THE EFFECT OF INDUSTRIAL ENVIRONMENT TOWARD BUSINESS SUCCESS IN SMALL AND MEDIUM INDUSTRIES WITH MODERATING ROLE OF GOVERNMENT POLICY (STUDIES IN BASIC MATERIALS AND METALS INDUSTRIAL GROUP, MALANG CITY)

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ABSTRACT

Aims of this study are to gain empirical support that built on model. The respondents are 113 entrepreneurs. Data analysis is using the Partial Least Square (PLS). The results showed that government policies reinforce the influence of the industrial environment in the form of competitors, suppliers, and customers to the success of small and medium-sized industrial enterprises in Malang. Customers are dominant influence on the success of small and medium-sized industrial enterprises in the Malang City.

Keywords: competitors, suppliers, customers, government policies, and the business success

INTRODUCTION

The efforts to maintain the continuity of small and medium-sized industrial enterprises increasingly become important if it is associated with the implementation of regional autonomy (OTODA) and the issue of globalization. In OTODA, the central government provides a wide range of policies with the aim to accelerate the implementation of regional development and foster political stability and unity of the nation. While the meaning of development in the area is a spur equitable development process and its results in order to improve people's welfare, promote initiatives and community participation, as well as optimal utilization of regional potential and integrated. In achieving people's welfare, development was more focused on the economy, which attempts to community needs for goods and services. Through the understanding of development in this area, potential, role and strategic importance of small industries can be seen to do directly, namely its contribution to full fill the needs of society.

Viewed from the aspect of globalization a threat to small and medium-sized industrial enterprises with the invasion of foreign products are certainly in quality and the benefits will be far better than similar products produced by the domestic industry. The products produced by small and medium industries will be left by consumers if there is a lot of foreign products substitution which offered at competitive prices. This can be ascertained, given that there are general trends of people behavior living in underdeveloped countries and the developing world, including in Indonesia, prefer to buy imported products rather than homemade. Such circumstances, if no proactive anticipatory action from the government (especially local

government), then the products produced by small industries will be eliminated by itself and that means it will increase the number of poor people in the area that have a negative impact on political and social stability.

Unwanted conditions as described in the prediction calls for the attention of local government through its policies in order to find effective solutions for the existence and survival of small and medium industries in the area can not only be maintained, but the important thing is to make small and medium industries are able to compete with similar products or substitutes who came from foreign countries.

Meanwhile, the success of a company is determined by various factors that can be classified into two factors, the first is internal factors that a factor that can be controlled by the company. By mastering these internal factors, the company can identify strengths and weaknesses. Second is external factors that the environment outside the company who has the power to influence companies and emerging opportunities and threats there of facing business (Suwarsono, 2003). External factors include: (1) general environment, namely: socio-economic, technological, government and (2) the industrial environment are competitors, suppliers, and customers (Glueck and Jauch, 1998: 67). Industry environment is external environment factor which more specific and directly affect the company in achieving its goals (Robbins, 2009: 98).

In the meantime, government policy in Malang city that has been exploited by the small and medium industry entrepreneurs only includes (a) laws and regulations, (b) facilities and supporting infrastructure, (c) technical assistance, (d) administrative services, and (e) image builder of the government apparatus. In this study, researchers propose additional government policy in the form of: (a) information about suppliers, (b) information about competitors, (c) the utilization of information technology to share the product, (d) information about the capital, and (e) information about business partners , It is added because they need it based on the initial survey.

To find out how the government policy in the form of five policy proposals such as a moderating variable able to increase the influence of industrial environments such as: competitors, suppliers, and customers to the success of small and medium-sized industrial enterprises, of course, need to be carried out this research.

LITERATURE REVIEW

Wahyu (2005) concluded that the actual influence owned between the external environment and business success is the direct effect without going through the strategic orientation. Hidayat and Budiarto (2009) concluded that (1) environmental factors influence the strategy of industry diversification, diversification strategies affect the success of the business, and the success of efforts faced with competitive pressures, the pressure customers and suppliers pressures that affect company profits. Based on Nurseto (2012) the results show that environmental factors affect the success of the industry marketing strategy and marketing strategy affect the success of the business.

The opinion of some experts on industrial environmental factors can be summarized in the following table.

Table 1. Some Expert Opinions about Environmental Industry

Wheelen et al.	Glueck et al.	Robbin	Pearce et al.	Viljoen	Griffin
- *Stockholderset* - *Unions* - *Customer* - *Government* - *Trade asso-ciation.* - *Competitors* - *Community* - *Supplier* - *Special interest groups*	- *Customer* - *Supplier* - *Competitors*	- *Customer* - *Supplier* - *Competitors* - *Government* - *Labor union* - *Trade asso-ciation* - *Public groups*	- *Customer* - *Creditors* - *Competitors* - *Labors* - *Supplier*	- *Customer* - *Supplier* - *Competitors* - *Creditors* - *Labors*	- *Customer* - *Competitors* - *Association* - *Unions* - *Regulators* - *Supplier*

Source : Wheelen et al. (1997), Glueck & Jauch (1998), Robbin (2009), Pearce et al. (2001), Viljoen (2002), dan Griffin (2007)

Noting the several opinions on above, it can be argued that the environment industry that influence the success of business in this study refers to the opinion of Glueck and Jauch (1998), ie: customers, suppliers, and competitors; because, these three factors are always expressed by some of the experts. This indicates that all three are important considered to industrial environments.

Noor (2007: 112) argues that the success of the business is essentially the success of the business achieve its goals. A business is successful when it makes a profit, because profit is the purpose of entrepreneur doing business. Meanwhile, the Financial Accounting Standards Board, stated that the profits are often used as a measure of business success. Information about the company's business success, especially profitability, it is necessary to assess potential changes in economic resources, useful to predict the capacity of the enterprise to generate cash flow from existing resources.

Based on the previous explanation of the conceptual framework of research can be made as follows:
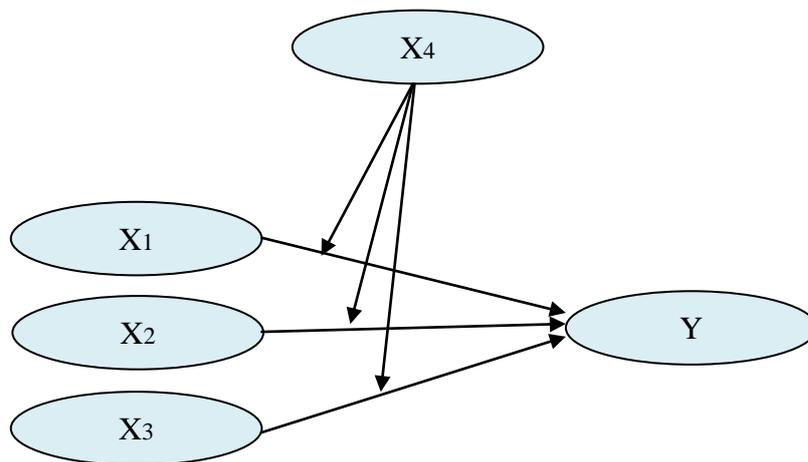

Figure 1. Concept Framework Research

Information
X1 = competitor
X2 = supplier
X3 = customers
X4 = government policy
Y = success of the business

RESEARCH METHODS

The population in this study is the small and medium industry entrepreneurs in Malang in the group of Materials and Metals Industry as much as 113 entrepreneurs. The population is relatively small and location is relatively close, so this study does not take samples. To test the proposed model using the Partial Least Square (PLS). the researcher using PLS method because this model was developed for situations where theory is weak, powerful as it can be applied to all types of data scale, does not require a lot of assumptions, the sample size should not be large, and variables can be reflective and formative. PLS besides than can be used to confirm the theory can also be used to recommend the existing relationship between variables or suspected to exist if the basic concept or a weak empirical support (Solimun, 2010). Thus, this empirical model using the PLS is presented in Figure 2 below:
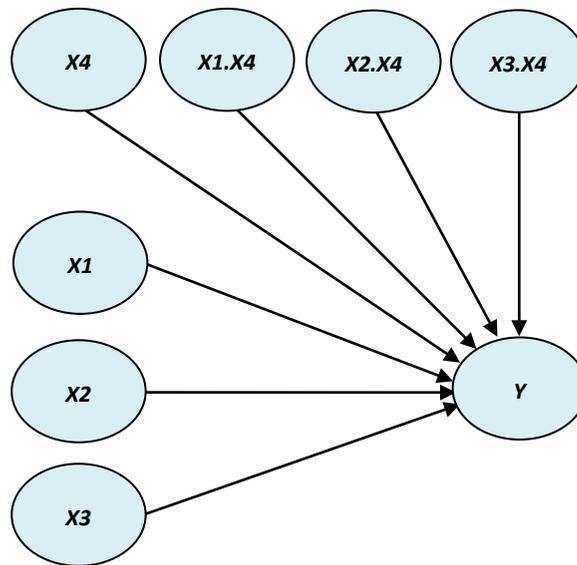

Figure 2. Model Empirical Research with PLS Approach

PLS RESULTS AND DISCUSSION

Results of the data analysis using the PLS is presented in Table and Figure below:

Tabel 2. *Path Coefficient*

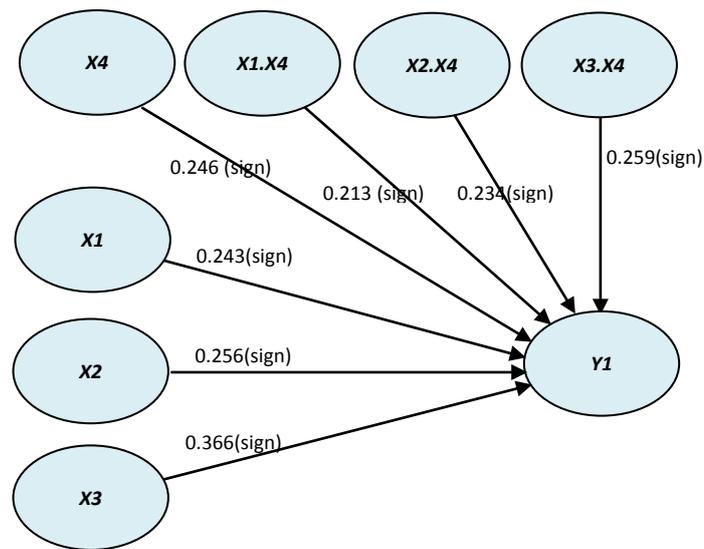|	*Original Sample*	*p-value*
x1 => y	0.243	0.023
x1x4 => y	0.213	0.025
x2 => y	0.256	0.021
x2x4 => y	0.234	0.022
x3 => y	0.366	0.020
x3x4 => y	0.259	0.024

Figure 3. Results of Data Analysis Using PLS

Based on Figure 3 and Table 1, it appears that the p-value of customer is 0.020 smaller than alpha variable 5%. This indicates that the variable of customer had effect on the success of small and medium-sized industrial enterprises. The estimated value of the inner weight coefficient is 0.366 and had positive sign. This indicates a positive relationship. That is more customers indicate the higher success of small and medium-sized industrial enterprises. The estimated value of the variable inner weight coefficient showed the greatest customer. This indicates that the customers variable are dominant effect could influence the success of small and medium-sized industrial enterprises.

Increased customer will have a positive impact on product sales, which in turn will increase the company's profit. Although the customers a little extra, but if their purchases showed significant percentage of total sales, this will also have an impact on increasing corporate profits.

Based on figure 3 and Table 1, it appears that government policy is associated with competitors, suppliers, and customers significance value less than 5% alpha. This indicates that the government policy proposed by the researchers were able to moderate the effects of industrial environments such as: competitors, suppliers, and customers to the success of small and medium-sized industrial enterprises. Meanwhile, the estimated value of the inner weight coefficient is positive. This indicates that the government policy proposed by the researchers were able to increase the influence of industrial environments such as: competitors, suppliers, and customers to the success of small and medium-sized industrial enterprises.

Tabel 3. *Outer Weight*

	Original Sample	*p-value*
y1.1=>y1	0.635	0.024

Tabel 4. *Outer Loading*

	Original Sample	p-value		Original Sample	p-value
x1.1 => x1	0.432	0.033	x3.1 => x3	0.512	0.032
x1.2 => x1	0.439	0.039	x3.2 => x3	0.509	0.035
x1.3 => x1	0.461	0.037	x3.3 => x3	0.541	0.032
x1.4 => x1	0.441	0.038	x3.4 => x3	0.521	0.034
x2.1 => x2	0.532	0.032	x3.5 => x3	0.511	0.031
x2.2 => x2	0.519	0.033	x4.1 => x4	0.542	0.023
x2.3 => x2	0.527	0.037	x4.2 => x4	0.559	0.021
x2.4 => x2	0.539	0.032	x4.3 => x4	0.657*	0.011
x2.5 => x2	0.541	0.036	x4.4 => x4	0.629	0.019
x2.6 => x2	0.521	0.037	x4.5 => x4	0.621	0.015

Information

x1.1	= Quality	x3.1	= number of buyers
x1.2	= Price	x3.2	= frequency of purchase price
x1.3	= model/motif	x3.3	= price requested
x1.4	= Payment	x3.4	= number of products purchased
x2.1	= number of suppliers	x3.5	= quality of products
x2.2	=ease of obtaining material information	x4.1	= Supplier Information
x2.3	= length of material gain information	x4.2	= Competitor Information
x2.4	= Supplier location	x4.3	= utilization of information technology
x2.5	= price of raw materials	x4.4	= information about capital
x2.6	= ease of payment	x4.5	= information about business partners

Outer loading Value (for reflective indicator) and the outer weight (for a formative indicator) indicates the weight of each indicator as a measure of each latent variable. Indicator with outer loading or outer weight is the biggest show of the indicators measuring the strongest variable (dominant). Table 3 showed that it appears that the five government policy proposed by researchers, policy number three, namely the use of information technology to share their products has a greatest value of its outer loading among the government policy proposed by researcher. This indicates that the use of information technology to share their products is a policy that is considered important by employers.

Based on the above explanation, the success of small and medium-sized industrial enterprises model based on the findings of this study can be described as follows:
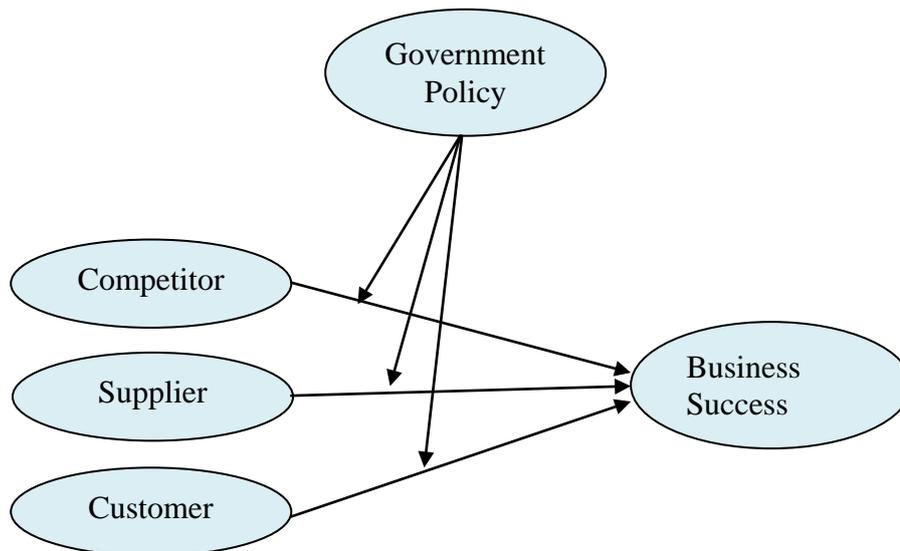
Figure 4. Model Success of Small and Medium Enterprises

CONCLUSION

In order to increase the success of small and medium-sized industrial enterprises, entrepreneurs need to pay attention to industrial environments such as: competitors, suppliers, and customers. Customers are the most industrial environments affect business success. In addition, the government needs to issue a government policy in the form of: (a) information about suppliers, (b) information about competitors, (c) utilization of information technology to share the product, (d) information about the capital, and (e) information about business partners

IMPLICATIONS

Government policies that are important to considered by employers in an effort to improve their business success is the utilization of information technology to share the product. Therefore, the government needs to establish a service area associated with the utilization of information technology to share their products through the internet. In addition, the government needs to issue a policy as proposed by the researchers.

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