

THE EFFECT OF ENTREPRENEURIAL COMPETENCY ON PRODUCT INNOVATION AND BUSINESS PERFORMANCE: EMPIRICAL CASES OF FASHION BUSINESS IN CENTRAL JAVA, INDONESIA

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ABSTRACT

The purpose of this study is to examine the influence of competency in entrepreneurial innovation product and business performance. The sample used in this study was 150 SMES engaged in the field of fashion in Central Java, Indonesia. Analysis of the structural equation modeling is used where to process data using the AMOS version 20. The results of this study suggest that (1) the entrepreneurial competency positive and significant effect on product innovation, (2) product innovation, positive and significant effect on business performance, and (3) the entrepreneurial competency of positive and significant effect on business performance.

Keywords: Entrepreneurial competency, product innovation, and business performance.

INTRODUCTION:

Various literature describe how businesses can be successful (Ahmad et al., 2010; Baum et al., 2001; Chandler & Hanks, 1994; Chandler & Jansen, 1992). One who runs business successful has the entrepreneurial competence (Chandler & Hanks, 1994; Chandler & Jansen, 1992; Cheng & Dainty, 2003; Huck & McEwen, 1991; Markman, 2007). Competence, possessed by an entrepreneur enables business with competitive advantage compared to others (Meutia et al., 2012). Competence is a combination and integration between knowledge, skills and behaviour (Kyndt & Baert, 2015). Entrepreneurial competency is nothing but capable of making the company effective (Robles & Zarraga-Rodriguez, 2015) so that the goals set can be achieved.

Fashion clothes or business is undergoing significant development in Indonesia. Various outlets started popping up due to the needs of consumers with regards to fashion, especially clothes, greatly increased. Model and style of the clothes are getting increasingly diverse today. which makes consumers tend to make purchases because consumers want to follow new trends. Fashion items are unique consumer products marked with short life cycles, high demand volatility, predictability, lower sales and impulsive purchase behavior (Bruce et al., 2004; Moon et al., 2010). Innovation has become an important part in business suits. Innovation is the key to drive the performance in fashion SMEs.

The purpose of this study is to examine the influence of competency in entrepreneurial innovation product and business performance. The research questions are as follows:

Q1. How does the influence of entrepreneurial competency on product innovation?

Q2. How does the influence of product innovation on business performance?

Q3. How does the influence of entrepreneurial competency on business performance?

LITERATURE REVIEW:

Entrepreneurial Competency:

Competency is the ability to coordinate the deployment of assets that helped the company to achieve its purpose (Sanchez et al., 1996). Competency enables companies to use their resources efficiently and/or effectively. Competency is a logical extension of the resource-based view (Lado et al., 1992). Because of the complex, tacit knowledge, competencies, and specific companies, they can be a source of competitive advantage (Reed et al., 1990). because competence involves a complex trade-off between the skills of many people, they *are embedded in the fabric of the Organization* (Day, 1994).

The competence of a businessman became an important factor in achieving excellence in performance to ensure continuous growth and success of a business in the midst of a competitive business environment. Hence the importance of entrepreneurial competence has increased over the past few decades because of the strategic role played by the human factors in particular employers of the company business.

Bird (1995) shows that 'entrepreneurial competence' is defined as the underlying characteristics as specialized knowledge, motif, nature, self image, social roles and skills that produce business births, survival and/or growth. Man et al. (2002) mentioned that entrepreneurial competence is defined as the ability of entrepreneurs to do a successful job role.. Johnson and Winterton (1999) observed that various skills and competencies are needed to run a small company qualitatively as well as quantitatively which is different from that of the skills required to run a larger organization. This is at least partly correct because the context of the focus is on individual entrepreneurship (Hunt and Meech, 1991).

Product Innovation:

Corporate Research Foundation found that one of the keys to bring success to a company is the power of innovation (Cook, 1998). Such innovation should be supported with human resource of high creativity in the company. This innovation is able to bring up something new that ultimately makes strong positioning. A strong company that has positioned itself as an innovative company will be able to improve the company's performance.

In marketing, Christian (1963) divides innovations into three categories, namely innovation creative, adaptive innovation, and administrative innovation. Creative innovation means doing everything that hasn't been done before, good innovation in products, services, or methods. Adaptive innovation tend to relate to a combination or modification of some elements using new ways. Administrative innovations with regard to the results of the operational order for improvisation created an effective administration.

The new product has a different level of innovation. A number of studies on level of innovation tells us about the different types of innovation such as the radical innovation, incremental innovation etc.,. The innovation may be moderate or completely new (Garcia & Calantone, 2002; Herrmann et al., 2007; Janssen et al., 2015;

Souto, 2015; Un, 2010; Utterback & Abernathy, 1975). Radical innovations tend to do large scale innovation while incremental innovation is done on a small scale. Moderate scale with regards to innovation. The last category is a completely new product, means either the product or the process used to produce a product is totally new.

Business Performance:

One of the company goals is to achieve maximum performance. Performance is defined as the ability to achieve results and specific objectives (Lönnqvist, 2004). Neely et al. (2002) explains that there are two basic types of measuring performance in many organizations, i.e. performance-related outcomes (competitiveness, financial performance), and focusing on the determinants of yield (quality, flexibility, utilization of resources and innovation). Neely et al. (2002) also argued that the performance was divided into two dimensions, namely the financial and non financial. Morgan (2012) divides the business performance into 2 dimensions, i.e. product-market performance (volume sales, customer satisfaction, loyalty, price sensitivity, growth of the market share) and financial performance (cash flow, profitability, ROI, ROA, etc.).

HYPOTHESIS:

Entrepreneurial Competency and Product Innovation:

Meutia and Ismail (2012) focuses on social entrepreneurial competence in influencing business performance and competitive advantage. The results were analyzed using SEM. The result shows that social entrepreneurial competencies are able to increase competitive advantage.

H1: entrepreneurial Competency positive and significant effect on product innovation

Product Innovation and Business Performance:

Innovation has been recognized as a significant enabler for companies to create value and sustain competitive advantage in an increasingly complex and fast changing environment (Ahmedova, 2015; Sigalas, 2015). In General, innovation cannot only make full use of the existing resources, improve efficiency and potential value, but also bring new intangible assets into the organization. Companies with greater innovation will be more successful in responding to the needs of customers and develop new capabilities that enable them to achieve better performance or profitability superior (Calantone et al., 2002).

H2: product innovation have positive and significant effect on business performance

Entrepreneurial Competency and Business Performance:

The success of a business can be defined on the basis of its ability to survive in the economic environment (Lussier & Pfeifer, 2001). The variables that contribute to the success of a small business can be categorised into three groups namely psychological and personal skills, management skills and training, and the external environment (Benzing et al., 2005). A study by Attahir (1995) on the determinants of success listed good management, quality, access to finance, investment and Government support as key factors.

Day et al. (1988) explains that the competency will be able to improve performance. Resources that have unique competence, it will be difficult to imitate by competitors. It is this uniqueness that will enhance business with competitive advantage and in the end was able to increase its business performance aka. Mitchelmore and Rowley (2013) are researching about wirasusaha competence, especially women entrepreneurs, to the growth of its business. There are four main clusters of competencies identified as follows: personal and hubungannm business and entrepreneurial management, and the competence of human relationships. Entrepreneurial competence will be able to improve business performance significantly.

H3: entrepreneurial Competency have positive and significant effect on business performance.

Following the model of empirical research

Figure 1 the Model of Empirical Research



RESEARCH METHOD:

Sample and Respondent Characteristic:

Primary data used in this research is collected from the respondents through a structured questionnaire. The

questionnaires distributed to 230 Fashion SMEs in Central Java. The questionnaires filled by the owner or store manager. From 230 questionnaires, only 150 questionnaires that can be used for analysis at a later stage. It happens because there are 80 respondents who did not complete the questionnaire filling. Profile of respondents in this study are as follows:

Table 1: Profile of Respondents

Profile of Respondents		Frequency	Percentage
Gender	Male	105	70,00%
	Female	45	30,00%
Age	< 25 years	18	12,00%
	25-35 years	113	75,33%
	> 35 years	19	12,67%
Education	High School	34	22,67%
	Bachelor degree	102	68,00%
	Undergraduate Degree	14	9,33%
Business Age	< 5 years	24	16,00%
	5-10 years	119	79,33%
	>10 years	7	4,67%

Measurement :

In this study, there were three main variables that will be analyzed each of its influence on other variables. These variables include: entrepreneurial competency, product innovation, and business performance. Each variable measured by the indicators.

Table 2: Measurement

Variables	Indicators	Measurement Scales	Writers
Entrepreneurial Competency	<ul style="list-style-type: none"> • Able to identify opportunities • Able to think and act creatively • Able to manage risk 	Seven point likert scale (1= strongly disagree; 7= strongly agree)	Adopted from a. D. Chandler (1992); Izquierdo et al. (2005); Wichramaratne et al. (2014)
Product Innovation	<ul style="list-style-type: none"> • New products on the market • Offers new ideas to the market • Creative design • Offerring new benefits • Products capable of providing consumer problem solving creatively • New features on the market 	Seven point likert scale (1 = strongly disagree; 7= strongly agree)	Adopted from Zhang et al. (2013); (Bao et al., 2012); Ardyan (2016)
Business Performance	<ul style="list-style-type: none"> • Customer growth • Business growth • Profit growth 	Seven point likert scale (1 = strongly disagree; 7= strongly agree)	Adopted from Hult et al. (2004); Hooley et al. (2001)

DATA ANALYSIS:

This research using structural equation modeling for analyzing. The data was processed using the AMOS version 20.

RESULT:

Validity and Reliability:

Validity and reliability test is used to test the research instrument. Reliability test used to measure when someone answers against a statement is consistent or stable of time to time(Ghozali, 2013). Reliability test in this study using a composite reliability. The instrument is said to be reliable or reliability when the value of composite reliability greater than 0.7 (Ghozali, 2013). Table 3 shows that the instruments can be said to be reliable because of the value of the composite reliability more than 0.7.

Test Validity in this study using the factor loading and Ave. Value AVE and factor loading required is more than 0.05. Table 3 shows that the entire value of the factor loading and AVE more than 0.05. So it can be concluded that the instrument being developed are already valid.

Table 3: Test validity and Reliability

Variable & Indicator	Factor Loading	AVE	Composite Reliability
Entrepreneurial Competency		0.949	0.967
EC1	0.920		
EC2	0.964		
EC3	0.932		
Product Innovation		0.936	0.953
PI1	0.911		
PI2	0.936		
PI3	0.931		
PI4	0.912		
PI5	0.811		
PI6	0.774		
Business Performance		0.948	0.966
BP1	0.900		
BP2	0.941		
BP3	0.939		

Goodness of Fit:

Goodness of fit describes whether the data is fit with the model already built. Goodness of fit in this study using NFI, RFI, IFI, TLI, and CFI. There are several grades of goodness of fit which is still average. The value of goodness of fit in this study, among others: NFI (0.888), RFI (0,855), IFI (0.768), TLI (0.879), and CFI (0.906).

Hypothesis Examination:

In this research, there are three hypotheses developed. The results of hypothesis testing can be seen in table 2.

Hypothesis 1 explains that the entrepreneurial competency of positive effect and significant on product innovation. The results of this research suggests that entrepreneurial competency have positive effect and signigikan on product innovation ($\beta = 0782$; $\alpha < 0.01$). So it can be concluded that the hypothesis 1 is accepted.

Hypothesis 2 explains that product innovation is positive and significant effect on the performance of the business. The results of this study indicate that product innovation is positive and significant effect on business performance ($\beta = 0747$; $\alpha < 0.01$). So it can be concluded that the hypothesis 2 is accepted.

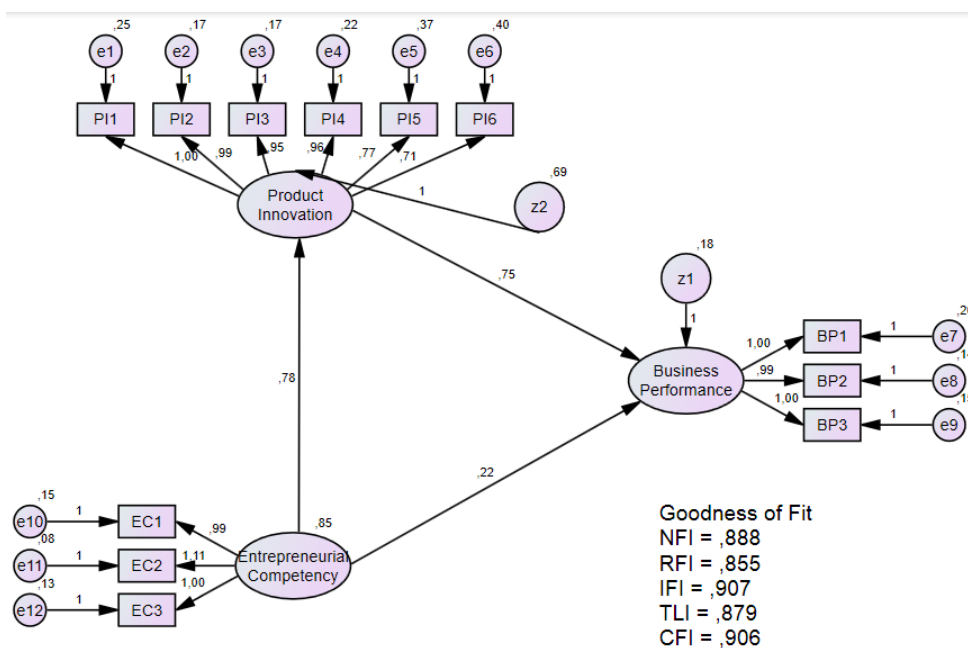
Hypothesis 3 explains that the entrepreneurial competency of positive and significant effect on business performance. The results of this research suggests that entrepreneurial competency of positive and significant effect on business performance ($\beta = 0216$; $\alpha = 0.001$). So it can be concluded that the hypothesis 3 is accepted.

Table 2: The Results Of Hypothesis Testing

Hypothesis	β	α	Comment
H1: Entrepreneurial Competency of positive effect and signigikan on product innovation	0.782	***	Hypothesis Accepted
H2: Product innovation, positive and significant effect on business performance	0.747	***	Hypothesis Accepted
H3: Entrepreneurial competency of positive and significant effect on business performance	0.216	0,001	Hypothesis Accepted

$\alpha < 0,01$

Figure 2: The Full SEM Model



DISCUSSION:

Entrepreneurial competence increase product innovation significantly. Entrepreneurial competency indicators used in this study were adopted from a. d. Chandler (1992); Izquierdo et al. (2005); Wichramaratne et al. (2014) among others, they were able to identify opportunities, be able to think and act creatively, as well as being able to manage the risks. It is shown that a person should be able to identify entrepreneurial opportunities that exist. The ability to identify opportunities by conducting market sensing will be able to improve its product innovation (Ardyan, 2016). The ability to act creatively will also have an impact on creativity of products made. The product made will be more innovative than competitors. In the concept of entrepreneurial orientation, ability to manage risk is also important in increasing the product innovation.

The results of this study indicate that product innovation is very influential on the performance of the business. The results of this study are samewith previous research (Akgun et al., 2009; Ardyan, 2016; Ardyan et al., 2016; Wang & Wang, 2012). The company's success in innovation will be able to make higher-performance (Ardyan, 2016). Kallio et al. (2012) explains that success in innovation willmake the business a success. Other researchers also argue that while SMEs have the resources that are able to innovate, then the SMEs business performance, increase (Saunila, 2016; Saunila et al., 2014). In the fashion industry, innovation is an important factor in consumer purchasing decisions. SMEs are not able to follow fashion trends and innovation will be considered old fashion by the purchasers. It will make consumers not to buy and will eventually affect the performance of its business.

The test results explained that entrepreneurial competencies are able to improve business performance significantly. The results of this research are the same as the previous research (Mitchelmore et al., 2013; Yusuf., 1995). An entrepreneurial competency, especially the unique competence would affect competitive advantage. Competitive advantage is what determines the height of the low performance of the company. Getting SMEs have the entrepreneurial competence then it will have an impact on the performance of SMEs.

The implications of the theory in the research is in the fashion industry, entrepreneurial competency is the ability that must be owned by self-employment where this capability would make the product into innovation and improve the performance of SMEs fashion.

Managerial implications. There are some managerial implications that could be developed within the SMEs Fashion. First, the owner focus on resource who has the entrepreneurial ability. This ability will make employees to predict fashion trends, to think and act creatively, and to manage the risk. Second, giving employees a challenge to conduct the product innovation support. In this research, product innovation, especially in the fashion industry, will have an impact on the performance of the company.

CONCLUSION:

The purpose of this study was to examine the influence of competency in entrepreneurial innovation product and business performance. The results of this research suggests that entrepreneurial competency enables companies to do innovation and business performance. The innovations undertaken by the SMEs fashion also shows a positive impact on business performance.

The limitations in this research is the lack of attention to the size of the SMEs examined. Suggestions for future research tends to use the size of SMEs as a control variable.

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