International Journal of Engineering & Technology, 7 (3.30) (2018) 378-383

International Journal of Engineering & Technology

Website: www.sciencepubco.com/index.php/IJET

Research paper

The Relationship between Industrial Environment and Financial Performance (Evidences Small and Medium Enterprises in East Java Region, Indonesia

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Abstract

This study examines the efect of industrial environment towards the financial performance of Small and Medium Enterprises (SMEs). The object of research is SMEs of handmade batik in east java region, Indonesia. Handmade batik as a fabric product with original Indonesian creations, pure making process using hand drawing on cloth. SMEs of handmade batik in east java region-Indonesia can not be removed with industrial environment. Industrial environment as a business factor outside the company that can cause opportunities or threats that affect the company's competitive advantage. Industrial environment as an independent variable with variable dimension consisting of power of new competitors, bargaining power of supplier, bargaining power of buyer and intensity of competition. Financial performance is a form of performance achieved by companies that are determined from financial information as a fundamental factor. Data collection method was done through questionnaire, consisting of 84 respondents. Hypothesis test is done by multiple regression processed. Research findings, industrial environment have a positive and significant influence on financial performance. Dynamics of the industrial environment as an external factor of the company, will make business activities have a better prospect.

Keywords: industrial environment; financial performance; small and medium enterprices (SMEs); Handmade batik.

1. Introduction

Beginning in 2016 in Association of SouthEast Asian Nations (ASEAN) has been declared as the ASEAN Economic Community (AEC) which is a free trade zone. An ASEAN economic integration which means that all countries in the ASEAN region implement a free trade system that is full of competition. The definition of competition in the business world is always associated with juridical competition in the sense of a market-based economy, all business actors as producers and sellers freely seek to get consumers to gain profit as a business or a specific company that he founded.

The high or low competitiveness of firms is influenced by changes in the corporate environment. The corporate environment is referred to here as the business environment or industrial environment. Industrial environment is a business factor outside the company that can cause opportunities or threats and affect the competitive advantage of a company. The increase or decrease in the company's performance depends on the ability of the company to compete with other companies, the consumer's response to the products or services produced by the company and the supplier as the company's partner in fulfilling the raw material needs, so that the industrial environment has an influence on the rise or fall of a company's performance.

Dess and Beard (1) industrial environmental factors in practice can manifest a dynamic environment and unpredictable industrial environmental change conditions. Such environmental changes are very rapid and discontinuous due to factors changing demand, technology, competitors, changing times and speed of information. A soft environment by changing environmental conditions is influenced by the availability of external resource resources resulting in company growth. The complex environment is a complex and diverse environmental change of organizational activity resulting from the company's environmental turbulence associated with technological change, changing consumer tastes, increasing competition, and socioeconomic issues.

Companies face an external environment in an effort to achieve sustainable competitive advantage. This research emphasizes the industrial environment. The industrial environment is defined as a number of factors comprising the threats of new competitors, suppliers, buyers, substitution products, and the intensity of competition among competitors that directly affect the company, the company's competitive actions and corporate response. The industrial environment is concerned with business sustainability. Industrial environment and increasingly fierce industrial competition encourage small and medium enterprices (SMEs) to improve productivity and quality of business management in order to have competitive advantage. The key to corporate success in the increasingly fierce competition is the ability of companies to face changes in the industrial environment.

The industrial environment in industry competition is a number of factors comprising the threats of new competitors, suppliers, buyers, substitution products, and the intensity of competition among competitors that directly affect the company, the company's competitive actions and corporate response (2). This research emphasizes on the relevant industrial environment with the object of research of small and medium enterprises, factors that directly affect small and medium enterprises, including: power of new competitor, supplier bargaining of supplier, supplier

bargaining of buyer, and competitions intensity. The reason for focusing on the industrial environment, as it is considered in accordance with the research sample of handmade batik creative industry that has gained recognition in the world, also faces the free market of Asean Economic Community.

The industrial environment has been described in the book of strategic management literature, also analyzed by the researchers. According to Hitt, et. al.(2), industrial environment has a direct influence on the company's competitive strategy and the ability to get above-average profits. Industry profit potential is a function of five competitive forces, namely newcomer threats, supplier capabilities, buyer capability, replacement products, and competition intensity among competitors. Then, the results of research Baum et al., (3) states that the environmental impact on business growth is relatively low. Indris and Primiana (4) stated that the internal environment and the external environment have a significant effect on the SMEs. Furthermore, Milovanovic and Wittine (5) states that the external environment does not prove to be a moderation to the relationship between entrepreneurial orientation and financial performance. Industrial environmental factors in this study that are relevant to the issues and objects in detail include the power of new competitors, the bargaining power of suppliers, the bargaining power of buyers, and the intensity of competition.

In general, the level of achievement of organizational goals one of them with financial performance. Lin, et al. (6), financial performance as a result of organizational operations, covering the achievement of internal and external objectives of the company. Measurement of financial performance by measures related to the financial sphere. The measurement of the company's financial performance can be measured by the level of sales, profitability, payback, turnover rate, and market share (7). Several studies have examined the financial performance of SMEs. Camison and Ana (8), measure the performance of small and medium enterprises with reference to three aspects, namely profitability, productivity, and market. While (9) assess business performance through venture growth consisting of sales growth, asset growth and business profit growth.

In this study, the meaning of financial performance is an achievement achieved from the financial aspect by SMEs. The company's financial performance is the level of success of the company in achieving its objectives through the use of various resources it has. Both the poor financial performance of the company is strongly influenced by the company's ability to use its resources and adapt to changing conditions of industrial environment. Jauch and Glueck (7) stated that the measurement of the company's financial performance can be seen from the level of sales, profitability, return on capital, turnover rate, and market share. The financial performance measures in this study that are relevant to the problem and the object being meticulous, measured by the level of production indicator, the market share achieved by the high volume of sales and the level of profit the SMEs obtained.

The controversy of research results on the influence of industrial environment on financial performance on SMEs conducted by (10, 11). To minimize the controversy, further research is needed on the relationship between industrial environment and financial performance in SMEs in order to obtain a more definite and constant result that can be used as reference of the next researcher.

This study was conducted on SMEs of handmade batik in the province of East Java, Indonesia. Batik is a pictorial fabric that is specially made by writing or putting the parafin on the cloth, then processing is processed in a certain way that has a peculiarity. Handmade batik is batik produced by the process of making it purely by using the hand drawing on the fabric of the whole cloth. Handmade batik is the original work of the Indonesian people that has been recognized by the United Nations Educational, Scientific and Culture Organization (UNESCO) on October 2, 2009 as a legacy of world heritage. SMEs of handmade batik as a profit-oriented business activities and operate in an environment full of competition between similar businesses.

2. Literature Review

2.1 Industrial Environment

The industrial environment is defined as the general condition of a competition affecting all business activities that provide goods and services (12). The industrial environment in industrial competition is a number of factors comprising the threats of new competitors, suppliers, buyer abilities, substitution products, and the intensity of competition among competitors that directly affect the company, the company's competitive actions and corporate response (2). Porter (13) industrial environment is an analysis on the condition of companies in competition. The state of competition in an industry depends on the five principal forces, a combination of the five principals that determine the profitability of the end in an industry, and profit protection is measured in the form of profit or capital that has been invested in the long run. The five forces of competition for entry of newcomer forces, the threat of replacement products, enhancement of buyer capacity, supplier bargaining power, and conventional competition among existing competitors, reflect the fact that competition in an industry is limited to existing conventional players. The potential customers, suppliers, and potential newcomers are all competitors to companies in the industry.

Industrial environment includes factors outside the company that can affect a company's competitive advantage. Industrial environmental factors that affect the way companies can be categorized as macro and micro environment factors. Thompson et al., (14) that a highly relevant or potential environment related to the achievement of corporate objectives is an industrial environment that includes: 1)customer (both distribution and users); 2)suppliers of materials, labor, capital, equipment, and work space; 3)competitors (both markets and resources; and 4)regulator groups, including government agencies, unions, and resources assosiations.

Yonggui, et al. (10), industrial environment and the tasks and attitudes of managers to strategic planning are needed as consideration of the relationship between strategic planning and performance. The steady strategic planning is strongly influenced by the environmental stresses that are often in turbulent conditions, because strategic planning has a relationship with the task environment that always needs the latest and valid information.

The industrial environment is a change occurring inside and or outside the company that can bring opportunities and threats to the company. This study industrial environmental with indicator that is: power of new competitor, bargaining power of supplier, bargaining power of buyer and intensity of competition

2.2. Financial Performance

Financial performance is a description of the financial condition of a company that is analyzed with the tools of financial analysis, so it can be known about either the poor financial condition of a company that reflects the performance of work within a certain period. It is very important that resources are used optimally in the face of environmental change. Assessment of financial performance is one way that can be done by the management in order to fulfill its obligations to the funders and also to achieve the goals set by the company. Financial performance is an indicator of both the poor management decisions in decision making. Management can interact with both internal and external environments through information. The information is further poured or summarized in the company's financial statements. Financial performance by Lee and Tsang (9) is measured by sales growth, asset growth, and business profit growth. The

measurement of the company's financial performance can be measured by the level of sales, profitability, return on capital, turnover rate, and market share achieved (7).
Several studies have examined the financial performance of SMEs. Camison and Ana (8) measure the performance of small and medium enterprises with reference to three aspects, namely productivity, market and profitability. While (9) assess business performance through venture growth consisting of sales growth, asset growth and business profit growth. Relevant financial performance indicators in this study at the level of production, marketing, and profit growth. This study financial performance with indicators of increased production, market share and profit increase.

3. Methodology

The object of this research is handmade batik SMEs that location is in East Java, Indonesia. The population of this study are all handmade batik entrepreneurs are included in East Java, Indonesia. Number of SMEs handmade batik can not be determined. This study uses a technique nonprobability sampling that means a sampling technique that does not give opportunity or equal opportunity for each element or member of the population to be selected as a sample. The sampling technique used is purposive sampling, that is choosing the sample based on certain criteria and only the element that meets the research criteria will be the research sample (15). The criteria used in the selection of samples are based on judgment, ie small and medium businesses that have been operating for at least 2 years and the number of samples in this study are 84 SMEs.
The data used is primary data, i.e data about industral environment and financial performance obtained directly from respondents who serves as the owner or manager of handmade batik SMEs that location is in East Java, Indonesia. The technique of collecting data is using questionnaires, in the form of open questions covering the identity of the respondent and closed questions with alternative answers that respondents lived choose one of the alternative answers (16). Data measurement techniques using a Likert scale has five levels: 1=strongly disagree, 2=disagree, 3=quite agree, 4=agree, 5=strongly agree. In using of Likert scale, the variables are translated into the indicator variables. Then, the indicator is used as a starting point to create items instrument that are statements.
Instrument test is used to test instrument item or question of each indicator. Instruments test is necessary to test the validity and reliability of each questions. Validity is a measure which indicates that the measured variable is really variable to be investigated by researchers. Validity relates to a variable measure what should be measured. The validity of the study states the degree of precision of the measuring instrument research on the actual content being measured. Validity test is a test that is used to indicate the extent of measuring instruments used in a measuring what is being measured. Hair (16) states that the test used to measure the validity of a legitimate or valid whether or not a questionnaire.
Methods of data analysis are using descriptive statistics, relating to the collection and presentation of a range of data so as to provide useful information that includes the company's data and description of the study variables. Hypothesis testing using simple regression. Structural equation: $\beta_0 + \beta_1 X_1 + e = Y$, with information β_0 and β_1 = regression coefficient, X_1 = industrial environmental, Y = financial performance, and e = a disturbing factor.

4. Results and Findings

4.1. Construct Validity and Reliability

Examination of validity and reliability of constructs is done by assessing convergence validity, discriminant validity, and reliability. A model has convergent validity when outer loading values> 0.7, communality> 0.5, and average variance extracted (AVE)> 0.5 (16). However, the measurement model with an outer loading value of 0.5 to 0.6 is considered sufficient for exploratory research (16), so the next process is carried out for loading factor crossloading.
Table 1 shows the loading factor of crossloading of outer model test results indicating that all items have outer loading more than 0.50, so that whole grains can be used. In addition, the validity of each item is also checked using crossloading calculation results. The validation of an item is high or satisfies if the crossloading coefficient is highest on the construct and lower on the other constructs. The industrial environment is a second order that has the latent variables below in the level as an indicator that is: power of new competitor, bargaining power of supplier, bargaining power of buyer and intensity of competition, and financial performance is first order in the sense that this construct is directly explained by the item question.

Table 1: Loading Factor and Crossloading

Item question	Power of New Competitors	Bargaining power of supplier	Bargaining power of buyers	Intensity of Competition	Financial performance
X1	0.942	0.263	0.280	0.315	0.378
X2	0.934	0.291	0.271	0.281	0.344
X3	0.934	0.380	0.290	0.320	0.368
X4	0.919	0.399	0.220	0.257	0.396
X5	0.210	0.680	0.226	0.001	0.152
X6	0.376	0.884	0.274	0.328	0.307
X7	0.298	0.743	0.162	0.221	0.269
X8	0.043	0.506	0.351	0.033	0.093
X9	0.042	0.343	0.536	0.149	0.227
X10	0.228	0.273	0.820	0.256	0.310
X11	0.243	0.211	0.886	0.302	0.421
X12	0.322	0.281	0.880	0.393	0.382
X13	0.190	0.095	0.246	0.750	0.347
X14	0.231	0.199	0.379	0.898	0.392
X15	0.379	0.255	0.319	0.819	0.360
X16	0.215	0.243	0.233	0.822	0.358
Y1	0.337	0.348	0.398	0.435	0.889
Y2	0.388	0.246	0.323	0.357	0.912
Y3	0.362	0.254	0.449	0.415	0.928

Table 1 the crossloading result of explorations of all constructs. The crossloading coefficient of each item in the other construct is lower than the loading factor of the construct in question.
In addition to the validity test, a measurement model is said to be good if it has a sufficient level of reliability. Reliability refers to a sense that the instruments used in the data collection can be trusted as a means of data collection and able to reveal the actual information in the field. Hair (16) states that reliability is a tool to measure a questionnaire that is an indicator of the variable or construct. A questionnaire is said to be reliable or reliable if one's response to a statement is consistent or stable over time. Reliability of a test refers to the degree of stability, consistency, predictability, and accuracy. Measurements that have high reliability are measurements that can produce reliable data. A construct is said to be reliable if the coefficient value of cronbach's alpha is greater than 0.70, but a value of 0.60 is still acceptable for exploratory research (16). The reliability of the measurement model can also be judged by the large coefficient of composite reliability, including in either category if the coefficient reaches 0.70 or more. Two other ways of assessing reliability are the average variance extracted (AVE) and communality coefficients, falling into either category when the coefficients reach 0.50 or more. The AVE coefficient will have exactly the same value as communality. Reliability test results show that all constructs have coefficient cronbach's alpha more than 0.60, coefficient of composite reliability is more than 0.70, and the coefficient of AVE and communality is more than 0.50. Thus, all measurement models used in this study have high reliability, so that the results obtained from the respondents on the perceptions of industrial

environment, and financial performance can be done the next stage for data analysis and discussion.
Convergent validity is a proven validity if scores obtained by two instruments that measure the same concept, or measure concepts with different methods have a high correlation Convergent validity is indicated when the measuring instrument shows the high intercorrelation between the theoretical support of the measuring instrument when applied in practice (operationalization).

Table 2: Results of Convergent Validity

Construct	Coefisien of Cronbach Alpha	Composite Reliability	AVE	Communality
Industrial Environment:				
• Power of New Competitors	0.950	0.964	0.870	0.964
• Bargaining power of supplier	0.677	0.803	0.513	0.803
• Bargaining power of buyers	0.794	0.868	0.630	0.868
• Intensity of Competitions	0.842	0.894	0.679	0.894
Financial performance	0.896	0.935	0.828	0.935

Discriminant validity refers to the ability to size in question to disclose information that differs from other measures expected to measure different or unrelated theoretical constructs.

Table 3: Discriminant Validity Calculation Result

Construct	AVE	Power of New Competitors	Bargaining power of supplier	Bargaining power of buyers	Intensity of Competition	Financial Performance
Industrial Environment						
• Power of New Competitors	0.870	0.932				
• Bargaining power of supplier	0.513	0.358	0.717			
• Bargaining power of buyers	0.630	0.285	0.333	0.794		
• Intensity of Competition	0.679	0.315	0.246	0.362	0.824	
Financial Performance	0.828	0.398	0.309	0.430	0.442	0.910

Description: The coefficient on the diagonal part is the root of AVE; The coefficient outside the diagonal is the coefficient correlation between collisions; AVE = Average Variance Extracted.

A measurement model must have discriminant validity. A measurement model meets discriminant validity when the AVE root of a construct is greater than the coefficient of correlation with other constructs. For example, a new competitor's construct has an AVE coefficient of 0.870, so the AVE root is 0.932. The coefficient of correlation of new competitor construct with other construct ranged from 0.513 – 0.828 so this analysis give conclusion of good dicriminant validity. Table 3 presents an AVE root calculation of a construct and a correlation value between constructs. The test results show that the AVE root value of a variable is higher than the correlation value between the variables. Thus it can be concluded that the measurement model of this study has satisfied discriminant validity. In the various angles of assessment conducted on the validity and reliability of the construct obtained the conclusion that all items totaling 19 questions can be used as a measure of the variables in this study. The number of questions comes from industrial environment variables as much as 16 questions, and financial performance variables as many as 3 questions.

4.2. Descriptive Analysis

The model fit can also be calculated using the goodness of fit index. The goodness of fit index (GoF) is defined as the geometric mean or the root of the average communality and the average R^2 for all endogenous constructs (17). The GoF index shows the strength of prediction over the overall model. GoF values have an interval between 0 and 1. GoF values close to 1 indicate good path model estimates (18). Table 4 shows that the GoF index for this research model is 0.547. Thus, the structural model that explains the relationship between the two variables has a good predictor power.

Table 4: Index Goodness of Fit (GoF)

Variable	Communality	R^2
Industrial Environment	0.332	-
Financial Perfomance	0.828	0,503
Total	1.160	1.001
Average	0,580	0.501
Index Goodness of Fit (GoF)	0.547	

Figure 1 shows that loading factor on the competitor's new power dimensions is 0.772 (p <0.05), supplier bargaining power of 0.621 (p <0.05), buyer bargaining power of 0.685 (p <0.05) and competition intensity of 0.692 (p <0.05). The influence of industrial environment on financial performance has coefficient with positive direction. The calculation result show that path coefficient equal to 0.572 with t-statistic equal to 1.280 (p> 0.05) giving decision that industrial environment have positive significant effect to financial performance. Industrial environment can explain directly the amount of financial performance that exist in SMEs of handmade batik in East Java-Indonesia.

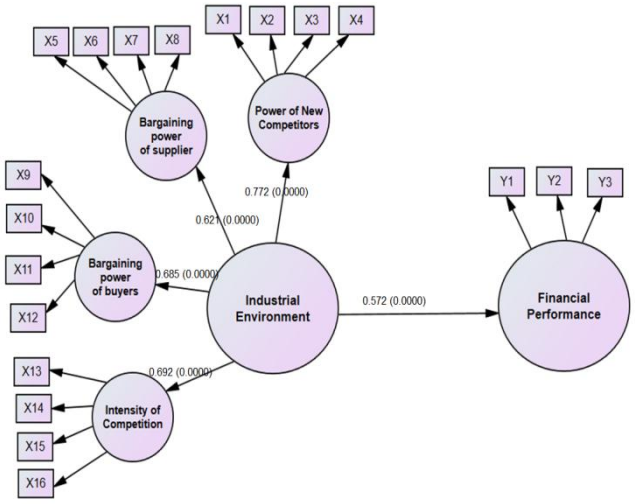

Fig.1: Model of Relationship between Industrial Environment and Financial Performance.

4.3. Effect of Industrial Environment on Financial Performance

In direct analysis there is a positive and significant influence of industrial environment on financial performance, meaning that the higher the dynamics of the industrial environment the higher the financial performance.
An industrial environment that is the factors that are outside the company and can cause opportunities and threats for the company. Owners or managers should always be vigilant and observe changes in the industrial environment because to determine what environmental factors will be an obstacle to the achievement of business goals that have been pioneered. The industrial environment will affect financial performance and in this study an industrial environment with 4 indicators: power of new competitor, bargaining power of supplier, bargaining power of buyers and intensity of competition.
New competitors as a natural thing in business. The arrival of new competitors depends on the size of the barriers to entry into the industry, including the required investment costs, permits, access to raw materials, access to distribution channels, brand equity, price constraints, incumbent response, high cost, incumbent

experience in industry, cost advantages, product differentiation, distribution access, government policy and switching costs and the higher barriers to entry, the lower the incoming threat of newcomers. Switching cost is the cost or sacrifice that must be borne by the customer if the customer decided to move to another supplier.

The bargaining power of suppliers, usually fewer suppliers, the more important the product is supplied, and the stronger the bargaining position. which is influenced by several factors such as market concentration level, diversification (business diversification of product (business field) or company location by a company to maximize profits so that company cash flow can be more stable), switching cost, supplier organization and government.

The power of buyer's bargaining power, influenced by various factors, among others, differentiation (the process of differentiating a product or service to make it more attractive to a particular target market.difference is made both to competitors' products and to other products from producers of the product itself), concentration , buyer interest, income level, product quality choice, information access, and switching cost.

The power of the buyer is seen from the bargaining power or bid power of the buyer / consumer, the higher the buyer's bargaining power in demanding a lower price or higher product quality, the lower the profit or profit to be earned by the producer company. Lower product prices mean the revenue for the company is also lower. On the one hand, the Company requires a high cost in producing high quality products. Conversely, the lower the bargaining power of the buyer the more profitable for our company. The buyer's high bargaining power when the number of replacement products is large, lots of stock available but few buyers.

The intensity of competition is usually influenced by many factors, such as product cost structure, the greater the fixed cost portion in the cost structure, the higher the intensity of competition. This is because every seller has a high break-even rate that generally has to sell a large quantity of products, and if necessary by lowering the price per unit to reach that breakeven point. To overcome the competition in the industry, the company must improve the quality better, more affordable price, make new creations to the product so that people do not experience saturation of the product.

Referring to the results of the path coefficient analysis, the relationship between the industrial environment and the financial performance of SMEs batik handmade is significant. These results can be interpreted that the industrial environment (power of new competitors, suppliers, buyers capabilities and competition intensity) that are rapidly changing will help improve financial performance. So in essence the wishes of the customer / buyer quickly changed (fulfilled in the number of requests, competitive prices, good quality, availability of goods, and excellent service) encourages batik business to proactively meet the desire. While the supplier, the stronger the position will encourage batik business to work with suppliers or make purchases together so that the price of raw materials obtained will be cheaper, quality and availability of raw materials will be more secure. Stronger pressure situation from competitors, it will encourage the ability of batik business anticipate to maintain the consistency of quality, competitive prices, improving service quality and offset the promotion made by competitors so as to increase sales.

Empirically, based on loading factor value, it is seen that indicator of bargaining power of supplier is the most important indicator with high loading factor. This means establishing and maintaining a cooperative relationship with a supplier becomes very important both in the short and long term. If the cooperation with suppliers can be increased so that suppliers will voluntarily fulfill the contracts of work with batik business. This cooperation will provide a certain level of certainty for the availability of raw materials in the right quantities, the best quality, the right time, the price in accordance with the ability of the entrepreneur. If this goes well, then the business process of batik business will run smoothly so as to meet the needs and desires of customers or buyers with quality in accordance with the desired, competitive price, accuracy in delivery of batik products and better service. The ability to meet these needs and desires will certainly have an impact on competitive advantage so that the level of sales will be better in the level of profit will increase which can further increase the wealth of SMEs of handmade batik in East Java-Indonesia.

The lowest loading factor value of the industrial environment is in the purchaser's capability, and when viewed from the respondent's perception of the industrial environment the purchaser's ability is the most important thing perceived by the respondent is considered normal. This is caused by several handmade batik handmade businesses have customers or buyers, intermediaries remain so that customers already know the quality, price, and service. If batik handmade entrepreneurs can meet what is desired by the customer such as the amount requested or ordered, quality, price, motive and exact completion will certainly affect the financial performance of batik handmade SMEs. The ability of this business in fulfilling the needs of customers / buyers or for the market can not be separated from the availability of raw materials obtained from suppliers.

Viewed from the bargaining power of suppliers are also still considered normal. It can be said that the strength of raw material suppliers with batik manufacturers balanced. This is because there are among these business owners acting as pamasok for other handmade batik business, among the owners of handmade batik business there is a large working capital, so as to buy more raw materials as inventory. The level of business competition handmade batik is relatively low so that the level of competition is also normal. However, it should be noted that if handmade batik entrepreneurs can produce at a cheaper price, and better quality in accordance with the expected consumers and appropriate services (fast, accurate, able to explain the function and motive of handmade batik), it will be able to increase customer satisfaction so encouraging to buy. Thus it can be interpreted that a dynamic industrial environment will affect financial performance.

These findings support the theory put forward by Pearce (12), that the industrial environment can directly affect a company's ability to achieve its goals. Jauch and Glueck (7) suggest that strategies are essentially to respond to external changes that are relevant to the company. According to Resource-Based-View (RBV) approach in this research can be proved basically the direct influence of industrial environment on financial performance, because in improving the performance of business owner must be able to adapt proactively with changing industrial environment always dynamic.

The findings of this study are in line with the results of the research of (3, 10, 11, 19-22) industry affects the financial performance. The results of this study are also consistent with the conception of Child (21) stating that the industrial environment has a significant effect on financial performance. So was (3), theories have been proposed and empirically supportive that organizations are influenced by the environment around the company.

The results of empirical studies conducted by Hemieleski and Baron (23) found a direct impact on financial performance, and the level of optimism of an entrepreneur in general has a relationship with the performance of the company in the lead. The relationship depends on the characteristics of the environment itself. In a stable environment the level of entrepreneurial optimism is positively related to the performance of the company, meaning that the higher the level of optimism the higher the effort the higher the company's performance. The results of this study prove that industrial environment reflected by the bargaining power of customers or buyers, bargaining power of suppliers, and the level of competitors should be addressed proaktif by the business of handmade batik so as to improve financial performance.

5. Conclusions

Industrial environment is an external factor of company that can influence SMEs of handmade batik in the form of opportunities and threats. Opportunities are an opportunity that will provide hope that can generate profits that are highly awaited by each company. But sometimes the opportunities that come is not necessarily directly greeted by the company due to certain constraints. For SMEs of handmade batik there is a chance that the future can bring benefits, namely the tendency of people to use clothing made of batik cloth as part of the modern fashion model. Threats are situations that can disrupt the business wheel that resulted in the company not getting profits and can threaten the company's position in the market, as well as interfere with the company's goals. For SMEs of handmade batik that can hamper to develop, among others, new competitors emerging. SMEs of handmade batik has grown in various places with the product quality is almost evenly, so the level of competition between SMEs to be more stringent. Industrial environment with new competitor strength indicator, supplier bargaining power, buyer bargaining power and competitons intensity can be overcome proactively by owner or manager, so as to improve financial performance of SMEs of handmade batik in East Java, Indonesia.
Based on the results of research can be suggested for future research. This study has not used variables of local culture, such as local culture in testing the role of industrial environment on financial performance. Future research should use local culture variables, such as local culture in order to obtain comprehensive research results and know how the influence of age and local culture on financial performance.

Acknowledgements

The author would like to thank the State Polytechnic of Malang - Indonesia for the funding support for this research.

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