

Competitive Business Environment, Market Orientation, Strategic Orientation and Performance of SMEs (empirical study on small and medium industries Pekanbaru city)

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Abstract: The aim of this research was to analyze whether or not the performance of Small dan Medium Enterprises in Pekanbaru Municipal was affected by a competitive business environment, market orientation and strategy orientation. The object of the research was small and medium industries in Pekanbaru Municipal. The sample consisted of 135 small and medium industries in Pekanbaru Municipal such as food and beverage, convection and printing, wood, rattan and glass processing, welding and paving block industries. The research used a cluster sampling technique, namely, by mapping the population according to the existing sub-district in Pekanbaru and proportional random sampling, namely, the sample was proportionally taken in each sub-district. The data were both primary and secondary. The primary data were those obtained from the industrial and commerce office of Pekanbaru Municipal. The data analysis technique was the structural equation modeling using LISREL 8.7 and SPSS 17. It was found out that the performance of the small and medium industries of Pekanbaru Municipal was affected by the competitive environment, market orientation, while strategy orientation was not affected by the performance of the small and medium industries in Pekanbaru Municipal. Another finding indicated that the competitive environment had no effect on the strategy orientation. It could then be concluded what affected the performance of the small and medium industries in Pekanbaru Municipal were the competitive environment and market orientation, while strategy orientation had no effect on performance of the small and medium industries in Pekanbaru Municipal. The implication was that in order to increase the performance of the small and medium industries in Pekanbaru Municipal, a businessman should pay attention on the competitive environment and market orientation.

Keyword: Competitive Business Environment, Market Orientation, Strategy Orientation and Company Performance



Abstrak: Tujuan penelitian ini dilakukan untuk menganalisis apakah kinerja Industri Kecil dan Menengah di Kota Pekanbaru di pengaruhi oleh Lingkungan Bisnis Kompetitif, Orientasi strategi. Adapun yang dijadikan objek penelitian adalah industry kecil dan menengah kota Pekanbaru. Adapun sampel dalam penelitian sebanyak 135 Industri Kecil dan Menengah di Kota Pekanbaru yang terdiri dari Industri makanan dan minuman, konveksi dan percetakan, pengolahan kayu, rotan dan kaca serta las dan paving block. Metode sampling yang digunakan dalam penelitian ini adalah cluster sampling yaitu dengan memetakan populasi berdasarkan kecamatan yang ada di kota Pekanbaru dan proporsional random sampling artinya penarikan sampelnya disetiap kecamatan secara proporsional. Adapun data yang dipakai dalam penelitian ini adalah data primer dan data sekunder, data primer merupakan data yang diambil langsung dari responden penelitian sedangkan data sekunder berasal dari Dinas Perindustrian dan perdagangan kota Pekanbaru. Metode analisis data yang digunakan dalam penelitian ini adalah Structural Equation Modelling dengan menggunakan software LISREL 8.7 dan SPSS 17. Dari hasil analisis data ditemukan bahwa kinerja industri kecil dan menengah kota Pekanbaru dipengaruhi oleh lingkungan bisnis kompetitif dan orientasi pasar sedangkan orientasi strategi tidak mempengaruhi kinerja industri kecil dan menengah di Kota Pekanbaru. Hasil temuan lainnya menunjukkan bahwa lingkungan bisnis kompetitif tidak berpengaruh terhadap orientasi strategi. Dengan demikian dapat disimpulkan bahwa yang mempengaruhi Kinerja Industri Kecil dan Menengah di Kota Pekanbaru adalah lingkungan Bisnis Kompetitif dan Orientasi Pasar, sedangkan Orientasi strategi tidak mempengaruhi kinerja Industri Kecil dan Menengah di Kota Pekanbaru. Hal ini berimplikasi bahwa untuk meningkatkan kinerja industri kecil dan menengah di Kota Pekanbaru maka seorang pengusaha harus memperhatikan lingkungan bisnis yang kompetitif dan orientasi pasar.

Kata kunci :*Lingkungan Bisnis kompetitif, Orientasi Pasar, Orientasi Strategi dan Kinerja Perusahaan.*

Introduction

Background

Small and Medium Enterprises (SMEs) have a strategic role in supporting the economy nasional, besides that SMEs also provide a substantial contribution to employment and the distribution of development

outcomes. Small and Medium Enterprises sector is also relatively resistant to the crisis, it is proved in the event of a crisis in which many large scale stagnation and even can not operate anymore, while the SME sector more resilient and move even faster in adapting to the business environment.



The main issues faced by SMEs during this is a management problem, access to banking, infrastructure, inconsistent government policies, environmental factors, access to modern keteknologi, raw materials, marketing, unfair competition (Onugu, 2005). Meanwhile Hafsah (2004) said that the weakness of SMEs consists of internal factors and external factors of the company. Internal factors include lack of capital, limited human resources and weak business network, whereas the external factors consist of the business climate, limited facilities and infrastructure, the implications of regional free trade implications of AFTA.

Research in many countries give various results, as shown in the study by Zhang and Si (2008), these results indicate that the business environment has a positive effect on performance. Meanwhile, other research shows that internal factors positive influence business performance, while external factors are not positively affect the performance of the company (Suardika and Djaya; 2010). Contrast result was found that the business environment had

no effect on the performance of SMEs (Pelham, 1999).

There are three environmental factors in Zhang and Si (2008), which are laws and institutions, culture and geographical location. While Suardika and Djaya (2010) raised the issue of the internal and external environment. The internal environment consists of tangible and intangible assets in it, including marketing, production, R & D, human resources and finance. While external environmental factors consist of competitors, suppliers, customers, the intensity of competition, substitute products as well as macro-economic and policy aspects of government.

Another factor is the strategic orientation and market orientation. Research on this subject has been widely discussed in previous studies that examined one by Qu (2008), the study concluded that market orientation has a significant relationship to performance organanisasi or company. The main focus of this research is customer orientation, competitor orientation and interfunctional coordination. This was confirmed by other studies (Kropp et al., 2005). However, other research suggests instead

that market orientation has no effect on corporate performance (Nwokah, 2008), whereas the indicators used in the market orientation same as that used by Qu (2008) and Kropp et.al (2005).

While the orientation of the strategy in the empirical study did not have a significant impact on firm performance (Suardika and Djaya, 2010), but other studies show the opposite of strategic orientation has an influence on performance (Strong and Morgan, 1997). The indicator used in this study is innovative, proactive and willing to take risks (Suardika and Djaya, 2010), forward-looking, proactive and courageous decision.

Various results of these studies indicate that there are a bias in the sampling, and different approaches. So we need in a longer size, sample, stochastic and external validity issues (Hunter and Schmids, 2004). Based on the limitations of the researcher trying to re-construct the research variables by combining variables studied previously.

Literature Review

Competitive Business Environment

Every businessman expecting that the business is run can run well and can

maintain sustainable growth. According to the Board of studies, The The Institute of Chartered Accountants of India (2006; 1.2) there are several businesses that established goals are: 1) survival, 2) stability, 3) growth, 4) efficiency, and 5) profitability.

Competitive environment are often associated with the external environment. According to Pearce and Robinson (2003) that affect the company's external environment can be divided into three parts, namely the general environment, the industry environment and the operational environment.

Strategic Orientation

Wheelen and Hunger (2003) note that the management strategy is a management action in determining the long-term direction of the company in which there are environmental analysis, strategic planning, strategy implementation, evaluation and control. While Hiriyappa (2008) found that the management strategy is instruction, guides, guidance in decision-making and action that can assist organizations in developing both long menengahmaupun company long term. Bill Richardson



(1994) adds that the main aspects of the management strategy is the decision-making process, the current environmental conditions, current issues, political and leadership style.

Each type has its main strategy for dealing with the environment and has a combination of structure, culture and processes that are consistent with these key strategies. The difference between the types of strategy explains why companies that face the same situation, it acts in a different way and maintain the means to act in a long time. Common types of strategic consists of several following characteristics:

1. Defender
2. Prospectors
3. Analyzers
4. Reactor

Market Orientation

Market orientation is one part of the strategy orientation. More concentrated market orientation on achievement value through a clear understanding of the customer, the organization and the business environment. To be able to understand the concept of market orientation.

Business Performance

Business performance is a measure of the success of a program undertaken by the company. Measure of the success of every company has different standards. There are several definitions of measures of performance as an organization which is summarized by Neely et al (2007), Business Performance Measurement (BPM) grouped into three different analyzes: first, the definition is examined to identify the main features of the BPM, the second to see role of BPM within the organization and the third to explain the process in making BPM.

Small and Medium Enterprises (SMEs)

There is some definition of the small and medium enterprises or small and medium industries as well as the criteria. According to Law No. 20, 2008 Small Business is economically productive stand-alone, carried by an individual or business entity that is not a subsidiary or branch company is not owned, controlled, or a part, either directly or indirectly from the medium or large businesses that meet the criteria as defined in the Small Business Act.



While Medium is economically productive stand-alone, performed by individuals or entities that are not subsidiaries or branches of companies owned, controlled, or a part, either directly or indirectly with Small or large business to the amount of net annual sales or as stipulated in this Law. The Small Business is a limitation that has assets of 50-500 million with a turnover of 300 million - 2.5 billion, while Medium Enterprises has assets of 500 million – 10 billion with a turnover of 2.5 - 50 billion.

Previous Study

Competitive Business Environment Relationships with Performance

Business Environment are often referred to PEST analysis, consist of politic, economic, social and technology. All of this factors are difficult to be controlled by the company (Kotelnikov, 2010) so it always needs to be monitored by environment scanning.

Environment scanning can be defined as the acquisition and use of information about events, trends and their relationships, or the organization's external environment, this knowledge will assist management in planning the

organization's future with the action (Aguilar, 1967; Auster and Choo, 1993 in Joroski, 2008), without information hence companies may not be able to run its operations (Temtime, 2006).

The empirical study finds that hostility environment has a significant influence on the performance of small Integration (Covin and Slevin, 1989), but other studies show the opposite result. Competitive business environment has no influence on the performance of small businesses (Suardika and Djaya, 2010). This can be caused by internal factors are more dominant in determining the success of a small business rather than external factors (Pelham, 1999). However, other studies show the opposite ie external environment has a significant effect on the growth of firms (Zhang and Si, 2008).

Model development and hypotheses

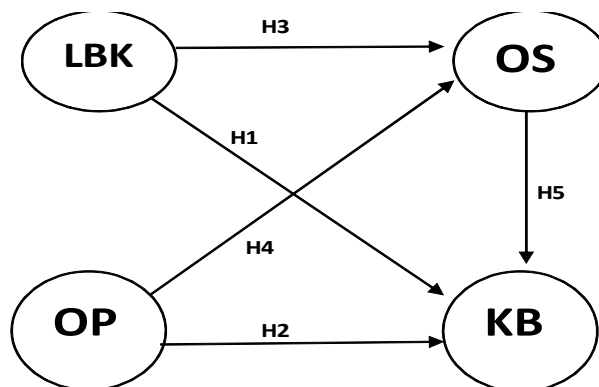
Model Development

In developing the model of this study, the authors combine research variables from previous research that a competitive business environment, orientasi strategy, orientasi market and company performance. Thinking framework was given to provide better



understanding. The framework reflected all variables that will be examined both exogenous and endogenous variables.

The framework developed can be seen in Figure 1 as follows:



Notes : LBK = Competitive Business Environment (Lingkungan Bisnis Kompetitif),
OP = Market Orientation (Orientasi Pasar), OS = Strategic Orientation (Orientasi Strategi)
and KB = Business Performance (Kinerja Bisnis)

Figure 1. Theoretical Framework

Source :

- H1** Lumpkin and Dess (2002), Pelham, Alfred M, (1999) dan Suardika dan Djaya (2010)
- H2** Nwokah, N Gladson, (2008), Amikhani and Fard, (2009), Kropp et al (2005) dan Qu, Rilian (2008)
- H3** Lumpkin and Dess, (2001) dan Suardika dan Djaya (2010)
- H4** Grinstein, Amir, (2006), dan Strong, Carolyn A and Morgan, Robert E (1997)
- H5** Zatezalo, Ana and Gray, Brendan (2000), dan Suardika dan Djaya (2010)

Research Hypotheses

Based on the description above, Research hypotheses are stated as follow:

- H1** Competitive business environment has a positive influence on the performance of small and medium businesses
- H2** Market orientation has a positive influence on business performance
- H3** There is a positive relationship between the Competitive Business Environment Strategic Orientation
- H4** Market orientation has a positive relationship to the orientation of the strategy
- H5** There is a positive relationship between the orientation of strategy with business performance

Research Methods

Type and data resource

This study use primary and secondary study, which will be explained as follow.

Primary Data

Primary data is directly collected from respondents. The respondents in this study is the small and medium industries in the city of Pekanbaru. Data collection technique using two techniques, questionnaires and interviews to the owner or manager of a small industry that is in Pekanbaru.

Secondary Data

Secondary data in this study was obtained from the annual reports of the Department of Industry and Trade of the city of Pekanbaru, research journals and other literature that is still associated with this research.

Population and Sample

Populasi

The population in this research in the form of Small and Medium Industries in the city of Pekanbaru recorded in the Office of Trade and Industry, the city of Pekanbaru. The population in this study was as 549 SMEs spread across the city of Pekanbaru.

Sample

Samples will be taken in this research is as much 100-200 samples where the sample size calculation was based on the Hair *et al.* (2006). Here is the number of population and sample of the respondents.

To determine the sample for each kecamatan we use arithmetically. First respondent is selected through the lottery, and for next person selected arithmetically.

Data Collection Methods

We use two approach in collecting data:

1. Interviews, we use direct interviews with the parties competent sampled
2. Questioner, the lists questions to obtain information needed in this study

Indicators

Competitive Business Environment Indicators

Competitive Business Environment Variables using the concept of Porter's Five Forces, which are competitors, suppliers, customers,



substitute products and the intensity of competition as a factor in industrial

Teknik Analisis Data

Analytical technique used in this study is Structural Equation Model (SEM) using LISREL 8.70 and SPSS 17. SEM is a statistical technique for testing and estimating causal relationships using a combination of statistical data and qualitative causal assumptions (Wright, 1921). The reason is because SEM allows testing relationship among latent variables, so that we can test the theory. In addition, simultaneously, SEM also test the indicators so that we can assess the measurement quality .

Result and Discussion

Profile of Respondents

The research was conducted in Pekanbaru with a population of 549 small and medium industries in which the population is based on the criteria which the industry is already established at least 3 years and has employee of 5 and a maximum of 100 people. The industry consists of food and beverage industry, wood processing, garment and printing, processing rattan, wood and glass as well as welding and paving block. From the

data above, 200 respondents were sampling.

From total 200 questionnaires, 135 has been returned by the respondents. This means that total respondents were 135 small and medium industries in Pekanbaru. It meets the requirement in the analysis of the data using the Structural Equation Model (SEM), where an appropriate sample size is 100-200 (Hair et al., 2006).

Food and beverage industry is the most common in the city of Pekanbaru up to 80 respondents, or 59% of the total sample. While industry and convection printing were in second place, with 26 samples or 19% of the total sample. Rattan and wood processing industry emissions account for 17 units with a percentage of 13% and the last is the welding industry and paving block with a total sample of 12 units or 9%.

The SME mostly located in kecamatan Sukajadi industry (39 industries) or 29%, followed by kecamatan tampan with total of 34 industries or 25%. While most companies are age 3-5 years, which amounted to 104 industrial or equal to 77% of the total sample.



From the data largely reesponden in this study the level of education is high school graduates (77%), while 16% are college graduates. This suggests that the human resources of small and medium industries in the city of Pekanbaru is still low, this gives little influence on the development of the industry itself. Here's a spread of small and medium industries in the city of Pekanbaru based clusters per district. Gender of respondents are dominated by male (76%)

Data Analysis

Normality test

Based on the research data, it shows that all the p-value on the skewness and kurtosis is well above the

0:05 means that the data used in this study were normally distributed.

Validity and Reliability

From the test all construct variables used in this research are valid except to X4 item no. 1 and X9 item no. 3 where the value of $r < r$ table. These constructs were dropped in subsequent analyzes.

Based on this analysis shows that the value of Cronbach's Alpha is 0932, means all construct were reliable.

Structural Equation Modeling Analyzes.

Confirmatory factor analysis

Measurement model of this study can be seen in Figure 2.

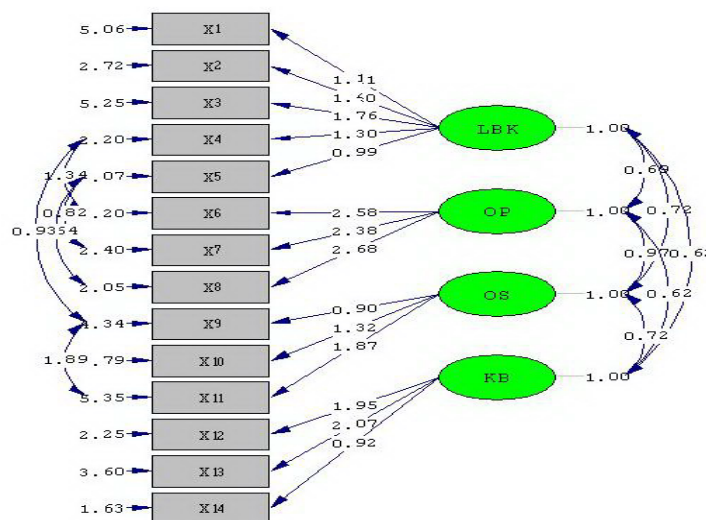


Figure.2. Measurement Model
Source: Data, processed

From the picture we can see that the magnitude of the loading factor for exogenous variables (Competitive Business Environment) is greatest indicator X3 (Suppliers) in the amount and the smallest is the indicator X5 (Intensity of Competition) amounting to 0.99. For other exogenous variables, such as market orientation greatest loading factor located on X8 (Risk Taker) that is equal to 2.68 while the smallest are indicators X7 (Proactive) that is equal to 2.38.

For the endogenous variables, Orientation Strategy, the biggest factor loading for X11 (Coordination between functions) that is equal and a small

indicator X9 (customer orientation) of 0.90. The other endogenous variables, namely Business Performance large loading factor present in X13 indicators (financial performance) that is equal to 2:07, while the smallest is the indicator x14 (reputation) that is equal to 0.92.

To see the level of significance of the loading factor we look at the value of t, if t value at a significance level of 95% or 0.05 greater than the value kirtis (1.96), the loading factor is significant. This value can be seen from Figure 4.2. From figure 3. can be seen that all of the indicators in each variable has a value of t generated by LISREL is greater than the value of t table at the 0.05 level is 1.96.

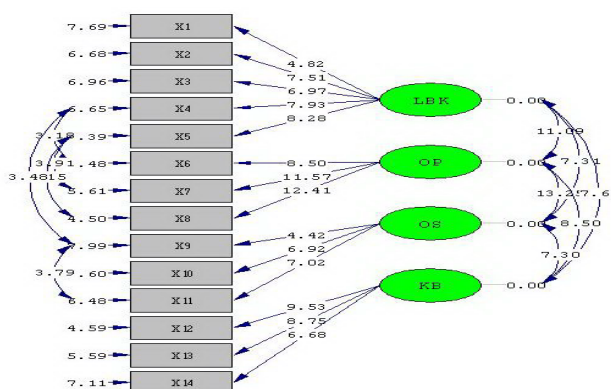


Figure 3. t-value in Measurement Model

Sumber : Research Data, 2011

SEM Analizes

Covariance Matrix

In the main diagonal covariance matrix shows the value of the variance, while other numbers show the value of covariance. Covariance values are the basis for the SEM analysis. Based on the data covariance matrix can be seen that the covariance data in this study have a positive relationship and there is no significant difference between the covariance matrix of data to estimate

covariance matrix it can be seen from the chi-square value and probability. Chi-square values are contained in Table 3 at 106.07, while the probability of 0063 still ditas tolerance limit that is equal to 0.05.

Measurement Equations

The next step in the test model is analysis of structural equation model. The test results the model using LISREL 8.70 software can be seen in Figure 4 as follows:

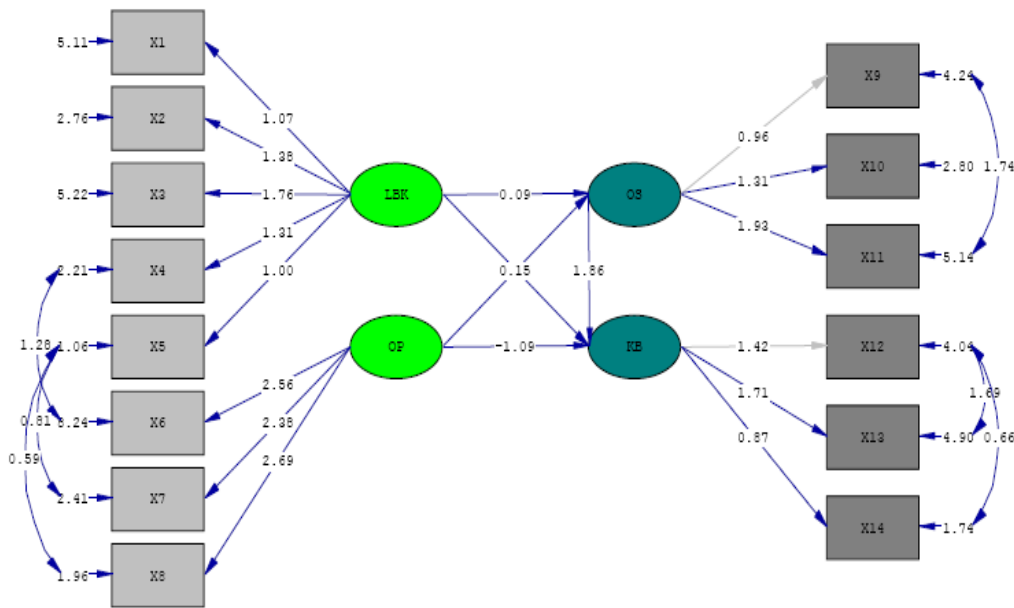


Figure 4. Measurement Equation. The magnitude of the Relationship Between Latent Variables With indicator

Source: Research Data

From data Figure 4, we can see the relationship of each indicator variable with their latent variable. For Competitive Business Environment the strongest correlation is at 1.76 (X3) and the smallest is X5 is equal 1.00. For market orientation, the strongest is X8. While for the endogenous variable orientation and business performance, the strongest relationships are shown by the indicator X11 for orientation strategies (1.93), while for Business Performance is shown by X13 with 1.71.

Discussion

Competitive Business Environment Relationships with Business Performance

From these results the performance of small and medium-sized industrial businesses in the city of Pekanbaru is influenced by the competitive business environment. These results meant that the competitive business environment get serious attention from employers, if other factors being equal the performance of the company will increase of 0.31 unit. This result inline with Michel E Porter's five force porter known that the threat of new entrants, threat of suppliers, the threat of

customers, the threat of substitute products and intensity of competition.

The results of this study support previous findings from Zang and Si (2008) and Pelham (1999) in which the external environment has a significant effect on business growth, but these results contrast with the findings made by Swardika and Djaya (2010) where external environment negatively affect the performance of the company.

Relationships between Market Orientation and Business Performance

In this research it was found that market orientation also have an influence on the performance of small and medium industries in the city of Pekanbaru. This discovery is also as well supports earlier findings made by Pelham (1999), Qu (2008) and Amikhani and Fard (2009), Matanda and Mavondo (2010). In a study conducted by Pelham (1999) discovered that the market orientation has a greater impact on corporate performance and stronger than the influence of environment on performance.

Other studies have also found that market orientation has a significant effect on organizational performance (Qu, 2008), where the variables used in the



study are market orientation, corporate social responsibility (CSR) and corporate kinejra. In this research to test whether the market orientation has an influence on the performance of the company do with the first two models in which the models serve as market orientation and performance of the exogenous variables as endogenous variables and the second model in which the SCR and performance become endogenous variables. The result shows that market orientation has a significant effect on the performance of the company.

Similarly, research conducted by Kropp et al, 2005) that test the effect market orientation on company performance done with two different approaches the first using LISREL 8:30 and ANOVA. Both approaches yield the same conclusion that market orientation has a significant effect on the performance of the company.

Similarly, in this study, even though only three measurable dimensions of strategic orientation but gives the same result as that of the previous study. In this research only used one model to measure the effect on corporate performance orientais market which consists of

endogenous variabel orientation strategy and market orientation, whereas exogenous variables consist of market orientation and business environment.

The position of HR this is a reference to the concept of a third orientation is coordination between functions. Coordination between these functions will facilitate the work and success of the company.

Competitive Business Environment Relationship with Strategic Orientation

In this study it was found that the orientation of the small and medium industry strategy ddi Pekanbaru city is not affected by the competitive business environment. These findings are contrary to what was found by Swardika and Jaya (2010) that the business environment has a positive influence on strategic orientation.

Wheelen and Hunger (2003), stated that in order to formulate a good strategy, then the environment must be considered by analyzing the environment or the environment scanning order to get a conclusion as to whether the strategy will be made to apply to peurshaan. Evironment scanning in this case could

include opportunities or threats that will be faced by the company as well as strengths and weaknesses.

In this study appear opposite condition, where the small and medium entrepreneurs are not based on adequate observations of the environment in making strategy. The entrepreneurs or managers of small and medium industries in Pekanbaru not understand the importance of the business environment in formulating strategy. Though lingkungan complex business could lead to opportunities or threats.

Relationship between Market Orientation Orientation Strategy

This study supports previous research which has a direct relationship orientation terhadap market orientation strategy (Strong and Morgan, 1997; Grinstein, 2006). These findings confirm that market orientation plays an important role in strategic orientation.

In a study conducted by Strong and Morgan (1997) measured the dimensions of the market orientation and strategy orientation equally as in this study. In this study there are six dimensions of strategic orientation that is aggressive, defensive, proactive,

analytical, futurity, and riskyness. Of the six proposed hypothesis test-sixth kenam influenced by market orientation.

Similarly, those found in this study, even though only three dimensions are measured from the orientation of the strategy but gives the same result as that of the previous study. From these results it can be concluded that in order to determine what strategies will be chosen by small and medium industries are dependent on market orientation conducted by the manager or owner.

If proactive draws on an analogy made by Michel E.Porter which indicates that companies are looking at where the current position, which has meaning the competitive position of our markets (Achrol, 1991 in Strong and Morgan, 1997). These results may imply that the market orientation of the company differentiate the learning process and their ability to respond and change with open minded way, a synergy of information distribution and interpretation of the same information (Day, 1994 in Strong and Morgan, 1997).

An understanding of customer will help companies obtain information about customers so knowing what the

customer wants the target company. Customers orientation not only emphasizes customer today but also customers who will be targeted in the future (Slater and Narver; 1998 in Bagas Prakosa; 2004)

The success of consumer orientation depends on the adaptation needs of consumers for a product or service. Is therefore very important in this case is to measure customer personalization and hence the parameters required to open the hearts of customers in adapting (Scheer and Loos, 2002). The parameter is the degree allows individuals. It can be described that the orientation of the output needs of individual customers based on personal circumstances, personality can be by individual content or value of the output.

Relationship between Orientation Strategy and Business Performance

In this study it was found that strategic orientation does not affect the performance of small and medium-sized industrial businesses in the city of Pekanbaru. The findings also confirm previous findings by Swardika and Djaya (2010). But the results of other studies

show different things where the orientation of the strategy has a great influence on corporate performance (Pelham, 1999). The difference in these findings is the dimension of the strategy itself is used as a research variable. In a study conducted by Swardika and Djaya, dimensional orientation of the strategy used is innovation, proactive and willing to take risks. While research conducted by Pelham is use the Generic Strategic concept proposed by Michel E Porter.

In a study conducted by Swardika and Djaya, the third dimension in the orientation of the strategy had no effect on corporate performance. Meanwhile, in a study conducted by Pelham was found that the growth / differentiation strategy has a great influence in comparison with the low-cost strategy, the study also found that low-cost strategy had no effect on the company's share performance measures efektifness sales, growth and profitability.

These findings may explain that the practice orientation strategy for small and medium industries in Pekanbaru not run well. In fact most of them understand that operational effectiveness is a strategy whereas the operational effectiveness is

not a strategy. Although a number of management tools and techniques such as TQM, benchmarking, time-based competition, outsourcing, partnering and reengineering produce something dramatic but some companies are frustrated because their inability to translate those gains into sustainable profitability. For that walalupun operational effectiveness is important but not enough to win the competition and therefore is required here is a strategic positioning (Michael. E Porter, 1980).

However, to be run well it depends on the level of adaptation (Schindehutte and Morris, 2001). Therefore, to be able berdaptasi strategy will require an understanding of what a strategy for small and medium-sized industrial city of Pekanbaru.

In order to understand the strategy properly then we can see elements of the troika, known as PSR Troika. These elements are the policy, strategy and resources (Davis, 2000). By understanding these elements then it can help to focus on two aspects of the strategy is a causal relationship between strategy and other elements in the PSR troika and the plurality of input, option

strategies and outcome characteristics.

Policy is the first element which is the operational domain. These results also indicate that the opinion of experts western countries such as Lumpkin and Dess, 1996; wiklundm 1999 in Suardika and Djaya (2010) who suggested that straetgi orientation in three dimensions, namely innovative, proactive and willing to take risks as the key to successful companies to increase performance does not apply to small and medium industries in the city of Pekanbaru.

Conclusion and Policy Implication

Conclusion

From the results of the study shows that the business performance of small industries in Pekanbaru is influenced by several factors, namely competitive business environment, market orientation and strategic orientation whereas no effect on the performance of small and medium industries in the city of Pekanbaru.

Recommendation and Policy

The results of this study have implications for the development of management science and implications for how the manager or owner of a small

industry in improving their performance. As a result of this research, competitive business environment has a significant impact on company performance. Therefore, the owner or manager of a small industry is to understand how the dynamics of the environment is constantly monitored in order to improve their performance and viability of the company.

They need to understand that the intensity of the competition is the most serious factor they should consider in a competitive business environment compared to a supplier or a replacement product. Meanwhile in their market orientation should be more focused attention on the coordination between functions so that the company can work well, but they also have to understand the orientation of the competitors as a competitor orientation has a close relationship with the customer orientation, from which they can get information on how competition in business .

As a business entity that wants to promote their business, a manager or owner of a small industry should have the courage to enter new markets. From the

results of this research shows that they are more likely to wait for other players to take their own initiative rather than who did it first.

Such conditions would have to get the attention of the government also has the responsibility to develop small and medium enterprises. There are many weak sides and must be polished so that makes them even better, and this is where the functions of government to bridge these conditions by cooperating with a third party to conduct training or coaching and direction. One example is the intensity of competition, the intensity of competition in the small and medium industries in the city of Pekanbaru is high, it requires the ability of the manager to be able to get out of a perfectly competitive market, but it has a concept like this. Therefore necessary assistance for them to understand these concepts so as to increase the leverage of small and medium industries in the city of Pekanbaru.



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