

Measuring Business Performance with the Motivation of Entrepreneurial, Product Innovation, and Managerial Skills through Competitive Advantage: A Study of the Creative Industry Handicraft Sector

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Abstract:- As part of the global supply chain the craft industry needs to continue improve in innovating, the latest technological mastery and the knowledge of global issues of industrial process technology that is more effective efficient and eco friendly product. The craftsmanship of the handicraft industry should continue to produce innovative, competitive and market-specific works. The research was conducted on 149 business owners of creative industry handicraft sector in Malang city Indonesia by using the primary data taken using the questionnaire, the data obtained analyzed using SEM. Research results show that influence on entrepreneurial motivation, product innovation, and managerial skills towards direct business performance or through competitive advantage in the creative industry of the handicraft sector.

Keywords:- Creative Industries, Business Performance, Handicraft Sector.

I. INTRODUCTION

The third wave Toffler (1980) has explained there are three waves of human civilization, i.e. The first is the economic wave of agriculture, both industrial economies, third economic information. But the current contest has evolved into the fourth economic wave of creative economy where the main economic mover is the creative industry. The existence of the creative industry is a new concept of economic field that seeks to develop the concept of human creativity and information that can emphasize the existence of a creative idea and ability of human resources as a major factor in the production activities. This creative economic concept strongly supports the existence of a creative industry that is manifestations.

Today the creative economy that encompasses the creative industries in different countries is believed to be able to contribute significantly to a country's economy. The Indonesian state also began to see that various subsectors in the creative industry could potentially be developed because Indonesia has creative human resources and abundant cultural heritage (Jerusalem, 2009). Based on the 2016 economic census data in Indonesia country there are contributions of 14 creative industrial sub-sectors

dominated by the fashion of 43.02% and crafts by 25.12% followed by advertising (7.18%), music (5.30%) and publication and printing (4.86%). The creative economy is believed to be able to address the challenges of national short and medium term basic issues, namely: (1) The high contribution to national economic growth (on average 7.28% per year); (2) labor absorption amid high unemployment (7.75%), and (3) an active role in international trade (Indahyani, 2018:97). Therefore, it is necessary to encourage the development of business performance, especially the creative industry in order to benefit from the growth of the economy wave to increase the economy (Sasongko, et al. 2018).

There are several factors that affect the performance of business, one of them is an entrepreneurial motivation, as stated Yunal and Indriyani (2013) and Machmud (2017) who say that motivation affects growth and performance of business. Entrepreneurial motivation is very important to study, according to Owens (1993:107) stating that motivation is a good urge that comes from within a person or coming from outside, thus making someone do something. Hersey & Blanchard (1995:114) defines motivation as something that encourages in a person to do certain activities. Luthans (2011:231) states that motivation can mean need, drive, and goals.

In addition to the motivation factors of product innovation can also boost business performance improvement. It is based on the study conducted by Kusumawati (2010) which states that new product innovations are positively and significantly influential in the company's performance, the statement is also in line with Olughor's (2015) stating that innovation affects business performance. In addition Rosali and Sidek (2013) also explained the product innovation and innovation process to influence the company's performance. The opinion is also supported by Prakosa (2005) saying that innovation is a successful implementation of creative ideas within the company. The study conducted by Kusumawati (2010) explaining the innovations of new products positively and significantly affect the company's performance, the statement is also in line with Olughor's opinion (2015) that innovation affects business performance. In addition Rosali and Sidek (2013) also

explained the product innovation and innovation process to influence the company's performance. The opinion is also supported by Prakosa (2005) that innovation as a successful implementation of creative ideas within the company.

Additionally Majeed (2011) states there is a significant between competitive advantage and performance. The results of the study conducted by Velu and Manxhari (2017) showed significant impact of managerial competence on business performance, as the most professional competence impacts on business performance. Professional competence and personal competence have the most significant impact on business performance. These results are also in line with the study of Agbim (2013) which demonstrates the positive and significant management skills associated with entrepreneurial success.

Another factor that is not less important to encourage business performance is the competitive advantage owned by a company, it is in line with the results of the study Majeed (2011) stating that there is a significant relationship between competitive advantage and performance. The results of the study are also in line with the study Setyawati, et al. (2015) which shows that there is a positive influence between competitive advantage to business performance. Thus, the competitive advantage that the company has acquired can directly affect the performance improvement of the business that includes the creative industry business.

This research was conducted by developing the study of Anjaningrum and Sidi (2018) who conducted research on the creative industry in Malang City which incorporated in Malang Creative Fusion with variables researched market orientation, product innovation, product creativity to the performance of the industry through competitive excellence. The difference from previous research is to add a variable of entrepreneurial motivation and managerial skills by replacing the market orientation variables as well as the creativity of the product, where the two variables are the differentiator of the research done. In addition, aspects of research respondents in the craft sector are another differentiator from previous studies. Currently there are various best flagship products in the city of Malang, among others, ceramic crafts, embroidery, handicraft furniture, accessories, calligraphy, food and others (Shofa, Ihfanus, and Nugroho, 2018). This potential also added the mindset of people of modern and creative city of Malang is a capital to face the competition of regional and international economy (Febrianto, 2016).

Malang as one of the tourist destinations and the center of Creative Economic Development in East Java is very potential to grow the creative industry business, this is more because the creative industry has an important role and can be expected to improve the national tourism quality, as stated in the research Koestantia (2010) stating that the creative industry is able to improve tourist attraction as a component of competitiveness of tourist destinations The creative industry in conjunction with the

tourism sector is more reciprocal and will form a multiplier effect and reduce the exploitation of natural resources for massive tourism development (Suriyani, 2008:13).

II. LITERATURE REVIEW

Pelham and Wilson (1996) define business performance as successful new products and market development, where the company's performance can be measured through sales growth and market segmentation. Wulandari (2009) defines the performance of the company is a construct that is commonly used to measure the impact of a corporate strategy orientation. While the Rivai & Basri (2004:16) defines the performance of the company is something produced by a company in a certain period with reference to the standards set. Armstrong (2004:29) defines business performance is the result of work that has a strong relationship with the strategic objectives of the Organization, consumer satisfaction, and value contributions. Performance is the result obtained by an organization whether the organization is profit oriented or non profit oriented which is generated during a period of time. So the performance of the company is something produced by a company in a certain period referring to the stipulated standard (Rahmasari, 2011).

At first the measurement of the company's performance focused on financial success, but the concept was changed because measurement of financial diaggap performance is not enough to compete in the modern market. Increasing customer demand and increasingly competitive market requires greater responsibility and focus on external company activities. Financial accounting system indicates that the performance is the result of the Company's activities that provide little guidance on how the performance is achieved and improved (Kennerley and Neely, 2003), which came out with a performance measurement concept that considers the concept of balance between performance financial and non financial which one of them is Balance scorecard (Wirda and Azra, 2015). Business performance leads to a level of presatment by the company in a given period, good business performance is characterized by the growth of good sales, always increasing profits, and increased capital (Machmud, 2017). Echdar (2012) Business performance is very important for the company in an effort to achieve a goal that consists of: keep survive, benefit and growth. The condition will be achieved if the company performs a good performance (Suci, 2009).

Performance of the business can be influenced by entrepreneurial motivation, study results nyang'au, et al. (2014). Yunal and Indriyani (2013) show there is a positive relationship between entrepreneurial motivation and micro and small business growth. Machmud study (2017) showed entrepreneurial motivation consisting of achievement motivation, risk propensity, and self-efficacy influence positive and significant to innovation process and business performance. Halim, et al. (2012) who conducted research on the impact of entrepreneurial motivation on the industry performance of the creative industries SME in Malaysia

that uses variable needs of motivation, risk-taking, self-efficacy, goal setting, and locus of control shows that entrepreneurial motivation becomes an important value to realize good business performance between SME's art founders in creative industry. In addition to being influenced by entrepreneurial motivation, business performance is also influenced by product innovation. Study Setyawati, et al. (2015) shows there is a positive influence between product innovation and business performance, so that if the company is doing product innovation then the company will be able to improve its business performance. The results of this study supported the statement Espallardo, et al. (2009); Ananda (2001), Mahesh and Neelankavil (2008) who argue until today's innovation still remains one of the activities that most can create core values and competitive weapons for the company. The study of Kongmanila and Takahashi (2009) explains that innovation has the ability to improve strong competitiveness in export performance that can ultimately lead to sustainable export performance. It supports the research of Droge and Vickrey (1994). In addition, the results of the study also supported the opinion of Bharadwaj et al. (1993) which said that the company's ability to continue to innovate will be able to keep the company's product to stay according to customer's wishes and needs. Further studies by Kusumawati (2010) also stated that new product innovations have a positive and significant effect on the company's performance, it is also in line with Olughor's (2015) which states that innovation affects business performance. Rosali and Sidek (2013) Product innovations and process innovations affect the company's performance. Atalay, et al. (2013) Innovation in the form of product innovation; Process innovation; Organizational innovation; and marketing innovation to influence the company's performance.

In addition to the motivation of entrepreneurial and product innovation, business performance is also influenced by managerial skills. The results of the study conducted by Veliu and Manxhari (2017) showed significant impact of managerial competence on business performance, as the most professional competence impacts on business performance. The study of Agbim (2013) also demonstrated managerial skills that influence positively and significantly related to entrepreneurial success. In addition, the results of the study by Majeed (2011) also showed a significant relationship between competitive advantage and performance. This is in line with the study of Setyawati, et al. (2015) which shows there is a positive influence between competitive advantage to business performance.

In addition to entrepreneurial motivation factors, product innovation, and managerial skills, competitive advantage can also affect business performance. The competitive advantage that the company has gained can also directly influence the improvement of business performance, so it can be concluded that there is a connection between competitive advantage and business performance. The statement is in accordance with the study conducted by Majeed (2011) stating there is a significant relationship between competitive advantage and performance. These results support the study of Setyawati, et al. (2015) which shows there is a positive influence between competitive advantage to business performance. The study conducted by Agha, et al. (2012) also provided preliminary empirical evidence of the relationship between core competencies, competitive advantage, and organizational performance. Based on the argument, the concept can be presented in this research in Figure 1.

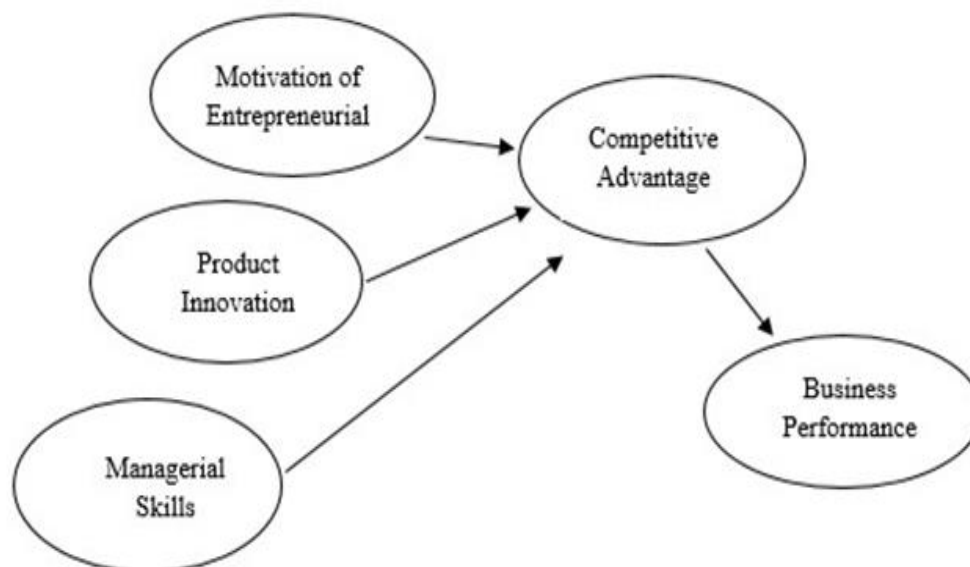


Fig 1:- Research mindset

III. RESEARCH METHODS

This research uses a quantitative approach that is intended to test the relationship between research variables. The scope of this research is the field of business management through the persepsional business owners of creative sub sectors handicraft in Malang city Indonesia, the research variables used are variables that could affect the performance of business that includes a variable entrepreneurial motivation, product innovation, managerial

skills, and competitive advantage. The population in this study is all the owners of small and medium enterprises in the field of creative industry sub sectors of handicraft non-textile covering wood crafts, bamboo, rattan, leather, ceramics and pottery, furniture, as well as jewelry as people sampling techniques conducted with simple random sampling based on each district region. To determine the magnitude of the sample, the researcher refers to the Slovin’s formula with alpha 5%, so the amount of samples set in this study was 149 respondents.

Variable	Indicators
Entrepreneurial motivation (X1)	Physiological needs
	Safety Needs
	Love and Belonging needs
	Esteem needs
	Self actualisation needs
Product innovation (X2)	Product discovery
	Product development
	Duplication of products
	Product synthesis
Managerial skills (X3)	Conceptual skills
	Technical skills
	Human relationship Skills
Competitive advantage (Y1)	Uniqueness
	Creativity
	Integrity
	Responsibility
	Capable
	Customer loyalty
Business performance (Y2)	Sales growth
	Profit growth
	Assets growth
	Labour growth

Table 1:- Variables and research indicators

Data collected and analyzed are primary data, in order to collect research data using questions, respondents are asked to answer or fill in some matters relating to research questions by providing answers to alternative choices against indicators of a research variable. Questionnaires were based on Likert scale models, test the validity and reliability of research instruments before conducting data collection activities, researchers will conduct test research instruments. The instrument test was conducted to test the validity of the instrument using the product moment formula, while for the reliability testing of the instrument using the Alpha Cronbach technique with the significance of 5%. Data retrieval is done by a Survy method that comes directly to the research site as well as sampling, the data that has been collected is then given a value or a score that is being stabled for the subsequent analysis. This research uses a quantitative approach, so that data analysis methods use detailed and inferential statistics. Descriptive

statistics are used to describe the respondent's response to questions about the research variables, the data that has been collected is further tabulated in the table and discussed in a detailed discussion. Where as inferential statistics are used to explain the relationship between variables in the study, for models used in the analysis of this research is Structural Equation Modelling.

IV. DISCUSSION

This research examines the influence of variable entrepreneurial motivation, product innovation, and managerial skills towards business performance through competitive advantage as a intervening variable. Data collected from the results of the survey propagation in this study from the sample data has fulfilled the validity and reliability test. This is indicated by the r-square value of all the variables higher than the r-table.

Variable	R-Square	R-Table	Conclusion
Entrepreneurial motivation	0,721	0,1703	Valid
Product innovation	0,692		Valid
Managerial skills	0,706		Valid
Competitive advantage	0,658		Valid
Business performance	0,724		Valid

Table 2:- Validity analysis test

Based table 2 it is known that the value of r-square entrepreneurial motivation variables 0.721; product innovations 0.692; managerial skills 0.706; competitive advantage 0.658; and business performance 0.724, where

all r-square values are greater than the r-table value 0.1703 which can mean that the research instrument used to measure each variable is valid.

Variable	Cronbach's alpha	Conclusion
Entrepreneurial motivation	0,907	Reliabel
Product innovation	0,878	Reliabel
Managerial skills	0,870	Reliabel
Competitive advantage	0,934	Reliabel
Business performance	0,884	Reliabel

Table 3:- Reliability analysis test.

Based table 3 it can be known that Cronbach's alpha item's value is an entrepreneurial motivation 0.907; product innovations 0.878; managerial skills 0.870; competitive advantage 0.934; and business performance 0.884, all those

values greater than 0.6; So the instrument used to measure the research variables is reliable. Furthermore, the research result data is analyzed using SEM analysis which result is as follows:

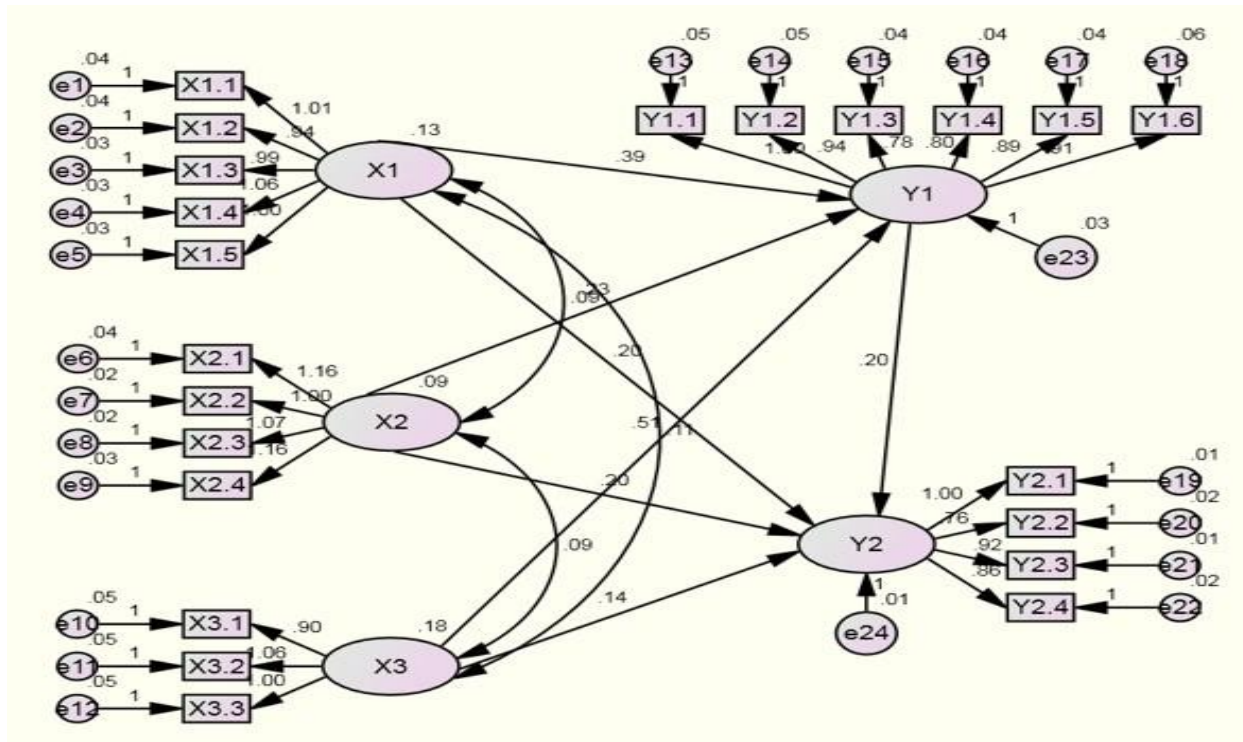


Fig 2:- SEM analysis results

Based Figure 2, the results of SEM analysis were used to test the hypothesis proposed by researchers. As a basis for testing the hypothesis used the critical ratio of the output regression weight. The research hypothesis will be

accepted when the p-value is < significance of 5%, hence the zero hypothesis is rejected. Hypothesized testing results are presented table 4.

Variable			Estimate	C.R	P
Competitive advantage	< ----	Entrepreneurial motivation	0,330	4,123	0,000
Competitive advantage	< ----	Product innovation	0,168	2,118	0,034
Competitive advantage	< ----	Managerial skills	0,509	6,675	0,000
Business performance	< ----	Entrepreneurial motivation	0,266	3,377	0,000
Business performance	< ----	Product innovation	0,229	3,208	0,001
Business performance	< ----	Managerial skills	0,212	2,362	0,018
Business performance	< ----	Competitive advantage	0,318	2,751	0,006

Table 4:- Regression Weight Analysis Results

Based table 4, the influence of all variables independent of the dependent variable results in a critical ratio value more than the p-value with significance at α 5%, so that the entire hypothesis in this study is acceptable

➤ *The influence of entrepreneurial motivation toward business performance.*

The results showed a positive and significant influence between entrepreneurial motivation to business performance. This finding supports the study of Nyang'au, et al. (2014) shows there is a positive relationship between entrepreneurial motivation and micro and small business growth in the micro and small textile industry in Thika City. The findings also correspond to the study of Yunal and Indriyani (2013) showing entrepreneurial motivation to provide a positive and significant direct influence on the growth of pottery crafts. Also supported by Machmud study (2017) shows entrepreneurial motivation consisting of achievement motivation, risk propensity, and self-efficacy influence positive and significant to innovation process and business performance. Moreover, the results of the study conducted by Halim, et al. (2012) who conducted a review on the impact of entrepreneurial motivation on the performance of the industry of SME creative industry in Malaysia that uses variable needs motivation, risk-taking, self-eficacy, goal setting, and locus of control show that entrepreneurial motivation becomes an important value for achieving good business performance between SME's art founders in the creative industry.

➤ *The Influence of product innovation toward business.*

Based on the results, the product innovation has an effect on business performance. These findings support Kusumawati (2010) expressed the higher innovation of new products, the higher the competitive advantage of sustainable enterprises, this means the innovation of new products is very influential in the competitive advantage to sustainable an organization. Product innovation is a way to increase the value of the company, where this value is a key component of the success of a business activity that can bring the company has a competitive advantage and become the market leader, therefore to have a competitive advantage then required products are superior. Drucker (1989) which says that the basic elements that make the company successful in the competition is the innovation strategy that is done in a focused, simple, and not confusing to the customer so that it will be able to create new market or new user. Another study conducted by Sugiyarti (2015) showed a significant positive relationship between product innovations and competitive advantage.

In addition, the study Setyawati, et al. (2015) shows there is a positive influence between product innovation with business performance, so that if the company innovate the product then the company will be able to improve its business performance. The results of this study support the statement Espallardo, et al. (2009), Aranda (2001), Mahesh and Neelankavil (2008) who argue that to this day innovation remains one of the activities that most can create core values and competitive weapons for companies operating in international business. This statement is also supported by the study results of Kongmanila and Takahashi (2009) Explaining the innovation has the capacity to improve the strong competitiveness of exports that can ultimately lead to sustainable export performance. The results of this study supported the study of Droge and Vickrey (1994). In addition, support Bharadwaj, et al. (1993) who said that the company's ability to continue to innovate will be able to keep the product in accordance with customer's wishes and needs.

➤ *The influence of managerial skills toward business performance*

The results showed that managerial skills are influential in the performance of the business, this hsil in accordance with the study Ismail, et al. (2014) shows that managerial competence significantly affects the quality of relationships and competitive advantage. In addition, this study also found that the quality of relationship between managerial competence and competitive advantage. Further findings in this study also showed that SMES should focus on two very important things namely managerial competencies and relational abilities, although not limited to only two. Both sources are interconnected and thus build strong relationships with partners of foreigners in a way that has managerial competencies. This strategic step helps SMES to effectively harness the competence of foreign partners especially overseas market knowledge. In addition, the results of studies conducted by Agbim (2013) also demonstrate management skills influence positively and significantly with entrepreneurial success.

The results of the study conducted by Velu and Manxhari (2017) showed significant impact of managerial competence on business performance, as the most professional competence impacts on business performance. Professional competence and personal competence have the most significant impact on business performance and are able to account for 53.6% of the variation in performance. These results are also in line with the study of Agbim (2013) which demonstrates the management skills of

influential positive and significant related to entrepreneurial success. Planning and budgeting skills for a marketing strategy that delivers a variety of exciting products make a relative contribution of 39% to entrepreneurial success; The skills to act quickly in detecting changes in the environment make a contribution of 26% to entrepreneurial success, while the 23% contribution to entrepreneurial success is made with the skills in assessing sales issues as a way of retaining customers. The skill to focus on the quality of the product so as to take the market share of 30% of its contribution to entrepreneurial success, while the 21% contribution is entrepreneurial success created by the expertise of managerial expertise to attract and retain competent employees. Thus, the skills for planning and budgeting for marketing strategies that provide a variety of attractive products have the highest contribution, while management skills to attract and retain competent employees contribute the lowest.

➤ *The influence of competitive advantage toward business performance*

The results showed that competitive advantage has an impact on business performance, this results in supporting Kusumawati (2010), Hana (2013), Sutapa et al. (2017), Suparman and Ruswanti (2017). It is also in line with the research of Majeed (2011) stating there is a significant link between competitive advantage and performance. This is in line with the study of Setyawati, et al. (2015) which shows there is a positive influence between competitive advantage to business performance. The competitive advantage that companies have acquired can directly affect the improvement of business performance, so it can be concluded that there is a connection between competitive advantage and business performance. Owners and managers realize that to improve the performance of its business the company must be able to create a competitive advantage first. Meanwhile, Agha, et al. (2012) studies have also provided preliminary empirical evidence of the relationship between core competencies, competitive advantage, and organizational performance. This finding considers core competencies to be the main determinant of competitive advantage and organizational performance, this study also shows that the core dimension of competency is cooperation and empowerment is important in shaping the performance of an organization.

V. CONCLUSION

The conclusion of this research is the motivation the of entrepreneurial, product innovation, managerial skills, impact on direct business performance as well as through competing excellence. In addition, competitive advantage also directly affects the performance of the business. Implementation of this research for business people creative industry, especially the craft sector is more focused on developing individual creativity in order to develop their business considering the development of creative industry is based on human resource capability. In addition to the development aspects of product innovations that are market oriented or consumers are indispensable in order to achieve a competitive edge that is ultimately expected to improve the performance of business in the future.

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