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ABSTRACT

Purpose: This study aims to explain Government Policy, Internal Environmental, Innovation Capability, and Its Influence on the Business Performance of Craftsmen at the Silver Handicraft Industry Cluster in Pasuruan Regency.

Design/methodology/approach: The research model with hypothesis development was derived based on the literature. To provide empirical evidence, this study conducted a survey, using primary data collected using a list of questionnaires, and saturated sampling of 50 craftsmen at the Silver Handicraft Industry Cluster in Pasuruan Regency.

Findings: The results showed that Government Policy had an insignificant effect, Innovation Ability had a positive and significant effect, Internal Environment had a positive and significant effect on employee performance at the Silver Handicraft Industry Center in Pasuruan Regency.

Practical implications: The implication of the research is to examine the perceptions of 50 employees at the Brem Small Industry Cluster in Pasuruan Regency. The analytical technique used is multiple linear regression.

Originality/value: This paper is original

Paper type: Is categorized as a research paper.

Keywords: Government Policy, Innovation Ability, Internal Environment, Business Performance.

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I. INTRODUCTION

Experience in developed countries shows where Small and Medium Enterprises (SMEs) are the source of product and technology innovation, the growth of new creative and innovative entrepreneurs, the creation of skilled labor and the flexibility of production processes to deal with the rapid and ever-changing market demand. The majority of small businesses are more efficient than large businesses, especially in meeting rapid market demand. The capabilities of small businesses are largely determined by a number of factors including HUMAN RESOURCES, mastery of technology, access to information centers, output and input markets (Tambunan, 2009). But the existence of business in the 21st century will increasingly face challenges because consumers are more looking to higher-quality products, at relatively cheap prices, and the businesses mentioned above must also be more responsive to very rapid changes.

One of the commodities of the Small Craft Industry is the silver craft industry, in Pasuruan Regency which is pursued by people in the countryside for generations. Bangil Village and Balongbendo Pasuruan Regency is the largest Silver Craft Industry Center. Silver crafts in the form of jewelry both men and women and souvenirs are mainly exported indirectly to foreign countries through exporters from Bali. Based on the results of preliminary research it is known that the problem in this Center is business performance that began to decline since the last 3 years. The problem consists of (marketing 38%, Capital 27%, Legality of business 10% HR 8% and the rest related to business management by 27%).
Government policy in fostering and developing silver craft industry centers in the hope that performance will be improved in order to contribute to national economic growth. The results of Wuryandani & Meilani (2013) explained that exporters in D.I Yogyakarta urgently need local government policies in developing the market, so that they can develop to the next level of business. Dana (1999); Premaratne (1999); Sarder et al. (1997); Sitohang (2006) Shows that government policies have a significant positive effect on the performance of small and medium-sized industrial businesses. But the results of Moeljadi’s research (1999) explained that government assistance / assistance negatively affects the Performance of Small Industries in East Java.

In the same time as government policy factors, innovation ability factors also affect business performance (Han et al., 1998). Han argues that innovation refers to new products or attempts to make new breakthroughs, and innovation failures generally stem from the indifference of organizational members to innovation. According to Putra & Bayu (2017) innovation includes the development and implementation of something new. There is a relationship between innovation ability and business performance. In product innovation, the product innovation process will have a direct impact on the success of the company indicated by increasing revenue and profit (Bake, 2004). Silver craft industry companies produce commodities that have a tendency that is easily influenced by market changes (Putra & Bayu, 2017). So that although the company has been able to adapt to government policies and has employees who have good innovation capabilities without being supported by a conducive internal environment of the company, business performance has not been optimal in accordance with expected (Putra & Bayu, 2017).

The company's internal environment encompasses all human and physical resources that affect the organization in achieving its goals within a given period of time. Internal stakeholders are the organization itself. Elements of the internal environment include: Employees, the level of environment in the organization that to some extent can be controllable (controllable) and generally has special implications in managing the organization. A good blend of the company's internal environment is a contributor to the existence of business performance. Therefore, the company's management always tries as much as possible to regulate the company's internal environment in order to maintain business performance.

Azizah & Priyadi (2016); Fibriyani & Mufidah (2018); Wulandari (2009) reported the results of their research that the internal environment has a positive effect on the company's performance. Likewise, the results of Qorian’ research (2019) which states that internal factors have a positive effect directly on their business performance. But the results of Mokodompit et al. (2019) showed that internal environmental factors had no significant effect on mms business performance.

From the results of the above research shows there is still a gap about the results of its findings where some researchers state that the internal environment affects the performance of SME businesses while some researchers still find empirical evidence that the internal environment has no significant effect on the performance of SME businesses.

Based on the background of the issues stated above, the author wants to research about Government Policy, Innovation Capabilities, Internal Environment and Its Effect at Artisan Business Performance at the Silver Craft Industry Center in Pasuruan Regency. The problems in this study are formulated as follows: What are variables; 1) Government policy, 2) innovation capability, 3) internal environment, affects business performance at the Silver Craft Industry center in Pasuruan Regency? This research aims to find out the influence; 1) Government Policy, 2) Innovation Capabilities and 3) Internal Environment to Artisan Business Performance at Silver Craft Industry Center in Pasuruan Regency.

II. REVIEW THE LITERATURE

A. Government policy

Government policy is a series of actions taken or not carried out by the government that are oriented to a specific goal to solve problems in the Small Industrial Environment of Islamic Silver Craft (2009: 17), Anderson (1979); Wahab (2008), explaining that policy implementation is a bridge that connects policy formulation with results/outcomes). expected policy. Edward III as edited by Suharno (2010:188) proposes four variables or factors that affect the success of policy implementation, namely; a). Communication, b. Resource factor, c) Disposition factor. This means that the success of policy implementation will improve business performance.

Characteristics of Government Policy, a) Government Policy carried out by an actor, 3) Government Policy is something that is done or not done by the government, 4) Government Policy is a concrete form of state with its people, 5) Government Policy is a series of instructions or orders, such as the Law. While the Government Policy Function is more specialized in the benefits that can be. At first glance it's similar to the goal. Some points are almost exactly the same. But the description will be different. The functions of public policy, among others, namely: 1) Public policy order is made in order to create order. 2) Guarantee the human
rights of other functions of the policy, 3) The Instructions of the Activity Program Each achieving the objectives of course there must be a plan for the activity. Government Policy in Fostering SMEs, consisting of 1) RI Law No. 9 of 1995 on SMEs, 2) RI Law No. 20 of 2008 on SMEs, 3) RI Law No.17 of 2017 on SMEs, 4) Of Indonesian Cooperative Law of 2020. In essence, all laws and regulations, the Presidential Decree issued by the government aims to provide ease of business against both IMKMB companies, which produce goods and services that directly affect business performance. This means that the success of government coaching policies will improve business performance. Referring to Article 5 of Law No. 20 of 2008 on MSMEs, government policy indicators consist of, 1) Human Resource Development, 2) Marketing Development, 3) Design and technology development.

B. Innovation Capabilities

Innovation is the "process" or "outcome" of the development and/or utilization or mobilization of knowledge, skills (including technological skills) and the experience to create or improve a product. Therefore, the higher the innovation capability of entrepreneurs will provide more meaningful value so that business performance can be improved Suryani (2008:304). Rosenfeld in Sutarno (2012:132), innovation is the transformation of knowledge to new products, processes and services, the act of using something new. While according to the Partner that innovation is a successful exploitation of a new idea or in other words is the mobilization of knowledge, technological skills and experience to create new products, processes and services so that the company has optimal performance.

According to Rogers in LAN (2007:116) says that innovation has the following attributes, a) Relative Advantages, b) Conformity or Complexity, d) Possibility of Trial, e) Ease of observation. While the type of innovation according to Setiadi (2003:395) consists of, a) Continuous innovation, c) Continuous innovation dynamically, d) Innovation is cut off. Furthermore, according to Setiadi (2003:398) explained there are several factors underlying innovation, consisting of: a) Product orientation, b) Market orientation, c) Consumer orientation. The Classification of Products of Innovation according to Vontano (2009:20), Suyoto (2013: 9), from products commonly purchased by consumers, can do classification or classification about products. Namely: 1) Durable goods, 2) Goods that are not durable, 3) Services. Everett M. Rogers (2003) states that a new product can be easily accepted by consumers if it has a relative advantage. This means that the new product will attract consumers if the product has advantages over existing products in the market. For example, silver products. In a relatively short time has been widely used by the community because the craft has a relative advantage over other craft products. This is what drives the improvement of business performance. Referring to Robbins and Mary, (2010) indicators of innovation capabilities consist of: 1) Structure on innovation, 2) Culture on innovation, 3) Resources on innovation.

C. Internal Environment

The internal environment is the organizational environment that exists within an organization (Wispandono, 2011:155). Hunger in Moeljadi (1999:22) suggests that every business activity is always faced with an ever-changing situation. This condition is not possible without an adjustment process to existing internal conditions. So the internal environment is portrayed by the strengths or weaknesses of a company and can reflect the ability of entrepreneurs to manage the company so that business performance can be improved. Therefore, Murp (1999) argues that to know the strengths and weaknesses of the organization must be done internal environmental analysis. The company's internal analysis includes the authenticity of the finance and accounting divisions, marketing, research and development, personnel and operations. With this analysis the craftsman can find out what is the strength and what is the weakness of the organization he leads in achieving optimal performance. The impact of the internal environment of business in every organization is profound and intense (Sarder et al., 1997). Therefore, internal business environmental factors must be analyzed as carefully as possible in making a decision related to the direction and ability of innovation combined with government policies. In analyzing the internal environment there are several elements that are the focus of them Himstreet (1998:26), a) Corporate organizational structure, b) Corporate culture, c) Corporate resources. According to Himstreet (1998:22) through an analysis of the internal environment will be found problems faced so that immediate improvements will be made to maintain reliable business performance. Guided by Wispandono (2011:155) that, there are four indicators in the internal environment of the business, namely 1) Marketing, 2) Finance, 3) Production 4) Organization.

D. Business Performance

Business Performance is the achievement of certain job requirements that can finally clearly reflect output, and performance is one of the measuring instruments for the achievement of an organization's goals Hasibuan (2010:45). Suhardi (2012:100); Zainal & Basri (2005:16), stated that performance is strongly influenced by various factors such as government policy, innovation capabilities, and the internal environment of the company.
concerned. Performance emphasizes the efficiency of saving the use of resources owned to achieve the desired goal. Therefore, business performance needs to be evaluated periodically whether the achievement of business performance is in accordance with the planned? Mardiasmo in Aditya (2014) argues that the general purpose of measuring an organization's business performance is to look at: a) the condition and determine the contribution of a company to the organization as a whole, b) As a basis for evaluating the performance of each management, c) Provide motivation for each division management consistently so that it is in accordance with organizational goals as set. Irham (2014) explained that the periodic measurement of business performance will provide benefits for existing companies which include, 1) Managing the company's operations effectively and efficiently, 2) as input for managers in making every decision, 3) Identifying training needs, employee development, and to provide criteria for selection and evaluation of future employee training programs, 4) Providing feedback for each employee employees about how their employer's assessment of their performance, 5) Is the basis for the distribution of awards.

Mardiasmo in Arisudhana, (2014) Factors That Affect Business Performance consist of, 1) Effectiveness and efficiency. 2) Authority, 3) Discipline. This means that by evaluating business performance will be known the strengths and weaknesses of the business to further overcome what is a weakness and maintain what becomes power. Guided by Bruck And Evens in Munizu (2010) business performance indicators using Subjective measurement or qualitative as follows: 1) Profit Growth, 2) Growth of Marketing Area, 3) Growth of Labor Absorption, 4) Capital Growth

D. Previous Research Review

Dana (1999); Murp (1999); Premaratne (1999); Sarder et al. (1997); Sitohang (2008); Wuryandani & Meilani (2013) explained their findings that government policies had a positive and significant effect on business performance and even encouraged the improvement of business structures towards small business levels, Medium and large. Government policy does not mediate the influence of business strategies on business performance. Likewise, the results of Moeljadi’s research (1999) showed that government assistance / assistance negatively affects the Performance of Small Industries in East Java.

Fibriyani & Mufidah (2018) in his research explained that innovation carried out can improve business performance, and therefore innovation is very important for the sustainability of the existing SME business in Tutul Village, Jember. But the role of the government is not able to contribute to the sustainability of the existing SME business in Tutul Village, Jember, this is in line with the empirical fact that the government does not contribute to SMEs that provide grants or other forms.

Azizah & Priyadi (2016); Qoriani (2019); Wulandari (2009); Wuryandani & Meilani (2013), explained their findings that the internal environment, has a positive and significant influence on business performance. But Mokodompit et al. (2019) reported its findings that internal factors have no significant effect on MSME performance.

E. Conceptual Frameworks and Hypotheses Research

The conceptual framework of research describes the relationship between one concept to another concept of the problem to be examined.

Based on the results of previous research, the formulation of the hypothesis is as follows:

H1: Government Policy affects the Business Performance of Silver Craft Industry Center in Pasuruan Regency

H2: Innovation Ability affects the Business Performance of Silver Craft Industry Center in Pasuruan Regency.
H3: Internal Environment affects the Business Performance of Silver Craft Industry Center in Pasuruan Regency.

The analytical tool used in this study is Multiple Linear Regression.

III. RESEARCH METHODS

This type of research includes expalanori research because this study uses data from samples taken from the population in order to generalize from observations. The population in this study was 50 craftsmen. Sampling technique is saturated sampel or census, where all members of the population are sampled because the number of members of the study population is relatively limited, amounting to 50 craftsmen at the Silver Small Industrial Center in Pasuruan Regency.

In this study using several Free Variables (X) including Government Policy (X₁), Innovation Capability (X₂), Internal Environment (X₃) While Variables Are Bound (Y) i.e. Business Performance. Here is the operational definition of the variable and the indicator.

1. Government policy is a series of actions taken by the government that are oriented to a specific goal to solve problems in the Small Industrial Environment of Silver Craft. refers to Article 5 of Law No. 20 of 2008 on MSMEs which include: 1) HR coaching, 2) marketing coaching, 3) Design and Technology Development

2. Innovation ability is a new invention that is different from the previous results of thoughts and ideas that can be developed and implemented to benefit silver craft industry companies. Merujukon Robbins and Mary, (2010) indicators consist of those that include: 1) Structure on innovation, 2) Culture in innovation, 3) Resources on innovation, including:

3. The Internal Environment is the entirety of Human Resources and other resources related to the environment, which affects small industrial companies crafting silver. Referring to Wispandono (2010:155) indicator consists of: 1) Marketing, 2) Finance, 3) Production, 4) Organization.

4. Business Performance is the result of work achieved by the company, the Silver Craft Industry is seen from the quality and quantity and bluntness of the company within a certain period of time. According to Bruck And Evans in Munizu (2010) using Subjctive measurement or with indicators including: 1) Profit Growth, 2) Growth of Marketing Area, 3) Growth of Labor Absorption, 4) Capital Growth

Type data used dalampenelitian this primarydata. The data is related to government policy, innovation capabilities, internal environment and business performance derived from the perception of respondents directly through the filling of questionnaires provided to be answered in accordance with what is felt, but still in the context of available answers. Data collection using questionnaires distributed to respondents is the craftsmen at the Silver Craft Industry Center in Pasuruan Regency which numbers 50 craftsmen who are still actively running their businesses until 2020. Data analysis techniques used multiple linear regression

IV. RESULTS OF RESEARCH AND DISCUSSION

A. Description of Respondent Characteristics

Respondents in this study consisted of; 43 men, and seven women. Respondents aged 21-30 years, namely as many as 11 people, aged 31-40 years as many as 19 people, aged 41-50 years as many as 17 people. The 51-year-old is 7 years old. The work experience of respondents less than 1 year is only 1 person. Working period between 1-5 years as many as 13 people, have work experience between 6-10 years a number of 14 people, have a working period between 11-15 years as many as 22 people. Respondents who have an SLTA education level of 46 people, D3 graduates as many as 3 people and graduates of S1se as many as 1 person.

B. Description of variables

The description of each variable in this study is as follows:

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Information</th>
<th>Mean</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>X₁</td>
<td>Government policy</td>
<td>3,81</td>
<td>Tall</td>
</tr>
</tbody>
</table>
The results showed that the mean of all respondents’ answers to the Kemerintah Policy statement was 3.81, the score was relatively high. This shows that the majority of respondents choose an agreeable attitude because government policies support their work. Mean of all respondents’ answers to the Innovation Capability statement of 3.87, the score was relatively high. This indicates that the majority of respondents choose an agreeable attitude towards the Innovation Capability of entrepreneurs. The mean of all respondents’ answers to the Internal Environment statement was 3.90, the score was high. This indicates that the majority of respondents choose an agreeable attitude towards the Internal Environment. Mean of all respondents’ answers to the business performance statement of 3.95, the score is relatively high. This shows that the majority of companies have high performance.

C. Test validity and reliability.
1. Validity Test
   Based on the validity test, it shows that all indicators of Government Policy, Innovation Capability, Internal Environment and Business performance have a correlation value greater than 0.30, so that the indicator is valid as a free variable shaper and bound variable.

2. Reliability test
   The test results presented in Table 2 show that the Cronbach Alpha value of each construct is greater than 0.70 so that all items can be concluded on each reliable variable, meaning that existing data can be processed further.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>R Critical</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government Policy (KP)</td>
<td>0.760</td>
<td>0.6</td>
<td>Reliable</td>
</tr>
<tr>
<td>2</td>
<td>Innovation Capabilities (KI)</td>
<td>0.832</td>
<td>0.6</td>
<td>Reliable</td>
</tr>
<tr>
<td>3</td>
<td>Internal Environment (LI)</td>
<td>0.727</td>
<td>0.6</td>
<td>Reliable</td>
</tr>
<tr>
<td>4</td>
<td>Business Performance (KU)</td>
<td>0.727</td>
<td>0.6</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

   Source: Quiz results processed

D. Classic Assumption Test
1. Normality Test Results
   Figure 2 shows that the data pattern spreads around the diagonal and follows the direction of the diagonal line, so it can be said that the variables in this study meet the normality test.
E. Multicollinearity Test Results

Based on Table 3, the result was obtained that the VIF value in all free variables is smaller than 10, meaning that all free variables in this study have no multicollineer symptoms.

Table 3. Multicollinearity Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Policy (X1)</td>
<td>0.834</td>
<td>1.200</td>
</tr>
<tr>
<td>Innovation Capabilities (X2)</td>
<td>0.639</td>
<td>1.566</td>
</tr>
<tr>
<td>Internal Environment (X3)</td>
<td>0.727</td>
<td>1.376</td>
</tr>
</tbody>
</table>

Source: Appendix 4

F. Heteroskedasticity Test Results

Figure 4 shows that residual variance from one observation to another has no particular pattern. This unequal pattern is intended with unequal values between one variant of residual, point spreads above and below the number 0 on the Y axis, it can be concluded that in the multiple regression equation there is no heteroskedastisity.

Figure 4. Heteroskedasticity Test Results

G. Multiple Linear Regression Analysis Results

The results of multiple regression analysis can be seen in the following table:
Table 4. Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Regression Coefficient</th>
<th>Sig.</th>
<th>Ket</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.330</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Policy (X1)</td>
<td>0.260</td>
<td>0.151</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Innovation Capabilities (X2)</td>
<td>0.410</td>
<td>0.024</td>
<td>Significant</td>
</tr>
<tr>
<td>Internal Environment (X3)</td>
<td>0.610</td>
<td>0.002</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Source: Appendix 4

Based on Table 4. 12 obtained multiple linear regression equations as follows:

\[ Y = 0.330 + 0.260X_1 + 0.410X_2 + 0.610X_3 \]

Based on the table above can be explained as follows:

1. The multiple linear regression equation shows the value \( \beta_0 \) (constant) of 0.330. The value means that if the free variables i.e. Government Policy (X1), Innovation Capability (X2), Internal Environment (X3) are constant, then business performance is 0.330.
2. The value of \( \beta_1 \) of 0.260 means that if there is an increase in Government Policy (X1) of one unit then business performance will increase by 0.260.
3. The value of \( \beta_2 \) of 0.410 means that if there is an increase in Innovation Capability (X2) by one unit then business performance will increase by 0.410.
4. The value of \( \beta_3 \) of 0.610 means that if there is an increase in the Internal Environment (X3) of one unit then business performance will increase by 0.610.

H. Correlation Analysis

This test is done to see if the model analyzed has a high level of model feasibility, i.e. the variables the model uses are able to explain the phenomenon being analyzed.

Table 5. Correlation Results of Determination

<table>
<thead>
<tr>
<th>Type</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.836</td>
<td>.699</td>
<td>.679</td>
<td>.329</td>
</tr>
</tbody>
</table>

Source: Appendix 4

The coefficient of determination \( (adjusted \ R \ Square) \) of 0.679, indicates that variable free Government Policy (X1), Innovation Capability (X2), Internal Environment (X3), able to explain the change of business kineria variables by 65.79% while the remaining 34.21% is explained by variables other than the three variables. A correlation R value of 0.836, means that the relationship between Government Policy (X1), Innovation Capability (X2), Internal Environment (X3), to business performance is very strong.

Hypothesis Test

The results of hypothesis one (H1) to hypothesis three (H3) based on Table 5 can be explained as follows:

H1: Government policy (X1) affects business performance.

Based on the calculation of government policy (X1) on business performance, the significance value of 0.151 is greater than (\( \alpha \)) 0.05. Hal indicated that government policy (X1) had no significant effect on the performance of the uaha. The first hypothesis (H1) that mentions government policies have a significant effect on business is not proven.

H2: Innovation Capability (X2) affects business performance

Based on the calculation of Innovation Capability (X2) on business performance, the significance value of 0.02 is less than (\( \alpha \)) 0.05. This indicates that Innovation Capability (X2) has a significant effect on business performance.

H3: Internal Environment (X3) affects business performance

Based on the calculation of Internal Environment (X3) on business performance, the significance value of 0.002 is less than (\( \alpha \)) 0.05. This indicates that Internal Environment (X3) has a significant effect on business performance.
Based on calculations, the impact of Innovation Ability to business performance is known the value of significance of 0.024 is smaller than (α) 0.05. Hal this shows that Innovation Capability has a significant effect on business performance. The second hypothesis (H2) which mentions innovation capabilities has a significant effect on business performance is accepted.

H3: The Internal Environment affects business performance

Based on calculations of the internal environment's impact on business performance, the significance value of 0.002 is smaller than (α) 0.05. Hal this shows that the Internal Environment has an effect on business performance. The third hypothesis (H3) that mentions the Internal Environment has a significant effect on the performance of accepted businesses.

V. DISCUSSION

A. Effect of Government Policy on Business Performance

The results show that government policies have no significant effect on business performance. Government policy is an attempt to achieve a specific goal or goal. The knowledge and skills of craftsmen in the center of the silver craft industry of Pasuruan Regency after following the government's development showed an increase, but the center of the silver craft industry has always tolerated the risk of unsuccessfulness in making innovations can inhibit the growth of business performance.

Low knowledge of the benefits of technology especially going online. Another obstacle is limited internet access. In fact, internet access is a key requirement for MSMEs to go digital. However, in fact, most MSME businesses are spread in areas that are still limited to their internet network. Transaction security is also an obstacle for MSMEs in the digital ecosystem. Eddy said, there are still many consumers in Indonesia who claim to be anxious in the security of transacting online. About the limitations of capital and adequate technological infrastructure. MSMEs need smart phone devices and other devices that support online product marketing.

The condition of the limitations of MSMEs entering the digital market is also strengthened by studies that mention that the characteristics of MSMEs in Indonesia are still very few to develop digital marketing that is networked and uses advanced technology. This can be seen from MSMEs who still use static sites by 32.5%, interactive sites by 25%, and have not been digitally involved have a percentage of 7.2% OF MSMEs.

Another problem faced by MSMEs in Indonesia in the face of digital marketing is the lack of support from the government and the competitive atmosphere of competitors is still not able to encourage the readiness of the use of information technology for MSMEs. In fact, in the map of MSME competition in the scope of the digital market or commonly referred to as e-commerce, technological readiness becomes the main element that encourages MSMEs in adopting the system.

The success of government policy is closely related to several aspects, including; policy makers' considerations, commitment and consistency of policy implementers, and target behavior. This situation at least gives an idea that there are certain factors or variables that can affect the successful implementation of a government policy (Suharno, 2010).

B. The Impact of Innovation Ability on Business Performance

The results of this study show the ability of innovation to positively and significantly affect the performance of artisan businesses at the silver craft industry center in Pasuruan Regency.

The center of the silver craft industry in Pasuruan Regency has rich resources providing a foundation for entrepreneurs to innovate. Sutarno (2012:132), innovation is the transformation of knowledge to new products, processes and services, the act of using something new. Whereas according to the Partner that innovation is a successful exploitation of a new idea or in other words is the mobilization of knowledge, technological skills and experience to create new products, processes and services.

The results of this investigation show that the mobilization of knowledge has been supported by interpersonal communication in the Silver Craft Industry Center in Pasuruan Regency. This company is doing well so that it makes it easier to innovate. It is supported by every employee free to innovate throughout for the betterment of the organization. Silver craft industry center in Pasuruan Regency provides training and development for employees to improve Innovation Capabilities. Process innovation, related to new ways of delivering products to consumers is very possible. MSMEs can use online media to deliver their products to consumers. Recently there was a wedding catering company innovating by offering a delivery service that allows invited guests to enjoy a meal while watching the wedding online at home. Likewise with private tutoring services, which offer an online learning model.
Process innovation in the form of updates to the way of production also needs to be considered. MSMEs need to think about production processes that can reduce the use of fixed costs. A fixed cost is a fixed cost, regardless of the volume of the product produced. In conditions of low demand, the fixed cost per unit of the product is high. One component of fixed costs is the salary of a permanent employee. With the new way of working, it is expected to reduce the payroll model that bases on fixed costs and shifts them to variable costs.

Business innovation in a pandemic situation, however, should pay attention to two important aspects: financial resources and markets. From the financial side, pandemics in general have eroded MSME resources, along with a decrease in their income. Their financial resources will be more widely used to survive. That means, innovations that require large financial resources, such as the launch of new products should be avoided. MSMEs need to focus more on innovation at less cost, such as process and position innovation. The market, on the other hand, is characterized by weakening purchasing power and accompanied by changes in consumer preferences.

Consumers prefer to shop for essential and urgent goods, as opposed to less important and urgent goods. Therefore, the innovation chosen is not only in line with resources, but also market accessibility.

In MSMEs, where payroll systems tend to be more flexible than large companies, this effort can be done. Position innovation is done when companies shift their old products to new markets.

C. The Impact of the Internal Environment on Business Performance

The results of this study support Murp (1999) Internal environments are illustrated by the strengths or weaknesses of an organization and can reflect an entrepreneur’s ability to manage the company. This can show the strength of resources, including all material or non-material aspects owned by the company in carrying out its business and function to produce commercially. The concept consists of the ability of entrepreneurs, the ability to optimize existing production processes, capabilities in expanding the market, and managing aspects of finansilnya.

According to Pearce and Robinson Jr., in Kotler (2005), internal environmental analysis is the understanding of matching internal strengths and weaknesses. With external opportunities and threats internal environmental analysis leads more to the company's internal analysis in assessing or identifying the strengths and weaknesses of each division of finance and accounting, marketing, research and development, personnel and operations. With this analysis the entrepreneur can find out what is the strength and what are the weaknesses of the company he leads, thus will be able to determine the target market or market orientation.

To overcome the weakness of MSMEs, the government can empower. The implementation of community empowerment, must be done through several activities, first, creating a climate that allows the potential of the community to develop (enabling). Both strengthen the potential or power possessed by the community (empowering). Third, empowering also contains the meaning of protecting. This lies the starting point that the introduction of every human being, every member of society, has an introduction to every human being, every member of society, has a potential that can always be developed. That is, no society is completely powerless, because then it will be easily extinct.

Empowerment is very important for the economic integrals of the people who have an important position, in accordance with the mandate set by MPR Number XVI / MPR-RI / 1998 on economic politics in the framework of economic democracy MSMEs role and strategic potential to realize a national economic structure that is more balanced, developed, and equitable. Empowerment of MSMEs must be organized in a comprehensive, optimal and sustainable manner through the development of a conducive climate, the provision of opportunities to strive, support protection and business development as widely as possible, in order to improve the position, role, and potential of MSMEs in realizing economic growth, and can increase people’s income, employment and reduce poverty. So in the shahnya Law No. 9 of 1995 on Small Business. Which only regulates Small Businesses, namely productive businesses owned by individuals or individual business entities that meet the criteria of Micro Enterprises as stipulated in this Law. Small business is a productive economic business opportunity that stands srdiri, conducted by individuals or business entities that are not subsidiaries or are not branches of companies owned, controlled, or in part either directly or indirectly from medium businesses or large businesses that meet the criteria of small businesses as referred to in this law. A medium-sized business is a stand-alone productive economic venture, conducted by a person or business entity that is not a subsidiary or branch of a company owned or controlled or becomes a part either directly or indirectly with Small Businesses or Large Businesses with the amount of net worth or annual sales proceeds as stipulated in the Law.
VI. CONCLUSIONS AND SUGGESTIONS

A. Conclusion

Based on the results of analysis and discussion, the conclusion of the results of the study is, First, Government policy has an insignificant effect on the performance of employees of silver craft centers in Pasuruan. Second, the innovation technology has a positive and significant effect on the performance of artisan businesses at the center of the silver craft industry in Pasuruan Regency. Third, the internal environment has a positive and significant effect on the performance of artisan businesses at the silver craft industry center in Pasuruan Regency.

B. Limitations

This research only focuses on the influence of government policies, innovation capabilities, internal environment and business performance of Silver Craft Center in Pasuruan Regency. The object of this study is the employees of the Silver Craft Center in Pasuruan Regency which numbered 50 people. This research has not explained in detail what government policies have been implemented or have not been applied in the industrial center.

C. Suggestion

So that the government can consider a special solution in the economic field, namely spurring the activities of the MSME and Cooperative sectors as a locomotive of national economic recovery. The trick, do the integration of the development policy of MSMEs & Cooperatives Indonesia based on local superior products through seven visions of Strengthening the National Economy. This is based on the consideration that 99% of the business population, 97% of employment, and 60% of GDP are from the MSME and Cooperative sectors. Resetting the concept of people's economic development towards a more equitable and familial economic system by placing cooperatives as soko teachers of the Indonesian economy. Preparing pandemic financing for cooperatives and MSMEs worth Rp 500 trillion per year for the next two years (2021-2022), with channeling patterns guaranteed by the Guarantee Agency (Jamkrindo, Askrindo, and others). Prepared regulations and provisions supporting the implementation of resetting and changing the mindset of people's economic development. "It contains general policies, systems and procedures for implementation, rewards and punishment that are firm and transparent through the Dashboard Management System.

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