

# The Role of Innovation, Learning Orientation and Government Support for the Informal Leather Craft Industry in the Vernacular Settlements of West Sumatra, Indonesia

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## **Abstract**

Recently, the government of Indonesia has recognized the weakening quality of the economy indicated by the level of production and industrial development. To address this issue, the government is making an effort to reduce the deficit using empowering the small and medium industries (IKM) through the Ministry of Industries. The leather craft industry in Sumatra is one of the small and medium-scale industries, most of which use traditional technologies, and thus the government has targeted this industry. In this context, this paper develops a management theory by considering behavioral and economic aspects relevant to the craft activities which take place largely in the vernacular settlements.

The research employs a quantitative method to gather data and explain the cause and effect of the variables studied. Data were collected through structured interviews and questionnaires distributed to 88 respondents. A purposive sampling technique was used to determine the sample. The data is processed using Smart PLS 3.

It discusses the influence of innovation, learning orientation, and government support on the performance of the leather craft business. It also identifies the factors that can increase the leathercraft business success in West Sumatra.

The results show that innovation and learning orientation has a significant impact on business performance and that innovation also partially mediates between learning orientation and business performance. It concludes that government support does not affect business performance. The paper thus advances the theory of entrepreneurship to increase production and create economic and social value needed by leather craftsmen.

**Keywords:** Innovation, learning orientation; Government support; leathercraft.

## Introduction

Environmental changes and rapid economic development require any industry to be able to keep up with these developments. Generally, the steps taken are to intensify information and creativity by relying on ideas and knowledge. The creative industry sector is believed to be able to survive when various other sectors are hit by the global financial crisis. Small businesses are pillars that make strategic, independent, healthy, strong, and competitive businesses innovations to increase economic growth. They are also expected to support the expansion of job opportunities in realizing economic democracy. Institutional quality improvements are generally carried out in stages through efforts to awaken, empower, develop, and strengthen.

According to Diskoperindag (2016), the contribution of the Indonesian industrial sector to the economy has decreased to about 19%. This weak industrial performance has impacted the trade balance deficit. The weakening quality of the economy is also indicated by the level of production and industrial development. In this context, one of the government's efforts to reduce the deficit is to empower Small and Medium Industries (IKM) through the Ministry of Industries. The government wanted to establish a non-ministerial institution called the Creative Economy Agency (BEKRAF) which was formed on January 20, 2015, through Presidential Regulation of the Republic of Indonesia Number 6 of 2015, concerning the Creative Economy Agency.

West Sumatra, one of the provinces in the island of Sumatra has natural beauty and culture. There are several cities of leather craft including Bukittinggi, Padang Panjang, and Padang. Pariaman. These areas have their charm to attract foreign tourists or local tourists and provide various kinds of attractions in terms of tourism, culinary art, and handicrafts made as souvenirs. One of the most popular crafts is leather. Leather crafts are handicrafts made from animal skins such as cows, goats, snakes, etc. Leathercraft items are still considered unique and have high artistic values. The classification of leather craft SMEs is based on the Standard Classification of Industrial Fields (KBLI) by the Department of Cooperatives, Industry, and Trade of the West Sumatra Province. The industrial branch is the leather and artificial leather goods industry for personal use with the code 15121 and the footwear industry for daily use with the code 15201 including the fashion creative industry sector (Diskoperindag, 2016). The following shows the number of leather craft SMEs in West Sumatra in Table 1.

**Table 1:** Number of IKM Leather Craft in West Sumatra  
Source: West Sumatra Cooperatives and SMEs Office (2016)

No	City/Regency Business	Number of Business Units (Unit)		(Unit)
		15.121	15.201	
1	Padang	18	11	29
2	Padang Pariaman	4	14	18
3	Padang Panjang	26	37	63
4	Pesisir Selatan	4	-	4
5	Payakumbuh	7	1	8
6	Agam	-	1	1
7	Bukittinggi	24	86	108
	Total	83	150	233

The table above shows that the cities with the most leather craft are Bukittinggi, Padang Panjang, Padang, and Pariaman. Cities with lower leather craft include Agam and Pesisir Selatan districts. Bukittinggi is a famous tourist attraction city, Padang Panjang is

known as the city of culture, Padang is the capital of West Sumatra and Pariaman is well known for its tourism and its great cultural event known as *Tabuik*. All these areas are well known for their leather craft, art, and cultural values.

A preliminary survey conducted in these areas reveals that the leather industry experienced an overall decline which was generally due to a lack of public interest. Other causes are:

- 1) Nearly 60% of small businesses still use traditional technology.
- 2) Tendency to decrease market share due to lack of capital, weak technology, and managerial.
- 3) Most small businesses are unable to meet the administrative requirements to obtain assistance from the Banks.
- 4) The level of dependence on government facilities tends to be very large (Ministry of Industry. 2015).

Meanwhile, according to Moeljadi, et al., (2015), the problems that afflict micro, small, and medium enterprises (SMEs) include weak organizations, difficult marketing, small business capital, low entrepreneurial spirit, lack of attention to the environment, and the poor service. The downturn of micro, small, and medium enterprises cannot be separated from dependence on the government, and entrepreneurial behavior without being based on the ability to manage a business, as well as regulations in the SME sector which are seen as not being able to encourage the creation of dynamic business management and innovation. Efforts made to improve the performance of the leather craft business involve innovating, learning orientation, and government support. Anshori (2010) states that learning orientation and market orientation affects company performance. Prakoso (2005) shows that market orientation, innovation, and learning orientation affect company performance. Meanwhile, Andreas (2012) shows that orientation has a positive and significant effect on innovation and company performance, while learning has a positive but not significant effect on company performance.

Based on this phenomena, the research gaps, and the differences in the results of previous studies, this study aims to analyze innovation, learning orientation, and government support to increase and create economic and social value needed by the small-scale leather craft industry in West Sumatra by developing an entrepreneurship theory. It seeks to fill the gap of previous research and contribute to business management in making policy, related to the craft industry. It is intended to support the creation of economic and social values needed by the leather craftsmen in West Sumatra.

Generally, craftsmen only rely on their expertise and assume that consumers will always buy their products and that government will inject funds as craft capital. This research is concerned with vernacular studies and the management science related to the development of company business strategies relevant to small-scale industries. It is novel in the use of innovation as a mediation between learning orientation and leather craft performance, and their relevance to industries that employ traditional technologies. The objective of the study is to highlight how government support variables can support the performance of leathercraft in West Sumatra. This paper also aims at contributing to the development of applications for leather craft product marketing, which is currently booming through online marketing.

## **Theoretical Basis**

### **Dynamic Capability Theory**

The concept of Dynamic Capability (DC) is concerned with preparing companies to take advantage of new opportunities in the market to prepare for a better future (Eisenhardt & Martin, 2000). This theory focuses more on the dynamism that facilitates the creation of new advantages that are distinctive and difficult to imitate. This includes creating new products and enhancing a company's current competencies to meet future challenges. This study uses entrepreneurial theory as a dynamic action taken by the leather craft industry to follow business competition and demands entrepreneurs to further improve performance dynamically with the environment (Hung, et al., 2010). Experts are of the view that the entrepreneurial spirit is the ability to be creative and behave innovatively as a driver to

achieve goals by using tactics and tips to face life's challenges. In this case, the leather craft business must do creative, learning-oriented innovations to increase product diversity and attract consumers to buy leathercraft products. Leather craftsmen must be able to take advantage of the new opportunities in the market. Craftsmen must know the goods of interest or can follow the tastes of consumers.

### **LeatherCraft and Craftsmen**

Leather has been present in our lives for decades. It is an artisanal work that requires very precise knowledge and flawless know-how. Leather is the result of the transformation by the tanning of a putrescible material, skin, into a durable and rot-proof product, leather. This metamorphosis takes place thanks to the know-how of tanners and tanners. Tanning is the operation that consists in transforming the skin into leather thanks to tannins, substances of different natures (vegetable, mineral, or combined) which make it possible to pass from a putrescible skin to a rot-proof material, the leather.

By definition, all materials not resulting from the transformation of animal skin are therefore excluded from this denomination. Without the milk and meat industry, leather would not exist. Without the leather industry, the skin would be just another waste to be processed and disposed of. Today, the skin is thus valued by the food industry and its trade enters into the complex adjustments of the meat distribution value chain from the breeder to the consumer. Products concerned: cattle, sheep, and goats.

To constantly bring novelty and originality to his creations, the leather craftsman is always learning and interested in the many facets of the fashion profession. As a seasoned designer and talented craftsman, the passionate craftsman perpetuates his demand for excellence and quality to develop new designs and techniques. Made-to-measure handbag, fashionable shoulder bag, leather bag with beautiful finishes, original cowhide leather key rings, satchels combining solidity and elegance, ultra-feminine messenger bag, black leather clutch.

### **Small and Medium Enterprises**

The importance of small and medium-sized enterprises (SMEs) in achieving the challenge of reviving economic growth, competitiveness and employment has been gradually highlighted over the past few years by the local government of West Sumatra. The flexibility and capacity for innovation of SMEs enable them to respond quickly to structural changes and to adapt easily to changes in demand. There are 4 main sectors in the leather trade:

1. The Raw Material trades: Classifiers of raw hides, tanning operator, finishing agent.
2. Creation – Design – Innovation professions: Design office manager, research and development manager, product manager, collection manager, workshop manager, stylist, pattern maker, pattern maker, developer, methods agent.
3. Manufacturing trades: cutter, stitcher, fitter, assembler, bookbinder, sheath maker, glove maker, furrier, shoemaker, repair shoemaker, etc.
4. Commerce jobs: buyer, salesperson, store manager, sales advisor, export manager, retail coordinator.

### **Businesses, Industries and Traditional Technologies**

Leather is not just a material. It brings together many sectors of activity: tannery, tannery, etc., and various product applications: leather goods, but also footwear, skin clothing, upholstery, and interior furniture. The leather trades are carried out both in factories for large companies and in small independent workshops. The leather trades do not just involve technique, but also creation, fashion, trade, and design. This diversity of techniques and sectors also brings out various points of sale and marketing and different leather working structures. The leather sector brings together a lot of sectors and possibilities making routine or weariness almost impossible. Someone may choose to work on tanning and then, after a few years, train in leatherwork or shine. These sectors, although all related to the same

material, are different in terms of craftsmanship.

Difficult to perceive for outsiders, the work of artisanal leather is nevertheless endowed with a quality much higher than the work of industrial leather. Traditional leatherwork is still a largely manual trade. Even since the arrival of computers in our lives and despite the development of advanced machines such as the gilder or the splitter, the leather craftsman continues to repeat the same gestures as the craftsman of several centuries ago. It is these gestures that still shape precise, comfortable, and above all unique objects today. Even repeated, each gesture is unique and will give a result that will be just as unique.

### **Innovation**

Innovation is the potential ability of an organization to position itself in the arena of modernism such as the development of new products, technology, and other advancements that result in a competitive advantage over its competitors (Yang 2011). Jimenez-Jimenez and Sanz-Valle (2011) argue that the sharing of ideas does not imply the adoption of a new idea or 'behavior'. Meanwhile, Robert (1999) defines innovation as a broader concept of continuous improvement. They conclude that innovation is the ability of a business for its development with new products.

Jiménez et al (2011) argue that innovation helps companies to deal with turbulent external environments and that it is one of the key drivers of long-term business success. Innovation is an organization's capacity to create new ideas, processes, and products. This means that SMEs need the capacity to create something new to achieve competitiveness. In this case, the leather craft business must be creative, and create learning-oriented innovation to increase product diversity and new products according to consumer taste.

### **Government's Support**

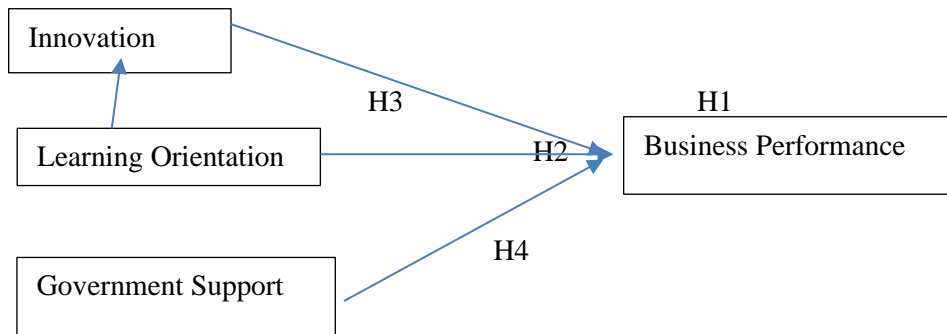
Government support and bureaucratic procedures carried out by the government can hinder or can help organizations to facilitate their business activities (Eniola and Entebang, 2015). Government policies can be an encouragement and support technology and products and can provide new solutions for business actors. On the other hand, if the government makes a policy that can limit the autonomy and freedom of entrepreneurship, it can hamper business performance. According to Nyuyen, et al. (2018), the support program created by the government is seen as an important tool to improve business performance. Efforts made without any particular emphasis on adequate government support for business development are unlikely to produce long-term profitable results. Government support has an important context to facilitate the capacity of SMEs to help the local economy through the production of goods and services and create jobs. The government's role is expected to continue by having clear references to the factors that affect the improvement of business performance (Samsir, 2012).

### **Business Performance**

Performance is a result of all work activities in a certain period or success in the implementation of work (Suprihati, 2014). According to Arifin, et al., (2019), business performance is an achievement that can be achieved by an organization and the results can be felt, such as the organization's ability to continue to stand (survive), gain benefits (benefits), and continue to grow (Chenhall,2005). The research of Susiana et al., (2018) found that performance measurement is an appraisal action carried out on various activities in the value chain that exist in the company. Performance appraisal is useful for providing information to managers and subordinates to help direct the company's operations. Meanwhile, according to Fachrudin (2011), the business performance of an organization will show how the organization's ability to earn profits from assets, equity, and debt. On the other hand, Eniola and Entebang (2015) point out that business performance is often constrained by internal and external factors, such as the carrying capacity of the environment, government policies, and competition.

## Conceptual Framework

The conceptual framework of this study is illustrated in the following table.



**Fig. 1:** Research Conceptual Framework  
Source: Author

The conceptual framework is illustrated in Fig. 1. This study builds on previous research by proposing several hypotheses. A hypothesis is defined as a logically estimated relationship between two or more variables expressed in the form of a testable statement (Sekaran, 2017). The proposed hypothesis is:

- H1. The effect of innovation on business performance;
- H2. The effect of learning orientation on business performance
- H3. The effect of learning orientation on innovation;
- H4. The effect of government support on business performance;
- H5. The influence of innovation mediates learning orientation on business performance.

## Literature Review

Small-scale industries have evolved immensely in Indonesia over the 20 years. With this evolution, a great deal of studies has been conducted by many scholars to understand this new phenomenon. Sari (2017) discusses the empowerment of creative economy businesses in increasing family economic income from an Islamic economic perspective. Sidauruk (2013) investigates the increasing role of the regional government in the context of developing the creative economy in West Java province. Puspitasari (2013) analyses planning for the development of small and medium industries toward a creative economy. However, despite their enthusiasm and interesting findings, many of these studies only focus on the role of the government in the success and growth of small scales industries.

Discussing the role of the government, Sidauruk (2013) argues that the creative economy or creative industry has 14 sectors, namely advertising, architecture, the art goods market, crafts, design, fashion, interactive games, music, showbiz, publishing and printing, computer and software services, broadcasting, video, film, and photography. In terms of small-scale industries, 2015-2019 was the period where the government put in place a policy to strengthen the development of the creative economy by emphasizing the achievement of competitiveness based on the superiority of natural, cultural, and human resources supported by science and technology (Pangestu, 2014).

Additionally, to help boost small-scale industries, the agenda of the National Medium Term Development Plan for the period 2020-2024 plans to strengthen economic resilience for quality growth whereby economic development will be encouraged to grow higher, more inclusive, and competitive through resource management (Pangestu, 2014). This highlights the role of the government in creating not only the support but also and more importantly to lay down rules and policies that favor sustainability and innovation for local communities. Diva (2009) divides the role of government into three – the government acts as a facilitator,



regulator, and catalyst. Discussing the obstacles and the role of the local government in developing the creative economy in the craft sector, Wardani (2021) argues that the role of the local government is to plan, design, and set the stage for the development of the creative economy in the craft sector. Wardani also claims that the Indonesian current economic and business development has undergone a paradigm shift from a resource-based economy to a knowledge and creativity-based economic paradigm.

### Research Methods

This study employed the snowball sampling method which is a technique for determining a sample that is initially small in number and then enlarges as the respondents refer to others. The sample thus increases in numbers (Sekaran, 2017). The population of this study comes from those who are involved in Small and Medium Enterprises (SMEs) related to leathercraft. There are 233 SMEs in West Sumatra.

The research employs interviews and questionnaires to obtain data. The SMEs related to the leather craft industry in West Sumatra have committed to further improving their business performance by increasing innovation and learning orientation to increase the cultural value of West Sumatra. Questionnaires were distributed to leather craftsmen in West Sumatra who were registered with the Industry and Trade Office of West Sumatra. The 150 questionnaires were distributed because there were SMEs registered but not operating or had been closed. 88 return amounting to 59% were returned. It used the Likert scale measurement with a scale of 1-5, where the variables were translated into measurable indicators for analysis. Indicators are used as benchmarks in the form of questions or statements. Details of the research design can be seen in Table 2 below.

**Table 2:** Research Design  
Source: Author

No	Variable	Definition	Indicator
1	Innovation	Innovation is the work of an organization that successfully develops new products or services, or new uses of existing products or services.	<ol style="list-style-type: none"> <li>1. The leathercraft business opens up new markets.</li> <li>2. A leathercraft business can be creative in operation method and product introduction rate (Anim et al., 2018).</li> </ol>
2	Learning Orientation	Learning orientation is a mechanism that shows how companies can fight old assumptions about the market and how learn new knowledge to adapt to achieve company goals.	<ol style="list-style-type: none"> <li>1. The industry seeks to improve business capabilities.</li> <li>2. The industry seeks to improve employee skills.</li> <li>3. The industry develops mutual understanding and trust among employees.</li> <li>4. The industry builds cooperation between employees in carrying out business processes.</li> <li>5. The industry seeks to build a good mindset and change the wrong mindset in employees.</li> <li>6. The industry encourages employees to take risks.</li> </ol>
3	Government's Support	The government provides regulations, laws, technical guidelines, and periodic coaching for cooperative management.	<ol style="list-style-type: none"> <li>1. Government support is satisfactory.</li> <li>2. Business licenses are acquired easily.</li> <li>3. There is no problem in dealing with the government.</li> </ol>

			4. Government policies affect the business positively.
4	Performance	Performance is the achievement of organizational goals that can form qualitative and quantitative outputs, flexibility, and can be relied on by the organization.	<ol style="list-style-type: none"> <li>1. Profit growth</li> <li>2. Growth in the number of customers</li> </ol> Sales growth in total assets (Eniola & Entebang, 2015)

## Findings

### Identification of Respondents

The majority of the respondents in this study were from Bukittinggi City accounting for 59%. 40.6% were from Padang Panjang, which illustrates that this area has a lot of leather craftsmen. 82% of the businesses were owned or led by men while 18% were by women, from 21 to over 40 years of age. 40% had high school education and 37% were undergraduates. 78% said that their income was less than 3 million per month. While the length 53% had been in business for less than 6 years and 32% for more than 12 years. To reiterate, the businesses are run by men from 21 to over 40 of age, and the craftsman areas are located mostly in Bukittinggi and Padangpanjang as shown on the map below.



Source: West Sumatra Office of Tourism

### Validity and Reliability Analysis

Validity testing aims to find out how the determination of a research instrument can measure certain concepts that you want to measure so that the data obtained can be as per the measurement objectives (Sekaran, 2017). Validity testing has two methods of measurement, namely convergent validity, and discriminant validity. Measurement of convergent validity refers to the value of AVE (Average Variance Extracted), outer loading, and commonality. In line with this, the value of the AVE output in SmartPLS 3 will be an alternative to determine the communality value of the variables. The measurement of discriminant validity will be declared valid if the value of the output cross-loading and the root value of the AVE Fornell-Lacker Criterion, as well as the Heterotrait-monotrait ratio (HTMT). While the reliability analysis aims to prove the stability and consistency of the measuring instrument in measuring and assessing the accuracy of the measuring instrument (Sekaran, 2017). The reliability test is used to measure the indicators of the variables in the study by looking at the value of Cronbach



alpha and composite reliability. The variable is declared reliable if the value of Cronbach alpha and composite reliability is greater than 0.70 (Hair, et al., 2017). Following is the result of the reliability and validity tests as illustrated in Table 3 below:

**Table 3:** Reliability and Validity Test Results  
Source: Author Processed Primary Data (2021)

Item Variable	T Count	T table	Description	Cronbach's Alpha	Standard Cronbach's Alpha	Description
Innovation	0,690	0,5	Valid	0,775	0,7	Reliable
Learning Orientation	0,734	0,5	Valid	0,909	0,7	Reliable
Government Support	0,621	0,5	Valid	0,731	0,7	Reliable
Business Performance	0,720	0,5	Valid	0,877	0,7	Reliable

### Structural Model Testing and Hypotheses

Testing R Square (R<sup>2</sup>) aims to evaluate the effect between the variables. Testing R Square (R<sup>2</sup>) is shown in the table below:

**Table 4:** R Square Test Results  
Source: Processed primary data (2021)

Variable	R Square
Innovation	0,390
business performance	0,363

Testing the value of the R Square (R<sup>2</sup>) aims to evaluate how the independent variables can describe the dependent variable or determine the effect of one variable on another. The result of the R Square (R<sup>2</sup>) test of the innovation variable is 0.39. Thus, it can be said that the innovation variable has a 39% impact on business performance. The R Square (R<sup>2</sup>) business performance variable is 0.363 or 36.3% while the remaining 63.7% is influenced by the variables outside business performance. Testing the direct relationship that does not use the mediating variable produces a value of 6.017. The test of the relationship using the mediating variable is presented in Table 5 below:

**Table 5:** Indirect Relationship Test Results (Using Mediation Variables)  
Source: Processed primary data (2021)

Variable	T Table	T Statistik	Description
OB => KU	More >	6,017	Without mediation
DP => KU	More >	0,502	Mediation
IN => KU	More >	4,685	Mediation
OB => IN	More >	4,912	Mediation
OB => KU	More >	1,745	Mediation

Mediation testing is calculated using Variance Accounted For (VAF) to determine whether the mediation variable is categorized as full mediation or partial mediation (Hair et al., 2013), with the following calculation: When the result of the VAF value is greater than 20% (0.2) and less than 80% (0.8), it can be categorized as partial mediation, but if the VAF value is greater than 80% (0.8), then it is categorized as full mediation. Hair et al. (2013) came up with a formula for calculating the VAF value, as follows:

$$\text{VAF} = \frac{\text{Indirect Influence}}{\text{Direct Influence} + \text{Indirect Influence}}$$

$$\text{Innovation VAF} = \frac{8,571}{6,017+8,571} = 0,587 \text{ or } 59\%$$

In the VAF calculation for the innovation above, the result is 0.587 or 59%, which shows that innovation is categorized as partial mediation because the VAF value is  $59\% < 80\%$ . This means that innovation mediates some of the effects of learning orientation variables on business performance. Thus, it can be concluded that learning orientation through innovation mediation has a significant influence on business performance.

### Hypothesis Test

The question of whether the hypothesis is accepted or rejected can be seen from the output path coefficients by comparing the calculated T value with the T table. If the T count is more significant than the T table (T count > T table), then the hypothesis is accepted, and if the T count is more minor than the T table, the hypothesis is rejected. Following are the results of hypothesis testing, as seen in Table 4.6 below:

**Table 6:** Results of Hypothesis Testing  
Source: Processed primary data (2021)

Hypothesis	Variable	T Table (Significant Condition)	T Statistics	Explanation
H1	IN => KU	2,056 >	<b>4,685</b>	Significant
H2	OB => KU	2,056 >	<b>1,745</b>	Not Significant
H3	OB => IN	2,056 >	<b>4,912</b>	Significant
H4	DP => KU	2,056 >	<b>0,502</b>	Not Significant
H5	OB => IN => KU	2,056 >	6,017 with 60%	Significant influence

### Effect of Innovation on Business Performance (P.1 is supported)

The hypothesis test in Table 4.6 shows that innovation has a positive and significant effect on the performance of the leather craft business and is acceptable. This means that business performance increases with innovation, and *vice versa*. If there is no innovation, business performance decreases. Craftsmen can follow product development by following consumer tastes. A business with superior innovation capabilities when combining existing resources will be more successful in responding to the changes in its business environment (Moeljadi et al., 2015). The test can prove that the value of the T count is greater than the T table: T count (4.685) > T table (2.056). Business actors can increase their businesses by innovating products. Business actors must be able to get a variety of products and keep up with the times and follow consumer tastes to increase the results by innovating. This is in line with the research conducted by Jimenez-Jimenez and Sanz-Valle (2011), Allred and Swan (2005), and Wangand Miao (2011). They have found that innovation has a significant effect on business performance. Alabort-Morant, Leal-Millán, & Cepeda-Carrión, (2016)

affirm this and argue that to improve business performance, innovation has been carried out through management strategies, and small business units could become a central system in the creative products.

### **Effect of Learning Orientation on Business Performance (H2 is not supported)**

The data analysis found that learning orientation had a positive and insignificant effect on the performance of the leather craft business. This means that learning orientation has a positive effect on company performance but is not significant if it is not accompanied by innovations. Performance can increase if there is innovation in the learning. From this test, it can be proven that the T count value is lower than the T table, namely T Count (1.745) < T table (2.056), so it can be said that the effect is not significant. This may be because new ideas from innovation are carried out spontaneously and do not follow learning to the maximum. Another element may be that the owner still maintains local culture, which is seen as cultural preservation, and thinks that bringing local culture will be more desirable to consumers. This result is different from the research of Oktavio et al. (2019); Adeniran & Johnston, 2012; Tan, Smyrniotis, & Xiong, 2014) which point out that learning orientation affects business performance. Business actors are committed to learning, share their vision, and are open-minded, must be open to employees and open up opportunities to develop themselves to accept new ideas and be developed so that business performance can improve further. Learning orientation is a mechanism that influences companies to enhance learning by challenging old values and facilitating new methodologies and techniques. Anshori (2010) argues that learning orientation and market orientation affects company performance. Prakoso (2005) claims that market orientation, innovation, and learning orientation affect company performance. This research is in line with Andreas (2012); Lee and Hsieh, (2010). who found that learning orientation has a positive but not significant effect on company performance. Learning orientation is a mechanism that affects company capabilities and facilitates new techniques.

### **Effect of Learning Orientation on Innovation (H3 is supported)**

This research shows that learning orientation has a positive and significant influence on innovation (accepted). The test can prove that the value of the T count is greater than the T table, namely T count (4.912) > T table (2.056). Learning orientation tends to increase innovation capacity. Thus, the hypothesis is accepted and overall learning orientation has a significant positive effect on innovation. This means that learning-oriented businesses will increase the innovation of West Sumatran leathercraft. Learning orientation will be more useful if there are innovations made. If there is no innovation, then learning will be meaningless. Business actors are highly willing to learn to increase growth and innovation. When learning orientation increases, it can encourage employees to share their vision, commitment to learning, and be open-minded, thereby influencing broad insights in creating new products (innovation). By carrying out a learning orientation proactively and aggressively, it will create new opportunities/innovations that will later produce product diversity to increase company productivity. This research is in line with research by Wahyuni and Giantari (2019) which shows that learning orientation has a significant effect on innovation. The results show that learning orientation had a significant effect on innovation. Oktavio et al. (2019) also say that learning-oriented attitudes and behaviors must support innovative actions. These results are consistent with the empirical research of Oktavio et al. (2019); Adeniran & Johnston (2012); and Tan, Smyrniotis, & Xiong (2014).

#### **Effect of government support on business performance (H4 is not supported)**

Based on the empirical analysis, it is clear that government support has a positive but not significant effect on business performance. This is evident in the hypothesis test where the T count is 0.502, lower than the T table value of 2.056. Government support in the form of policies made for craftsmen does not have much effect on business performance. This is possible because most handicraft businesses are family businesses that have been passed on from generation to generation through traditions. Thus, government policies have little influence in this regard. This research is reinforced by the opinion of Jatmiko (2009) who points out that the weak performance of MSMEs is often associated with the lack of capital owned by MSMEs, less than optimal government support, and not as per the business needs. The most important role is the competence of human resources owned by the business actors. This study differs from those of Nguyen et al. (2018) and Arifin, et al (2019) which reveal that government support can be a source of additional capital and help obtain more resources than limited resources. According to the findings in the field, leather craft business actors in Bukittinggi City and Padang Panjang City say that they did receive government support, but the distribution was uneven; the government focused more on the embroidery and culinary industries than the leather industry.

#### **Effect of Mediating Innovation Between Learning Orientation on Business Performance (H5 is supported)**

Previous data analysis and discussion show that innovation partially mediates learning orientation and business performance. This is expressed in the comparison between the direct relationship (Table 4.29) and the value of the indirect relationship (Table 4.30). In addition, the VAF value of this influence shows a fairly high value, namely 59%. This is categorized as partially mediating. Innovation can mediate between learning orientation and business performance. This proves that the learning orientation carried out to improve performance will be more meaningful and valuable if there is innovation as a mediator. On the other hand, if learning does not innovate, performance will not increase. Businesses that are developed with good capabilities driven by learning orientation in the creative product businesses certainly require innovation as an important tool in improving business performance (Albort-Morant, Leal-Millán, & Cepeda-Carrión, 2016).

The results of this study are supported by Rhee et al. (2010) and Keskin (2006) who have examined the effect of innovation-mediated learning orientation on improving business performance. Based on the findings in the field, business actors say that if they want to survive in today's business competition and dynamic business environment, they need to innovate, both to get consumers, create new products, and maintain product quality they agree to innovate.

#### **Conclusion**

It is important to note that innovation has a significant effect on the performance of the leather craft businesses. This means that the more innovation is carried out, there will be more performance of the leather craft business, and *vice versa*, if there is no innovation, the performance will decrease. This requires business actors to increase innovation in products, packaging, and services to boost performance. Learning orientation has no significant effect on the performance of the leather craft business. This means that a learning-oriented business will not necessarily improve business performance. Learning orientation has a significant positive impact on innovation in the leather craft business. This means that there is a positive correlation between a business that has a commitment to learning, sharing a vision, and an open mind to find something new by increasing innovation. Business actors conduct learning orientation to get innovations to develop business products.

Artisanal leatherwork takes up largely manual methods inherited from craftsmen many centuries ago. His working gestures and his methods of designing leather objects were

then largely manual, although he knew how to use various modern technologies to further perfect his creations. His knowledge of leather is sharp, not to say exceptional, which allows him to design unique, useful, and very aesthetic objects. However, government support does not significantly impact the performance of the leather craft business. For example, in funding assistance, business actors do not expect capital from the government because they are run as a family business that has been passed down from generation to generation. This means that the learning orientation relationship produces innovations that will improve business performance. However, when the learning orientation is carried out, it does not significantly affect business performance. Nevertheless, after being mediated by innovation, the performance of the leather craft business increased.

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