



The Influence of Millennial Market Orientation on Business Performance Moderated By Regional Regulations in Traditional Herbal Medicine SMEs

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ABSTRACT

This research aims to analyze how millennial market orientation influences the business performance of traditional medicine SMEs and to what extent local regulations moderate this influence. Using an explanatory approach with quantitative methods, data were collected through questionnaires and analyzed using the partial least squares (PLS) technique to test relationships between variables. The findings reveal that millennial market orientation significantly influences the business performance of traditional medicine SMEs, with a path coefficient of 0.529 and a $P = 0.000 (<0.05)$. This indicates that an increase in millennial market orientation enhances business performance. However, the second hypothesis is not supported. Regression analysis shows a positive relationship between local regulations and millennial market orientation on business performance, but the moderating influence of local regulations is not statistically significant ($P = 0.242 > 0.05$). The practical implication is that traditional medicine SMEs need to enhance millennial market orientation to improve business performance. Understanding the preferences and needs of the millennial market can enhance competitiveness and profitability. Local regulations do not significantly moderate this relationship, so the focus on millennial market orientation should remain a priority without relying on local regulations as a moderating factor.

Keywords: Millennial Market Orientation, Business Performance, Traditional Herbal Medicine SMEs, Regional Regulations

JEL Classifications: D04, I10, I20, L10, L25

1. INTRODUCTION

In an increasingly dynamic and competitive business era, millennial market orientation plays a crucial role in determining business performance, especially in the large companies and small and medium enterprises (SME) sector (Andriani et al., 2024). Amidst fierce competition, traditional medicine SMEs in East Java must quickly adapt to market changes influenced by the preferences and needs of the millennial generation. Additionally, external factors, such as regional regulations, also impact SMEs' ability to achieve optimal performance (Nur and Khalid, 2024). This study focuses on how millennial market orientation can influence the business performance of traditional medicine SMEs, with regional regulations as a significant moderating factor.

Business performance describes the achievement of success for an organization or company, indicating the better and higher performance of all its business units (Sumiati, 2020; Muhamad et al., 2023). According to Anggadwita and Mustafid (2014), business performance can be understood as the ability of a company to achieve expected results in its operations. Therefore, good ideas and operational systems are needed and can be measured as standards of business performance (Maryatmo and Pamenta, 2023). This also indicates that business performance is interconnected with business principles and the company's ability to achieve established goals and standards. The principles of business performance apply generally to both large companies and small and medium enterprises (SMEs) to determine valid and measurable goals and standards. The existence of business

performance assessment mechanisms in SMEs can determine the extent to which the established goals and standards are achieved. In the context of SMEs, the emphasis on achieving these goals is more focused on the growth and sustainability of their businesses (Castellani et al., 2023).

Based on data, SMEs in Indonesia are able to contribute 99% of all companies, employ 89% of the private sector workforce, and contribute 57% to the national gross domestic product (Bank Indonesia, 2015). According to the Ministry of Cooperatives and Small and Medium Enterprises report in 2018, small and medium enterprises nationwide totaled approximately 64,194,057 units and employed a total of 116,978,631 people. These figures represent 99% of all business units in Indonesia, with the percentage of workforce absorbed in the SME sector reaching 97% of the total. Meanwhile, the remaining 3% is distributed among several other important industrial sectors (Suheli et al., 2023).

The implementation of these SME characteristics can be seen in the development and growth of SMEs in Indonesia, which continue to adapt to changes and market orientations in the business world. This adaptation is a response to market patterns in the era of the 4.0 industrial revolution, which is largely driven by the Gen Z and millennial generations. The development and growth of SMEs that penetrate the digital ecosystem are presented in Figure 1 below:

Based on the data presented in Figure 1, it is evident that the growth of the digital ecosystem has significantly impacted the growth of micro, small, and medium enterprises (MSMEs) in East Java. In 2022, the number of MSMEs that had joined the digital ecosystem reached 20.76 million units, increasing by 26.6% from the previous year's 16.4 million units. Moreover, it is estimated that by 2024, the number of MSMEs involved in the digital ecosystem will reach 30 million units. Additionally, there is a positive growth trend in the overall number of MSMEs in East Java Province after the COVID-19 pandemic, reaching 1 million units in a certain year. These data indicate significant potential for the development of MSME businesses, including traditional herbal medicine SMEs, amidst increasingly digital market trends.

However, in 2022, the number of traditional herbal medicine SMEs (UKOT and UMOT) will remain relatively low compared to other sectors such as food and beverages. Data shows that there are only about 1,891 small traditional medicine businesses (UKOT) and

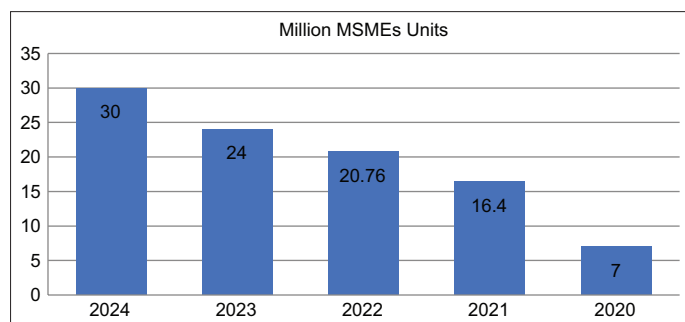
1,617 micro traditional medicine businesses (UMOT) nationwide. This indicates that there is still significant untapped potential for traditional herbal medicine SMEs, especially considering the abundant biodiversity in East Java Province (SIMADA Farmalkes Kemkes, 2022). Therefore, strategic efforts are needed to promote the growth and enhance the business performance of traditional herbal medicine SMEs to make a more significant contribution to the local economy and the healthcare sector.

Market orientation is a parameter of character and activity that indicates or describes the implementation of marketing concepts. This design serves as an inspiration trigger for companies, in this case, traditional herbal medicine SMEs, to develop innovative business designs and also contributes to competitive advantage in efforts to improve business performance (Tjiptono and Chandra, 2017). Market orientation is of significant importance in enhancing business performance because, through this approach, companies or traditional herbal medicine SMEs can identify the direction to be achieved in marketing, thereby meeting the desires and needs of consumers in the market effectively (Aminullah et al., 2017). The influence of the millennial generation also indirectly shapes the current market character. As mentioned by Moore (2012), millennials tend to be highly connected to technology, especially the internet, which influences their consumption patterns (Hall et al., 2017). This is reflected in the dominance of online delivery service users from the millennial demographic (Selamat and Eddyono, 2024).

In addition to market orientation and the influence of the millennial generation, government policies also play a crucial role in determining the performance of SMEs. Eniola and Entebang (2015), emphasize that government policies have a significant impact on improving SME business performance, with regulations supporting participation and financial and market development (Alkahtani et al., 2020). According to Li et al. (2017), regulatory frameworks can support participation in improving financial performance, sales progress, and higher market capabilities for traditional herbal medicine SMEs (Ngatno et al., 2016). However, according to Doh and Kim (2014), government efforts have not fully reached their maximum potential in supporting SMEs. Isaac et al. (2023) add that overly complex policies can hinder innovation and business growth for SMEs. Therefore, a more effective policy framework is needed to support the holistic growth and development of SMEs.

Mahmoud's (2011) research reveals a significant positive relationship between market orientation and business performance. This means that to achieve superior business performance, SME practitioners need to implement a customer-focused approach, be competitor-oriented, and enhance inter-functional integration. Furthermore, the study by Mařík et al. (2024) found that high-performing SMEs benefit from a combination of high market orientation and a focus on specific marketing performance measurement domains, such as customer and financial metrics. Manafe et al. (2024) also found a significant relationship between market orientation and performance, emphasizing the importance of customer-centered strategies in driving the success of micro and small enterprises in the technology sector.

Figure 1: Number of MSMEs entering the digital ecosystem in Indonesia 2020-2024



Source: dataindonesia.id

Although many studies have demonstrated the importance of market orientation and government policies in improving SME business performance, research examining the influence of millennial market orientation moderated by local regulations on the business performance of traditional medicine SMEs remains limited. This gap is significant given the increasingly dominant role of the millennial generation in the business world and the variability of local government policies, which can have different impacts on SME business performance. This study aims to answer several important questions: how does millennial market orientation affect the business performance of traditional medicine SMEs, and to what extent do local regulations moderate the influence between millennial market orientation and the business performance of traditional medicine SMEs?

2. LITERATUR REVIEW

2.1. Business Performance

According to Nuryati et al. (2024), business performance is the measure of achievement obtained from the overall marketing activities of an organization, where the company evaluates the effectiveness of their strategies in achieving marketing goals. Meanwhile, according to Ahmad et al. (2023), business performance is the process by which the characteristics of an organization are transformed, improved, and developed through the application of communication technology systems, tools, and methods to discover new ideas, develop new products, and manage operations with technology.

Based on the above descriptions, it can be understood that business performance is a measure of the success of a business entity, viewed as the achievement of goals and objectives set by the entrepreneur or company. According to Agus et al. (2022), business performance involves explaining the close correlation between various efforts and endeavors through strategic goal-setting by the company or business actor with the expectation of fulfilling and contributing to the economy (Muttaqien et al., 2024). This understanding is important for measuring the positive impact generated by business strategies and decisions.

According to Sari (2020), the assessment of business performance is measured based on perspectives that include financial, customer, and internal business, as well as growth and learning. Generally, business performance and/or organizations use the financial perspective to view and calculate total revenue (turnover). Meanwhile, non-financial aspects are assessed through various returns on assets and returns on investment (Atube and Okolie, 2024). Therefore, it can be understood that these four perspectives can be used as tools for measuring business performance.

In simple terms, business performance is measured based on the value expressed in the profitability of input purchases. More specifically, economic efficiency is said to be a reflection of financial performance, reflected in revenue and profit. In addition to operating profit, to determine the economic performance of a company, the ratio of expenses to revenue (cost/revenue) can be used. The better or more profitable a company, the lower its operating ratio (Maryatmo and Pamenta, 2023).

2.2. Market Orientation

According to Narver and Slater (1990), market orientation refers to an organization's efforts to understand and meet customer needs (Alhamami et al., 2024). Market orientation involves organizational activities aimed at gaining profit, customer loyalty, and achieving company goals (Orbaningsih et al., 2024). It is widely used in business performance, strategic planning, marketing, innovation, and business efficiency (Newman et al., 2016; Na et al., 2019). In this decade, market orientation is directed towards understanding market growth trends, which are largely driven by the millennial generation.

Thus, Millennial Market Orientation is an effort to read and interpret Millennial market preferences by organizations, companies, and/or SMEs in response to the urgent need for commitment to sustainable innovation to create value for consumers and gain a competitive advantage in the midst of the Industry 4.0 market in this decade (Quashigah and Amuzu, 2024). In this context, traditional herbal medicine SMEs that rely on business development based on millennial market orientation will be able to sustain their businesses in the market.

Several specific studies measuring the influence of market orientation include Vehapi and Milanović (2017), Sampaio et al. (2021), and Mohungo and Asdar (2022), which indicate that the influence of market orientation on business performance is positive and direct. These studies consistently show the findings of the impact of market orientation despite being conducted in different contexts. Therefore, it becomes evident that traditional herbal medicine SMEs in East Java Province see the positive impact of millennial market orientation. This is because the Millennial market segment is significant, with different preferences and needs. SMEs that can meet the needs of this segment can improve their business performance. Furthermore, Millennial Market Orientation and its impact on business performance, as studied by Bandera and Passerini (2018), recommend further research on related policies.

2.3. Regional Regulations

Zaelani (2018), makes a more detailed and descriptive argument from a sociological perspective, stating that regional regulations are part of national law and play an important and strategic role in carrying out the tasks of regional autonomy and decentralization, as well as explaining higher-level legislation. The description related to the understanding of Regional Regulations (Perda) as elaborated by Zaelani (2018), aligns with the explanation of Regional Regulations, as stated in Law Number 32 of 2004 concerning Regional Government, made by the Regional Representative Council and the Head of the Provincial, District, and City Regions. These regulations are made to implement autonomy and assistance tasks in the region, as well as to elaborate on other laws and regulations.

Based on the study by Yanuarni et al. (2023) government regulations play a moderating role in influencing the business performance of SMEs. Specifically, Joo and Min, (2023), found that government policies or regulations have a significant positive influence on improving SME performance. This finding is relevant for understanding how regional regulations can serve as

a moderating factor in the relationship between variables in the context of traditional herbal medicine SMEs.

2.4. Traditional Medicine SMEs

“The Regulation of the Minister of Health of the Republic of Indonesia Number 006 of 2012 Regarding Traditional Medicine Industry” explains that businesses operating in the field of health products are considered part of the Traditional Medicine Industry, consisting of: Small-Scale Traditional Medicine Businesses (UKOT) are businesses that produce all forms of traditional medicine preparations, except for tablet and effervescent forms. Traditional medicine refers to a type of medicine made based on ancestral recipes, customs, beliefs, or local practices. These medicines can be magical or based on traditional knowledge. One reason why many people use traditional medicine is that some studies indicate that these medicines have few side effects and are well tolerated by the body (Balkrishna et al., 2024).

Jamu, phytopharmaceuticals, and limited herbal medicines (OHT) are examples of traditional Indonesian medicines (Woerdenbag and Kayser, 2014). Some examples of popular branded herbal drinks in Indonesia include Kuku Bima, Pegal Linu, Gemuk Sehat, Tolak Angin, Tuntas, Rapet Wangi, Kuldon, Strong Pas, Antangin Mint, Antangin Jahe Merah, Darsi, Enkasari, Batugin Elixir, ESHA, Buyung Upik, Susut Perut, Selangking Singset, Herbakof, and Curmino (Puspitasari, 2020).

Traditional medicines, especially herbal drinks like jamu, are favored by the public because they have been used for a long time (Surya et al., 2023). Consuming herbal instant drinks regularly can boost immunity. This is done as a preventive measure to protect oneself from COVID-19, which is currently prevalent. The increasing variety of traditional medicine preparations with attractive packaging indicates the rapid development of traditional medicine. Traditional medicine manufacturers must innovate to ensure their products are accepted by customers without compromising quality (Wang et al., 2023; Ahen et al., 2023).

3. CONCEPTUAL FRAMEWORK MODEL AND HYPOTHESES

Market orientation is one of the variables that has a significant relationship with and influence on the improvement of SME performance. This has been confirmed in several studies. Wasim et al. (2024), Arshad et al. (2024), and Wahyudi et al. (2024) found consistent results that market orientation has a significant relationship with and influence on the improvement of SME performance. This indicates that millennial market orientation has a fairly strong influence, even when compared to other variables. In the context of this research, regional regulations also play a role.

Yuan and Zhang (2020) revealed that the enforcement of environmental regulations is introduced as a moderator to explore institutional scenarios that promote sustainable industrial development. It is known that millennial market orientation is more driven by social and environmental concerns; hence, environmental-based policies and regional regulations are crucial

in enhancing SME performance, especially in the context of traditional medicine (Idris et al., 2024). According to Yu et al. (2022), environmentally-oriented regulations can effectively guide SME executives in fulfilling their SME CSR and guide the formulation of relevant environmental policies for local governments. Figure 2 describes the conceptual framework of the research model based on the description of the variables previously explained. These variables include, among others, the following:

Based on Figure 2 of the conceptual framework model above, the research hypotheses constructed are as follows:

- 1) H1: There is a significant influence of millennial market orientation on the business performance of traditional medicine SMEs.
- 2) H2: Regional regulations significantly moderate the influence of millennial market orientation on the business performance of traditional medicine SMEs.

4. RESEARCH METHOD

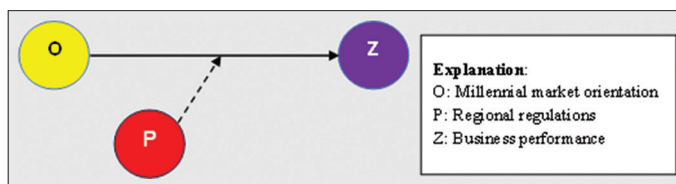
This research employs an explanatory model aimed at explaining the positions of the variables studied and the influence between them. The study provides an explanation of the influence of millennial market orientation (O), regional regulations (P), and business performance (Z). The research approach is quantitative, which emphasizes testing theories through numerical measurement of research variables and analyzing data using statistical procedures with the goal of testing hypotheses.

This research collects data through questionnaires and uses the partial least squares (PLS) technique. PLS is a structural modeling method used to test the relationships between latent variables and observed variables. The PLS model allows researchers to handle data that does not meet the assumptions of a normal distribution and can be used for analysis with small samples.

The model used in this research focuses on the influence of millennial market orientation on the business performance of traditional medicine SMEs, with the moderation of regional regulations. This differs from previous studies, which generally only examined the influence of market orientation on business performance without considering the specific role of the millennial generation and the moderating impact of regional regulations.

By introducing this moderating variable, this research provides new insights into how regional regulations can influence the relationship between millennial market orientation and business performance. Additionally, this study highlights the importance of understanding the role of the millennial generation in the

Figure 2: Conceptual framework model



context of traditional medicine SMEs, something that has not been extensively explored in previous research.

4.1. Research Location

The chosen research location is the province of East Java. The target population comprises small-scale traditional medicine businesses (UKOT). The selection of this location is because it can illustrate the research issues formulated within the conceptual framework. Additionally, the selection of small-scale traditional medicine businesses (UKOT) in East Java is due to their declining performance based on data from 2022.

4.2. Population and Sample

Population refers to the extent or magnitude of the attributes of the objects under study. Thus, the population consists of 184 traditional medicine SMEs in East Java Province. Sample determination utilizes saturation sampling to obtain the sample size from the total population of traditional medicine SMEs in the East Java Province. Based on the population size, the sample obtained for this research consists of 184 respondents. Therefore, questionnaires are distributed to respondents according to the determined sample size.

4.3. Variable Measurement Technique

Construct variables are measured using the Likert scale measurement standard with a rating range from 1 to 5, consisting of strongly disagree (value 1) to strongly agree (value 5).

4.4. Data Collection Techniques

The data collection techniques in this study include: (1) a survey, conducted by providing questionnaires directly to the respondents at their business premises. (2) Interviews, where respondents are asked to answer questions by the researcher (assisted by enumerators), and then the researcher fills out the questionnaire based on the interview results.

4.5. Data Analysis

The data analysis begins with descriptive statistics, describing the distribution of respondents based on demographic variables such as gender, education, and social media usage. Following this, the partial least squares (PLS) method is utilized for deeper analysis. In the measurement model evaluation, outlier loading values for each indicator are calculated, and those with values <0.7 are considered outliers and removed. Composite reliability is then assessed for each construct, with values >0.70 indicating good construct reliability. Cronbach’s alpha is also calculated for each construct, where values above 0.70 (or 0.60 for smaller scales) demonstrate good internal reliability (Rodriguez Añez et al., 2008). The average variance extracted (AVE) is calculated for each construct, with values above 0.50 indicating good convergent validity. Discriminant validity is established with cross-loading values above 0.7 or 0.6 (Höckerberg et al., 2010).

In the structural model evaluation, hypothesis testing is performed using PLS. The t-statistic and P-value for each relationship between variables are calculated, where t-statistic values >1.96 and $P < 0.05$ indicate statistically significant relationships. Additionally, the 95% confidence intervals for each path coefficient

are calculated, with intervals not including the value 0 indicating statistically significant relationships.

5. RESULTS AND DISCUSSION

5.1. Descriptive Statistics of Traditional Medicine SMEs Entrepreneurs

This includes information on gender, education level, and the use of online media (OL) in traditional medicine SMEs activities. Understanding the demographic characteristics of traditional medicine SMEs and entrepreneurs will provide a more comprehensive picture of the context and background of the respondents who are the focus of this study. The demographic characteristics of SMEs and traditional medicine entrepreneurs are presented in Table 1.

Based on Table 1, From the total population of 184 UKM traditional medicine entrepreneurs, 99 respondents were successfully selected as samples in this study. This was due to two main factors: some entrepreneurs were inactive, and others were difficult to reach due to time constraints and the vastness of the research location.

5.2. Measurement Model Evaluation

The variable “Millennial Market Orientation” (O) is measured by indicators such as social media usage (O.1) and product development (O.2). The variable “local regulation” (P) can be measured using indicators like safety, product quality (P.1), compliance (P.2), and support (P.3), while business performance (Z) can be measured using indicators like financial performance (Z.1). Table 2 below are the loading factor (LF) values for each indicator of these variables.

Based on Table 3, Market Orientation 'Millennial' (O) and Local Regulation (P) have an adequate level of reliability and validity. The note states that the business performance (Z) variable has the same value, resulting in no variance in Cronbach’s alpha, composite reliability, and average variance extracted (AVE) assessments. This is supported by the information from smartpls.com, which reveals that this situation occurs because “some PLS-SEM fit indices have limitations in their general application for model evaluation. For example, these indices are not determined

Table 1: Descriptive statistics of traditional medicine SME entrepreneurs

S. No.	Descriptive of traditional medicine SMEs entrepreneurs	Category	Count	Percent (%)
1.	Gender	Male	65	66%
		Female	34	34%
		Total	99	100%
2.	Educational level	High school/ equivalent	7	7%
		Diploma and bachelor’s degree	82	83%
		Other	10	10%
		Total	99	100%
3.	Online media (OL)	Not using	2	2%
		Using	97	98%
		Total	99	100%

Source: Primary Data Processed in 2024

Table 2: loading factor (LF) of indicators and statement items

Variable	Indicators and statement items	loading factor (LF)	Expl
Market orientation "millennial (O)	Social media usage (O.1)	0.860	Valid
	It is very important to market your traditional medicine products online (O.a2)	0.933	Valid
	Utilizing social media as a means of marketing traditional medicine products (O.a3)	0.873	Valid
	Frequently interacting with Millennial customers to gather feedback on products (O.a4)	0.850	Valid
	Considering collaborating with influencers (public figures) followed by the millennial market to promote products (O.a5)	0.804	Valid
	Product Development (O.2)	0.877	Valid
Local regulation (P)	Conducting market research to understand the preferences of the Millennial market regarding products (O.b4)	0.868	Valid
	Considering developing products that appeal to Millennial market more concerned with cultural diversity (O.b5)	0.937	Valid
	Participating in events (Exhibitions) hosted by the Millennial market to promote Traditional Medicine SME products (O.b6)	0.764	Valid
	Security, product quality (P. 1)	0.910	Valid
	Ensuring that your product meets the security and quality standards set by local regulation (P.a1)	0.752	Valid
	Considering obtaining certification from an institution recognized by local regulations to ensure product security and quality (P.a2)	0.916	Valid
	Paying attention to the ingredients used in traditional medicine, SME products must comply with local regulations regarding product safety and quality (P.a3)	0.920	Valid
	Considering conducting periodic product testing to ensure the safety and quality of traditional medicine products (P.a4)	0.905	Valid
	Compliance (P. 2)	0.892	Valid
	Adhering to all local regulations related to your business, including regulations regarding permits for traditional medicine SMEs (P.b1)	0.906	Valid
	Observing Local Regulations Related to the Operational Standards of Traditional Medicine SMEs (P.b2)	0.821	Valid
	Complying with local regulations regarding traditional medicine certification (P.b4)	0.844	Valid
Business Performance (Z)	Support (P. 3)	0.701	Valid
	Local government provides support to traditional medicine SMEs in the form of training (P.c1)	0.911	Valid
	Local government provides support to traditional medicine SMEs in the form of financial assistance (P.c3)	0.818	Valid
	Financial performance (Z.1)	0.926	Valid
	Achieving profitability/profit in traditional medicine SMEs business (Z.a2)	0.798	Valid
	Monitoring the cash flow of Traditional Medicine SMEs business (Z.a3)	0.887	Valid
Moderation	Obtaining funding from investors or financial institutions to develop traditional medicine SMEs business (Z.a5)	0.747	Valid
	Diversifying Products to Increase Revenue for Traditional Medicine SME Business (Z.a6)	0.856	Valid
	Customer Performance (Z.2)	0.477	Not Valid
	Customer Performance (Z.2) and all items Excluded	-	
	Local Regulation (P) -> Market Orientation "Millennial (O)	1.000	

Source: Primary Data Processed in 2024

Table 3: Cronbach’s alpha value, composite reliability, and Average variance extracted (AVE)

Variable	Cronbach’s alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Market Orientation "Millennial (O)	0.676	0.681	0.860	0.755
Local Regulation (P)	0.785	0.858	0.875	0.703

*Reability; Cronbach’s alpha >0.6, composite reliability (rho_a) >0,6 and AVE >0,50. Source: Primary Data Processed in 2024

for models that use repeating indicators (e.g., when estimating high-level models in PLS-SEM). This type of model constellation includes a perfect correlation of 1 in the indicator correlation matrix (because the same indicator is used twice and perfectly correlates with itself). Therefore, calculating some fit indices is not possible.” In this case, this situation happens with the business performance (Z) variable and is thus exempt. It means that the business performance (Z) variable can still be considered consistent or reliable to be measured as a variable.

The estimation results in Table 4 of the indicator cross-loading values show that the cross-loading value of each indicator weakens

more strongly with the variable it measures compared to other variables. This means that each indicator predominantly shares variance with its measured variable, indicating a better fit for the measured indicator.

5.3. Structural Model Evaluation

Before conducting hypothesis testing for the structural model, it is necessary to examine the presence of multicollinearity among variables using the inner VIF statistic. The estimation results show that the inner VIF values are <5, indicating a low level of multicollinearity among variables. This result strengthens the robustness of the parameter estimation in PLS-

SEM (Partial Least Squares Structural Equation Modeling) as it is unbiased.

Based on the VIF Table 5, all indicators show VIF values <5, namely social media usage (O.1), product development (O.2), security, product quality (P.1), compliance (P.2), support (P.3), and financial performance (Z.1). Therefore, all of these indicators are considered robust (unbiased).

In this study, there is one direct hypothesis, namely H1: The Influence of millennial market orientation on business performance. The following is Table 6. The estimated results of direct hypothesis testing are as follows:

Hypothesis 1 (H1) states that there is a significant influence of millennial market orientation (O) on business performance (Z) with a path coefficient of 0.529 and a P = 0.000 (<0.05). Every change in millennial market orientation (O) will increase business performance (Z). Within a 95% confidence interval, the magnitude of the influence of millennial market orientation (O) on

Table 4: Cross loading indicator variable values

	O	P	Z	P×O
O.1	0.854	0.145	0.253	-0.615
O.2	0.883	0.214	0.430	-0.538
P. 1	0.294	0.913	0.325	-0.195
P. 2	0.149	0.883	0.171	-0.085
P. 3	0.023	0.706	0.225	0.001
Z.1	0.398	0.306	1.000	-0.105
P×O	-0.661	-0.128	-0.105	1.000

*The values in bold indicate that the indicator has a higher loading on its main construct compared to other constructs. Source: Primary Data Processed in 2024

Table 5: Collinearity statistics (VIF)

S. No.	Indicator	VIF
1.	Social Media Usage (O.1)	1.352
2.	Product Development (O.2)	1.352
3.	Security, Product Quality (P. 1)	3.037
4.	Compliance (P. 2)	3.172
5.	Support (P. 3)	1.242
6.	Financial performance (Z.1)	1.000
7.	Local Regulation (P) x Market Orientation "Millennial (O)	1.000

Source: Primary Data Processed in 2024

Table 6: Direct hypothesis estimation results

Hypothesis	Path coefficient	P-values	Confidence interval for path coefficients 95%		F-square
			Batas bawah	Batas atas	
Market Orientation "Millennial (O) Business Performance (Z)	0.529	0.000	0.225	0.749	0.156

*Path coefficients range from -1 to +1, with P<0.05 and F-Square values (0.02=Small effect, 0.15=Medium effect, and 0.35=Large effect). Source: Primary data processed in 2024

Table 7: Moderation hypothesis estimation results

Hypothesis	Path coefficient	P-values	Confidence interval for path coefficients 95%		F-square
			Batas bawah	Batas atas	
Local Regulation (P) x market orientation "Millennial (O) -> Kinerja Bisnis (Z)	0.350	0.242	-0.263	0.894	0.036

*Path coefficients range from -1 to +1, with P<0.05 and F-square values (0.005=Low moderation effect, 0.01=Moderate moderation effect, and 0.025=High moderation effect).

Source: Primary Data Processed in 2024

business performance (Z) ranges from 0.225 to 0.749. However, the presence of millennial market orientation (O) in enhancing business performance (Z) has a medium effect at the structural level (F-square = 0.156). This value indicates that millennial market orientation can explain 15.6% of the variance in business performance.

The moderation hypothesis in this study is H2: There is a moderation effect of local regulations on millennial market orientation's influence on business performance. The following is Table 7 of the results of the estimation of the moderation hypothesis:

Hypothesis 2 (H2), based on statistical testing, indicates that there is no significant moderating effect of regional regulations (P) on millennial market orientation (O) influencing business performance (Z). Regression analysis shows a positive relationship between regional regulations (P) and millennial market orientation (O) and business performance (Z), with a path coefficient of 0.350. This means that stronger regional regulations and higher millennial market orientation lead to better business performance. However, statistically, the influence is not significant because the P = 0.242 is >0.05. This indicates insufficient evidence to conclude that regional regulations significantly moderate the effect of millennial market orientation on business performance. The confidence interval for the path coefficient shows that the true path coefficient could range from -0.263 to 0.894, indicating high uncertainty in the path coefficient estimation. The F-Square value of 0.036 indicates that the moderation effect of regional regulations on the relationship between millennial market orientation and business performance is moderately strong but not statistically significant.

5.4. Millennial Market Orientation towards the Business Performance of Traditional Herbal Medicine SMEs

The research findings indicate that the first hypothesis (H1) is accepted. There is a significant influence of Millennial Market Orientation (O) on Business Performance (Z), with a path coefficient of 0.529 and a P = 0.000 < 0.05. The P = 0.000 indicates that the influence is statistically significant. The path coefficient of 0.529 indicates that for every unit increase in millennial market orientation, business performance will increase by 0.529 units. If millennial

market orientation increases by 100%, then business performance will increase by 52.9%. This demonstrates a positive relationship between millennial market orientation and business performance.

According to Puspaningrum (2020), by creating products with quality, uniqueness, and competitive pricing, SMEs that are market-oriented gain a competitive advantage and ultimately influence SMEs' business performance. Several specific studies measuring the influence of market orientation include Vehapi and Milanović (2017), Sampaio et al. (2021), and Mohungo and Asdar (2022), indicating that the influence of market orientation on business performance is positive and direct. Overall, these studies show consistency in findings regarding the influence of market orientation despite being conducted in different contexts.

Based on the research findings, every change in millennial market orientation (O) will increase business performance (Z). Within a 95% confidence interval, the magnitude of the influence of millennial market orientation (O) on improving business performance (Z) ranges from 0.225 to 0.749. However, the presence of Millennial Market Orientation (O) in enhancing business performance (Z) has a moderate influence at the structural level (F square = 0.156). This value indicates that millennial market orientation can explain 15.6% of the variance in business performance.

Based on the research findings, it is evident that there are several indicators that need improvement to enhance the millennial market orientation and business performance of traditional herbal medicine SMEs. In the indicator of social media usage (O.1), there is one item, namely considering collaborating with influencers (public figures) followed by millennials to promote products (O.a5), with an LF value of 0.804, which is relatively low compared to other indicator items. To enhance Millennial Market Orientation, improvement is needed in this item. Here are some strategies to improve the LF value of item O.a5:

- 1) Conduct market research to identify suitable influencers (Kadekova and Holienčinová, 2018).
- 2) Build relationships with influencers (Ramadhani and Dharmawan, 2023).
- 3) Develop creative and appealing collaboration strategies (Larasati, 2021).
- 4) Implement monitoring and evaluation processes.

Meanwhile, in the Business Performance indicator, specifically the Financial Performance (Z.1) item, particularly the item "obtaining funding from investors or financial institutions to develop Traditional Medicine SMEs (Z.a5)," has an LF value of 0.747 that needs improvement. To enhance business performance, it's crucial to seek funding from investors or financial institutions to develop traditional medicine SMEs more effectively. Here are some strategies to improve the LF value for item Z.a5:

- 1) Create an appealing business proposal (De Stefanis, 2020).
- 2) Foster relationships with investors and financial institutions (Boschmans and Pissareva, 2018).
- 3) Enhance SME credibility (Chit, 2019).

Therefore, by improving the indicators of social media usage and business performance mentioned above, it is expected that

millennial market orientation in explaining the performance of traditional medicine SMEs can be significantly enhanced. Thus, millennial market orientation becomes one of the most relevant predictive variables in the context of the digital technology market industry today.

5.5. Local Regulations as Moderation on the Influence of Millennial Market Orientation on the Business Performance of Traditional Herbal Medicine SMEs

The second hypothesis is rejected, indicating that there is no moderating effect of regional regulations on millennial market orientation influencing business performance. Regression analysis shows a positive relationship between regional regulations and millennial market orientation on business performance, with a path coefficient reflecting that stronger regional regulations and higher millennial market orientation lead to better business performance. However, statistically, the influence is not significant because the P-value is greater than the accepted threshold, indicating insufficient evidence to conclude that regional regulations significantly moderate the effect of millennial market orientation on business performance. The confidence interval for the path coefficient shows that the true coefficient could range from negative to positive, indicating high uncertainty in the estimation. Although the F-Square value indicates a strong moderation effect, this suggests that regional regulations have an observable influence on moderating the relationship between millennial market orientation and business performance.

The absence of this mediation effect may involve weak or ineffectively implemented regional regulations, which do not have a significant influence on the relationship between millennial market orientation and business performance. Additionally, there are other factors not considered in the study, such as market characteristics or business strategies, which may have a greater influence on business performance (Blackburn et al., 2013) than regional regulations. Lastly, the relationship between millennial market orientation, business performance, and regional regulations is more complex than assumed, with unexpected interactions between these variables. According to Jurado and Battisti (2019), policy changes may result from unforeseen SME policies, considering the role and interaction among various factors. These unforeseen interactions can involve non-linear or unbalanced influences between the variables, making them unpredictable using conventional statistical analyses.

This is supported by the findings of Picas et al. (2021). Governments can influence business behavior positively or negatively through policies. However, in their research, Picas et al. (2021) found that government policies, through incentives, do not sufficiently provide a positive impact on increasing SME business profitability. According to Biru et al. (2024), the more regulations imposed by the government, the more they reduce SME business performance. Therefore, regional regulations in the context of traditional medicine SMEs should be carefully considered so as not to hinder their development.

Thus, the local regulation has a small and insignificant effect on the relationship between millennial market orientation and

business performance in traditional medicine SMEs. Although there is a small influence, it is not statistically significant enough to claim that local regulation plays an important moderating role in this relationship. Other findings also indicate that the more regulations imposed by the government, the more they diminish the influence of entrepreneurial orientation on SME performance. This may be due to factors such as business continuity from previous generations and an already stable market share. Therefore, government policies do not play a significant role in mediating the influence of strategies on the performance of these companies.

6. CONCLUSION

The conclusion of this study indicates that millennial market orientation has a positive and significant effect on the business performance of traditional medicine SMEs. However, this influence is moderate, with Millennial Market Orientation only able to explain about 15.6% of the variance in the business performance of traditional medicine SMEs. Additionally, local regulations do not have a significant moderating effect on the relationship between millennial market orientation and the business performance of traditional medicine SMEs. This confirms that the role of millennial market orientation is a key factor in improving the business performance of traditional medicine SMEs, while local regulatory factors do not significantly influence this relationship.

6.1. Limitations and Research Suggestions

This study has several limitations that need to be considered in interpreting the results and generalizing them. Internally, the use of LF (loading factor) as a measurement method for millennial market orientation and business performance may not capture the broader dimensions of these variables. The cross-sectional design of the study also limits the ability to evaluate changes over time and to generalize the findings of this research to the context of traditional medicine SMEs outside the study area. Externally, the use of a specific sample of traditional medicine SMEs in this study may reduce the ability to represent the entire population of traditional medicine SMEs in Indonesia. Contextual factors such as the influence of Millennial Market Orientation and regional regulations on the business performance of traditional medicine SMEs may also be influenced by regional economic variability and social changes not covered in this study. Additionally, the limitations of using secondary data in terms of improving millennial market orientation and business performance of traditional medicine SMEs may also affect the accuracy of the findings.

For future research, it is recommended to conduct longitudinal studies to explore changes in the millennial market orientation and business performance of traditional medicine SMEs over time. The use of mixed-method approaches integrating quantitative and qualitative methods is also proposed to better understand the factors influencing these phenomena. Further development of more comprehensive indicators of millennial market orientation, taking into account external variables such as macroeconomic factors and changes in government regulations, should also be considered to broaden the generalizability of the research findings. Additionally, expanding the sample to be more representative and developing predictive models that can estimate Millennial Market

Orientation potentially influencing the business performance of traditional medicine SMEs, while involving perspectives from stakeholders such as industry associations and traditional medicine SME entrepreneurs, is expected to provide a deeper understanding of this relationship and relevant policy implications for SME development in Indonesia.

6.2. Implication

The findings of this research have several important implications for SMEs in traditional medicine. Firstly, SMEs need to enhance millennial market orientation to support the improvement of business performance. This indicates that understanding the preferences and needs of the millennial market can be key to enhancing competitiveness and profitability. However, the findings also indicate that local regulations do not have a significant moderating effect on the relationship between millennial market orientation and business performance. This confirms that focusing on millennial market orientation should remain a priority without relying on local regulations as a moderation factor. Therefore, there is a need for joint efforts between traditional medicine SMEs and the government to support the enhancement of millennial market orientation. The government needs to provide appropriate support and incentives to assist traditional medicine SMEs in developing more effective marketing strategies aligned with the millennial market, thereby improving the overall business performance of traditional medicine SMEs.

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