitiveness through business performance in informal small businesses in Surabaya. Human Resource Productivity can be described as a process of individual responses to performance measures expected by small companies, which include work design, empowerment processes, and mentoring. Business performance in production is perfect for increasing competitiveness.

Based on the description of the research results and conclusions as stated in the section above, the authors provide several suggestions that can be used as consideration in determining policies for organizations both now and in the future, as follows: Through training, courses, or internships, so that they are better able to develop their business into a more significant business so that one day it is possible to switch into formal business roles. That the need for environmental localization for urban informal small business actors so that they are younger in managing and fostering them can develop into businesses in the formal sector.

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