

## The Government's Policy as a Moderation of the Relationship between Export Market Orientation and SME Export Performance

Stefanus Yufra M. Taneo<sup>1</sup>, Santi Widyaningrum<sup>2</sup>, Sunday Noya<sup>3</sup>, Melany<sup>4</sup>

<sup>1</sup>*Innovation Management Department, Universitas Ma Chung, Indonesia*

<sup>2</sup>*Management Department, Universitas Ma Chung, Indonesia*

<sup>3</sup>*Industrial Engineering, Universitas Ma Chung, Indonesia*

<sup>4</sup>*English Letters Department, Universitas Ma Chung, Indonesia\**

*\*Corresponding Author: Melany<sup>4</sup>*

**ABSTRACT :** *Small and Medium Enterprises (SMEs) play a crucial role in the Indonesian economy in terms of labor absorption and their contribution to the Gross Domestic Product (GDP). However, their export performance is low. SMEs' low export performance is caused by a variety of variables, including export market focus and government policies. The purpose of this research is to demonstrate the relationship between export market orientation and SME export performance and the role of government policies as a moderation of these two variables. To achieve this purpose, data was gathered from 45 Malang Regency SMEs that have engaged in exports. The data was collected online and then analyzed using Warp Partial Least Square-Structural Equation Modeling (WarpPLS-SEM). The research results demonstrate that export market orientation is not significantly related to SME export performance. Government measures, on the other hand, considerably improve the relationship between export market orientation and SME export performance. This finding implies that the government should implement effective policies to enhance the export performance of SMEs to increase SME income and the country's foreign exchange earnings.*

**KEYWORDS -** *Market orientation, Export performance, SME, Government's policy*

### I. INTRODUCTION

Small and Medium Enterprises (SMEs) play a crucial role in the Indonesian economy, considering their employment absorption and contribution to Gross Domestic Product (GDP). According to the Indonesian Ministry of Cooperatives and SMEs (2023), SMEs employ 119,562,843 workers, or about 96.92% of Indonesia's total workforce. This high employment absorption is due to the dominance of SMEs, comprising 65,465,497 business units, which is 99.99% of the total business units in Indonesia. The significance of SMEs in Indonesia is also reflected in their contribution to the GDP, amounting to 60.51% based on prevailing prices. However, the employment absorption and GDP contribution do not align with SMEs' contribution to exports, as SMEs contribute only 15.65% to non-oil and gas exports. This indicates that the export performance of Indonesian SMEs is notably low whereas export is important to expand their markets (Sharma, et.al., 2020; Solano et. Al, 2019).

SMEs' low export performance can be attributed to various factors. Rivando et al. (2019) identified obstacles that influence the export propensity of SMEs in Indonesia, including barriers such as tariffs, human resources, distribution, procedures, the business environment in foreign countries, and market barriers. Safari and Saleh (2020) highlighted the primary determinants of SME export performance, which include knowledge and skills, networks, export stimuli, perceived barriers, risk-taking, strong export commitment, government support, and other external factors.

The factors leading to the low export performance of Indonesian SMEs indicate that SME actors in Indonesia still have limited capabilities, thus affecting their international competitiveness. Capability refers to a company's ability to manage its resources for the desired end goals (Makadok, 2021), while competitiveness is a company's ability to efficiently and effectively market products and services with prices and quality suitable for customers (Siudek & Zawojnska, 2014).

Venkateshamurthy, Jeevananda, and Mehrolia (2021), through a systematic literature review of 97 articles published between 2015 and 2021, found that one of the key determinants of SME export performance is export market orientation. The study by Kayabasi and Mtetwa (2016) in Turkey demonstrated a negative relationship between market orientation and SME export performance. In contrast, Olabode, Adeola, and Assadinia (2018) discovered a positive and significant relationship between export market orientation and SME

export performance in Sub-Saharan Africa. The differences in these research findings are important and intriguing, warranting confirmation in the context of SME export performance in Indonesia.

Research on export market orientation and SME export performance in Indonesia is still limited. Existing studies have been conducted with a case study approach (e.g., Taufik, 2020; Murdowo and Fitria, 2022), making them difficult to generalize. International studies have been conducted more extensively (e.g., Kayabasi & Mtetwa, 2016; Olabode, Adeola & Assadinia, 2018), but their results vary. Furthermore, SME export performance measurements vary, with most studies employing economic measures such as sales-related (e.g., Acar, 2016; Ahn, 2017) and export profitability (e.g., Ayoub and Abdallah, 2019; Birru et al., 2019). Limited research has used non-economic measures, including product competitiveness, strengthening strategic positions, and increasing new customers.

The limitations faced by SMEs in various factors, especially in developing countries like Indonesia, necessitate interventions in various forms, including government policies. According to Porter (1985), the appropriate role of government is to act as a catalyst, strengthening or even encouraging businesses to improve their performance. Osborne and Gaebler (1992) place the government's primary function as a catalyst and outline ten principles for transforming government administration with an entrepreneurial spirit. This indicates that the government plays a moderating role in strengthening the relationship between export market orientation and SME export performance.

Based on the description above, this scholarly work aims to fill the existing gap by firstly, identifying and analyzing the relationship between export market orientation and SME export performance, and secondly, demonstrating the government's role in moderating the relationship between export market orientation and SME export performance. The scientific information obtained will be valuable in strengthening the capabilities of SME managers in harnessing the appropriate international market, thus enhancing SME export performance.

## **II. LITERATURE REVIEW**

### **2.1. The Relationship between Export Market Orientation and Export Performance**

Market orientation is the organizational behavior that delivers the best value to customers by identifying customer desires and needs. Companies can be oriented towards competitor orientation or customer orientation. These orientations can be effectively realized if a company coordinates or achieves inter-functional coordination effectively (Bylon and Kraa, 2019; Ladan et al., 2014). The concept of market orientation has been viewed as the culture that mainly effectively and efficiently creates superior value for customers through customer orientation, competitor orientation as well and inter-functional coordination (Slater and Narver, 1999). Customer orientation places the customer's interest first and requires a thorough understanding of client needs to fashion products or services of superior value; competitor orientation gathers information about competitors to help the firm reposition its offering to prepare for the future survival of the entity and inter-functional means that, all the department in the business must coordinate well with each other in all aspect of the business operations (Narver and Slater, 1990).

Performance is seen as the desire to evaluate the extent to which a large or small company has achieved success (Akande, 2011), while the degree to which an organization meets its objectives when exporting its products abroad is referred to as export performance (Navarro et al., 2010). Export performance is also defined as the output of a company's activities for foreign sales under varied organizational and environmental conditions (Zehir et al., 2015). Furthermore, export performance refers to the extent to which an organization's strategic and financial goals for exporting a commodity overseas are reached as a result of scheduling, planning, and executing an export marketing strategy (Cadogan et al., 2009). Export performance is defined as a company's capacity to increase sales and market share in an international environment (Rekarti et al., 2018). Businesses can be assessed based on their size, number of employees, working capital, and profitability. The performance of SMEs encompasses various aspects, including productivity, profitability, growth, and competitiveness. In some cases, SMEs may exhibit strong performance, while in other cases, they may encounter significant challenges in achieving the expected performance. Recently, researchers have focused on how companies improve their performance in a dynamic environment (Bayer, Tuli, & Skiera, 2017; Cacciolatti & Lee, 2016).

Because it explains how well an organization is functioning (Obiwuru, Okwu, Akpa, & Nwankwere, 2011), performance is one of the most important dependent variables for academics interested in practically all aspects of management (Richard et al. 2008). The term performance is not new in all elements of strategic management and management (Aminu & Shariff, 2015). Performance assessment or evaluation, performance management, and performance measurement, for example, are commonly employed in numerous fields of business and/or management science. The positive impact of market orientation on performance is supported by many researchers. Narver and Slater (1990) identified a positive relationship between market orientation and business performance, particularly profitability. They found that market orientation, characterized by learning

from various forms of contact with customers and competitors in the market, is associated with profitability (Slater & Narver, 2000).

Based on the description above, the hypotheses can be formulated as follows:

H1: Export market orientation is positively related to SME export performance

## 2.2. The Role of Government Policy in the Relationship between Export Market Orientation and Export Performance

The government plays a significant role in a nation's economy, especially in developing countries. One of the principles in economics is "The government can improve market outcome" (Mankiw, 2011). The government plays a crucial role in enhancing performance, particularly during the Covid-19 pandemic and post-pandemic period for economic recovery. The Indonesian government, through its policies, has also taken steps to support the versatility and performance of SMEs during the pandemic. The National Development Planning Agency of Indonesia (2020) has implemented policies to address the Covid-19 pandemic through various financial and non-financial programs launched by the government to improve the resilience and performance of SMEs.

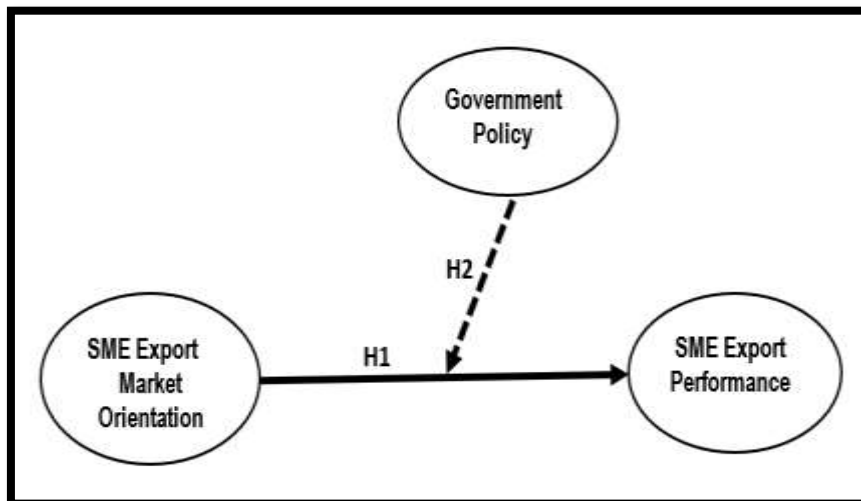
The government's role, as stated by Porter (1985) and Osborne and Gaebler (1992), is as a catalyst that strengthens or even encourages businesses to enhance their performance. Some studies, such as Han et al. (2017) and Songying et al. (2018) found that government support significantly impacts business performance. Similarly, other studies on SMEs have shown that governments play an important role in improving SME performance by implementing policies that improve energy infrastructure and services, Encourage official registration of SMEs and facilitate access to finance for SMEs. (Ndiaye et al., 2018; Wei & Liu, 2015; Sheng et al., 2011).

The government roles not only act as direct and indirect determinants, but also act as moderating factors, reinforcing the impact of other factors on SME performance. (Shams & Hoque, 2018). Ibrahim and Mustapha (2019) proved that government policy moderates the relationship between entrepreneurial orientation and SME performance, they also established that government policy moderates the relationship between contemporary marketing and SME performance.

Based on the description above, the hypotheses can be formulated as follows:

H2: Government policy strengthens the relationship between export market orientation and SME export performance.

The relationship between the three researched variables can be illustrated in Figure 1.



**Figure 1. Conceptual Framework**

### III. RESEARCH METHODS

This study was conducted to examine the relationship between export market orientation and SME export performance which is moderated by government policy. Based on its objectives, the research includes research on associative relationships between two or more variables (Zikmund et al., 2010). Variables, subvariables, and indicators are presented in Table 1. All indicators and items are measured using a five-graded Likert scale from 1 (strongly disagree) to 5 (strongly agree) with the statement of each item.

Variable	Subvariable/ Dimension	Indicator	Reference(s)
<b>Export market orientation</b>	Customer orientation	Understanding exports according to customer needs	Bylon & Kraa (2019); Ismail & Isa (2021)
		Assess commitment to serving the needs of export customers	
		Regularly measure export customer satisfaction	
		Driven by export customer needs	
		Special attention to after-sales service	
	Competitor orientation	Respond quickly to threatening actions of export competitors	
		Regularly discuss the advantages of export competitors	
		Regularly share information about competitors' export strategies	
	Inter-functional coordination	We understand how employees create export value for customers	
		We also serve the needs of export customers well	
Open communication about export customer information			
<b>Government policy</b>		Often holds activities to promote SME products.	Ndiaye et al. (2018); Songying et al. (2018)
		Frequently holds training for SMEs	
		Often facilitates collaboration with SME partners, large companies, universities, or other institutions	
		Often provides important information for SMEs	
		Providing facilities for activities that support SME exports	
		Often provides credit assistance to SMEs with low interest	
<b>Export Performance of SMEs</b>		Profits increase	Venkateshamurth, Jeevananda, & Mehrolia (2021)
		Sales volume increases	
		Product competitiveness increases	
		Strengthening strategic positions	
		Increase new customers	

The population of this research is SMEs in Malang Regency, East Java, Indonesia, which are members of the Communication Forum for Small and Medium Enterprises who have exported. The number of SMEs that are members of the forum is around 600 business units, but there is no data available on the number of those that have or have ever exported. Therefore, data was collected from all SME business units, so this research uses a saturated sample or census.

Data was collected through an online questionnaire in early October 2023. Respondents were owners or managers of SMEs considered to have a good understanding of the SMEs' conditions. A total of 546 questionnaires were completed and returned, with 45 business units having engaged in or previously engaged in exports.

The analysis technique used was Warp Partial Least Square-Structural Equation Modeling (WarpPLS-SEM) based on two considerations from Vinzi et al. (2010), Sholihin and Ratmono (2013), and Hair et al. (2014). Firstly, WarpPLS-SEM is efficient for small samples and complex models, and it is practical because it does not require data normality. Parameter estimation with WarpPLS-SEM is highly efficient as it has greater statistical power compared to other covariance-based methods,

making it more likely to provide results that are consistent with population conditions (significant if it is indeed significant in the population). WarpPLS-SEM can also analyze models with latent variables measured with either a single item or multiple items. Secondly, WarpPLS-SEM can directly provide coefficient and p-value results in models with moderating variables, whereas other PLS software like SmartPLS, PLS Graph, and Visual PLS often require the creation of interactions among latent variables first.

#### IV. RESULTS AND DISCUSSION

##### 4.1. Business Identity

The products exported by SMEs from Malang Regency are food, batik, and textiles. Table 1 indicates that the majority (approximately 69%) of SMEs engaged in exports are in the food and beverage product category. The commonly exported products are fruit chips like jackfruit, skin-snake fruit, and apple. SMEs from Malang Regency export jackfruit chips and various Indonesian native fruits to Taiwan, Singapore, Malaysia, Vietnam, and South Korea.

Batik and textile products produced by SMEs in Malang are not only marketed in local batik clothing stores in Malang but are also exported to various countries, including those in Southeast Asia, the Middle East, the Americas, and even Europe.

**Table 1. SMEs Identity**

Identity	Total	Percentage (%)
<b>1. Types</b>		
<b>a. Food and Beverage</b>	<b>31</b>	<b>68.9</b>
<b>b. Batik</b>	<b>9</b>	<b>20.0</b>
<b>c. Garment</b>	<b>5</b>	<b>11.1</b>
<b>Total</b>	<b>45</b>	<b>100.0</b>
<b>2. Length of Business</b>		
<b>a. 1-5 years</b>	<b>18</b>	<b>40.0</b>
<b>b. 6-10 years</b>	<b>14</b>	<b>31.1</b>
<b>c. 11-15 years</b>	<b>3</b>	<b>6.7</b>
<b>d. &gt;15 years</b>	<b>10</b>	<b>22.2</b>
<b>Total</b>	<b>45</b>	<b>100.0</b>
<b>3. Number of workers</b>		
<b>a. 1 – 4 workers</b>	<b>36</b>	<b>80.0</b>
<b>b. 5 – 19 workers</b>	<b>9</b>	<b>20.0</b>
<b>Total</b>	<b>45</b>	<b>100.0</b>

The age of the SMEs under study is predominantly (40%) less than 6 years. Upon closer examination, it's evident that a significant number of SMEs were established toward the end of the COVID-19 era, in the year 2021. COVID-19 brought disaster but also created opportunities for the birth and growth of small and medium-sized enterprises tailored to specific needs, especially in the food and beverage sector related to immunity and health.

In terms of the number of employees, 80% of the SMEs under study fall into the small business category, with fewer than 5 employees. The size that more accurately reflects the business scale is the amount of capital and annual sales revenue, but not all business operators are willing to provide valid data due to various factors, including concerns about tax burdens.

Based on the parameters presented in Table 2 and the brief guidelines for evaluating the structural model in WarpPLS according to Hair et al. (2014: 186) and the WarpPLS 5.0 User Manual (Kock, 2015), it can be generally stated that the structural model used in analyzing the research data is good and can be used to test the hypotheses proposed in this study. The Average R-Squared (ARS) and Average Adjusted R-Squared (AARS) are not significant at  $\alpha = 5\%$ . These indices are essentially the same as the coefficient of determination in regression analysis, indicating the ability of the independent variable to explain the variation in the dependent variable. The lack of significance in both of these indices can be understood because there is only one



independent variable, so its ability to explain the dependent variable, in this case, export performance, is limited. Therefore, it can be concluded that the overall model is acceptable for testing the research hypotheses.

**4.2 Examination of the Analysis Model**

Examination of the overall fit model was conducted according to the Model Fit and Quality Indices as per the WarpPLS 5.0 User Manual (Kock, 2015). A summary of the goodness of fit model is presented in Table 2.

**Table 2. Evaluation of Goodness of Fit PLS Model**

<i>Goodness of Fit</i>	Indices (p-value)	Cut-off	Information
<i>Average Path Coefficient (APC)</i>	0,199 (0,039)	0,05	Significant
<i>Average R-Squared (ARS)</i>	0,136 (0,085)	0,05	Not significant
<i>Average Adjusted R-squared (AARS)</i>	0,095 (0,128)	0,05	Not significant
<i>Average Block VIF (AVIF)</i>	1,154	≤ 3,3: ideal	Ideal
<i>Average full collinearity VIF (AFVIF)</i>	1.160	≤ 3,3: ideal	Ideal
<i>Tenenhaus GoF (GoF)</i>	0,328	≥ 0,1: Small ≥ 0,25: Medium ≥ 0,36: Big	Medium
<i>Sympson's paradox ratio (SPR)</i>	1,000	≥ 0,7: Acceptable 1: ideal	Ideal
<i>R-squared contribution ratio (RSCR)</i>	1,000	≥ 0,9: Acceptable 1: ideal	Ideal
<i>Statistical suppression ratio (SSR)</i>	1,000	≥ 0,7: Acceptable	Acceptable
<i>Nonlinear bivariate causality direction ratio (NLBCDR)</i>	1,000	≥ 0,7: Acceptable	Acceptable

**4.3. Measurement Evaluation**

The measurement evaluation of the fit model is conducted to determine the validity and reliability of the research instrument in reflecting latent variables. Validity is assessed by the Average Variance Extracted (AVE), while reliability is assessed by Composite Reliability and Cronbach's Alpha.

According to the rules of thumb for evaluating reflective measurement models according to Hair et al. (2014), the measurement model is valid because all AVE values are greater than 0.50. Similarly, for reliability, the measurement model can also be considered reliable because the values of composite reliability and Cronbach's Alpha for all variables are greater than 0.70.

**Table 3. Model Measurement Evaluation**

Variable	Validity	Reliability	
	AVE	Composite Reliability	Cronbach Alpha
Export market orientation	0.755	0.971	0.967
Government policy	0.687	0.929	0.906
SMEs export performance	0.721	0.936	0.908

**4.4. Hypothesis Testing**

The results of the statistical analysis, as presented in Table 4 and Figures 1a and 1b, indicate that Hypothesis 1 is supported, meaning that export market orientation does not significantly enhance SME export performance. Conversely, Hypothesis 2 is supported, demonstrating that government policy moderates the relationship between export market orientation and SME export performance.

**Table 4. Hypothesis Test**

Relationship between variables	Coefficient	P = value	Hypothesis
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Export market orientation and SME export performance (Hypothesis 1)	0.179	0.102	Not supported
Moderating government policy on the relationship between export market orientation and SME export performance (Hypothesis 2)	0.348	0.005	Supported

Statistical Processing Results

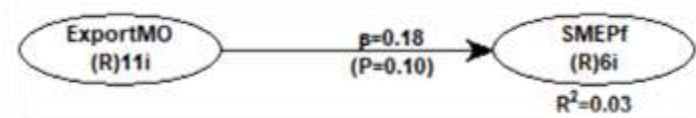


Figure 1a. The Relationship between export market orientation and SME export performance

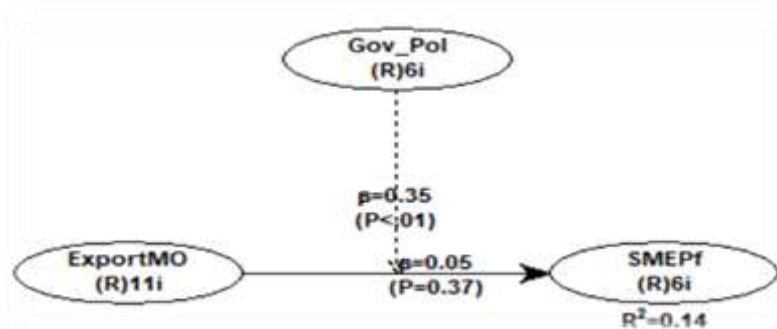


Figure 1b. Moderating government policy on the relationship between export market orientation and SME export performance

4.5. Discussion

The results of this study demonstrate that export market orientation is not significantly related to SME export performance. Export market orientation is measured using three dimensions: customer orientation, competitor orientation, and inter-functional coordination. The relationship between export market orientation and SME export performance is positive but not statistically significant. This indicates that the export market orientation of the SMEs under study is still quite weak in terms of enhancing export performance.

The results of this study do not confirm the research by Kayabasi & Mtetwa (2016) in Turkey, which showed a negative relationship between market orientation and SME export performance, nor do they support Olabode, Adeola, and Assadinia (2018), who found a positive and significant relationship between export market orientation and SME export performance in Sub-Saharan Africa. The export market orientation of SMEs in Malang Regency, Indonesia, is positively related but not statistically significant. These findings are consistent with the research in Croatia by Miocevic & Crnjak-Karanovic (2012), who found that SME exporters have a positive relationship between export market orientation and export performance, but the relationship is not significant. A study by Ismail & Isa (2021) also found that market orientation has no significant effect on trust, and that the indirect effects of market orientation on export performance are not significant.

Overall, it appears that the relationship between export market orientation and SME export performance is complex and may depend on various factors such as the industry, country, and specific market conditions. While some studies indicate a significant relationship between the two, other research suggests that the relationship is not significant or may be mediated by other variables. Therefore, it is important for SMEs to carefully consider their market orientation and other factors that may influence their export performance.

Governments can play an important role in supporting the export market orientation of SMEs. The results of this study are interesting because export market orientation does not significantly enhance SME export performance, but its interaction with government policy significantly improves the export performance of SMEs. Various government policies are implemented to encourage SMEs to enter the global supply chain, including export training and product promotion through trade attaches. Yang and Gao (2022) advised that the government should provide diverse training programs in business practices, management skills, and other areas. The limited ability to use technology impedes the implementation of online training for SMEs (Akhmad & Purnomo, 2021). Hossain et al. (2022) found that perceived compatibility has a positive influence on e-commerce adoption and therefore they suggested that SMEs should hire skilled workers. Min and Kim (2021) emphasized the importance of digital transformation competence in empowering SMEs.

The Indonesian government has several policies to promote SME exports. Firstly, export assistance programs. The government can offer export assistance programs to SMEs to assist them in dealing with the

complexities of exporting. These programs may involve financial support, trade missions, and export promotion initiatives. Research has demonstrated that government export assistance programs can impact various firm- and management-related factors that influence a firm's international marketing performance (Shamsuddoha, Ali, Ndubisi, 2009).

Secondly, information and advisory services. The government provides information and advisory services to SMEs to help them understand the requirements and regulations of foreign markets. This can include information on tax, regulatory frameworks, and requirements, as well as advisory and support services for SMEs and dispute resolution (Rasbin, 2019). Indonesia has established more than 40 Integrated Business Service Centers, two of which are located in Malang. The roles of these centers include providing information and technical services related to SME development.

Thirdly, trade fairs and exhibitions. The government organizes trade fairs and exhibitions to provide SMEs with a platform to showcase their products and services to potential buyers. This can help SMEs to establish contacts with potential customers and partners (Kominfo, 2019). Fourthly, participation in ministerial visits. The government facilitates SMEs' participation in ministerial visits to foreign countries. This can provide SMEs with an opportunity to meet with potential customers and partners, as well as to learn about the business environment in foreign markets (Kominfo, 2019).

Overall, governments can support SMEs in their efforts to expand their business and increase exports by providing export assistance programs, information and advisory services, trade fairs and exhibitions, export planning support, and participation in ministerial visits.

## **V. CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS FOR FUTURE**

This research demonstrates that SMEs in developing countries like Indonesia have not been able to enhance their export performance through customer orientation, competitor orientation, and inter-functional cooperation within their businesses. The role of government is important in enhancing the capacities and capabilities of small and medium enterprises to enable them to penetrate international markets. The understanding of SMEs regarding the behavior of international customers and competitors in international markets is still limited. As a result, internal inter-functional collaboration has not been able to keep pace with international dynamics.

This research contributes to understanding the role of state policy in the association between export market orientation and SME export performance but has several limitations. First, the sample of exporting SMEs is relatively small in the context of exports. A recommendation for future research is to increase the number of SME samples involved in export activities. This number is limited to the research location, and therefore, the geographic scope of future research can be expanded to cover several districts or provinces. Second, due to the limited number of SMEs engaged in exports, future research can analyze export trends. The goal is to obtain information about the factors that encourage SMEs that have never exported to enter international markets. Third, upcoming research can use actual measures of SME export performance, such as the quantity or volume of exports, sales revenue, and profitability, rather than perceptual measures. Actual measures better reflect the income level obtained by SMEs, but adequate preliminary studies are needed to determine the measures in the questionnaire.

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**\*Corresponding Author: Melany<sup>4</sup>**

**<sup>4</sup>(English Letters Department, Universitas Ma Chung, Indonesia)**