

The Effect of Management Capabilities and Entrepreneurship Orientation to Innovation and Implication on Business Performance: Study at Embroidery Motifs SMEs in Aceh-Indonesia

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Abstract

This study aims to examine and explain the effect of Management Capabilities and Entrepreneurship Orientation to Innovation and Implication on Business Performance: Study at Embroidery Motifs SMEs in Aceh-Indonesia. Survey respondents are 50 owners of Embroidery Motifs SMEs in Aceh. Structural Equation Modeling (SEM) applied to test the model that has been previously formed and at the same time examine all the hypotheses. The research found that innovation proved affect positively and significantly toward business performance improvement. Innovation becomes complete mediation in relationship between management capabilities and entrepreneurship orientation toward business performance. An important finding of this study is be able to integrate the affect of entrepreneurial orientation and management capabilities toward business performance through innovation as a mediating.

Key word: Entrepreneurial Orientation, Management Capabilities, Innovation, Business Performance

1. Introduction

Development of Micro, Small and Medium Enterprises (SMEs) is an effort to repair economy National, because most of the businesses in Indonesia are small and medium enterprises are labor intensive and utilize resources domestic. Among several small micro and medium enterprises, business embroidery has own characteristics which is very special, and as Indonesia's culture, which remained consistently. With the influence of certain motifs, embroidery make different in each respective region.

Embroidery is a folk craft that requires persistence in the process. One of the best selling products from Regency of North Aceh is Aceh Motif Embroidered Bags, precisely in the Village Ulee Madon Muara Batu . Bags Embroidery Motifs Aceh has naturally evolved since 20 years ago, and is now able to absorb around 350 the workforce. But with the development of appliqué technique, the more kinds of products are produced such as clothing Muslim women / men, mukena, veil, pillowcase chair, sarong women and trousers for women, pucok rebong, songket, wall hangings, rencong Aceh, cap and sandals up to various models of bags embroidered patterned Aceh. Of the wide range of products appliqué motifs Aceh, product of Bags Embroidery Motif Aceh is a product which has been developed in production side and marketing. A wide variety of Industrial products Bags Embroidery Motifs Aceh are already known national or International.

From the early results identification of cluster formation in 2011 by KPW BI Lhokseumawe, The industry is able to produce average turnover Rp.70,000,000.00- Rp.90,000,000.00 per year for the craftsman of Bags Embroidery Motifs Aceh. However, the magnitude of earning capacity the craftsmen industry is not quite capable of prospering the craftsman , this is due limitations of venture capital is not sustainable due to the availability of raw material for making Bags Embroidery Motifs Aceh.

Another problem faced is regarding innovation of Embroidery Motifs MEs entrepreneurs itself, namely strong willingness of SMEs to constantly develop new ideas and creativity, which is generated through product, process and managerial innovation. Rapid flow Embroidery Motifs garment import and difficulty to get young workers to create new motifs in accordance with market demand is a constraint faced Embroidery Motifs SMEs at this time. In addition, other constraints related to climate rivalry of Embroidery Motifs SMEs in Aceh.

Basically, entrepreneurship orientation is closely related to management capabilities an entrepreneur. According to Hassim, et.al. (2011), the key to entrepreneurship is how to make right decisions with various calculations and reasoning. The study will also examine the affect of management capabilities as it has been researched. Such as Liao et.al., (2010) in their study findings suggest that management capability, if supported by good knowledge sharing, will be able to improve innovation and performance..

Various theories and research in entrepreneurship field has been able to explain very well the importance of role and impact the entrepreneurship orientation toward innovation and its affect toward business performance. The inconsistent results of previous studies become interesting research gaps for further investigation. In this study, measurement of entrepreneurship orientation refers to previous research, with autonomous attitude, proactive attitude and courage to take risk indicators. Previous studies which is done by Fairouz et.al., (2010) carried out in 25 SMEs in Sri Lanka. The results showed that entrepreneurship orientation affects significantly

toward business performance.

Further, several studies have found inconsistent results also in innovation issue in SMEs,. Empirical research shows that innovation has an affect toward business performance. While the results of previous studies which is done by Rhee, et.al., (2009) and Hilmi (2011) showed different results that there is no affect between innovations toward business performance. Therefore, the originality of this study is to fill the research gap by offering innovation role to improve business performance.

Based on the basis theoretical concepts and the results of previous studies prepared framework empirical in this research as in Figure 1.

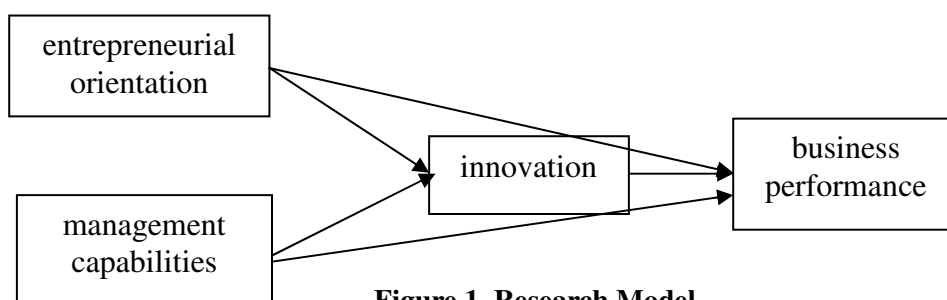


Figure 1. Research Model

The formulations of the hypothesis in this research are as follows:

H1: entrepreneurial orientation, mediated by innovation affects business performance positively

H2: management capabilities, mediated by innovation affect business performance positively

H3: innovation affects business performance positively

Literature

Management Capabilities

Management capabilities is an important aspect for the organization, in addition to ensure employee understanding of what is expected by their organizations and provide them with the skills and knowledge to interact effectively with customers and others in company (Damanpour, F., 2010)

Management's capabilities to understand and manage the business will determine the growth and survival of the company (Pearce & Robinson, 2009). SME owners who have an entrepreneurial spirit and supported by management capabilities needed to coordinate the resources of the company in order to obtain an effective and efficient results (Tidd et al , 1998).

Furthermore, according to The Liang Gie Ukas Maman (2003 : 203) argues definition of management capabilities are : " Skills to know and understand about the job (job-know), proficiency moving the organization (organization practice), skills to apply the basics, principles and basic management (principles and fundamentals of management) .

Entrepreneurship Orientation

The concept of entrepreneurship as an organizational orientation was first used by Miller (1983) to capture the risk-taking, innovative and proactive dimension of entrepreneurial behavior. Empirical studies have established that entrepreneurial orientation is associated with firm performance (Covin, Green and Slevin, 2006; Rauch, Wiklund, Lumpkin, and Frese, 2009) and long-term survival of a company (Zhao , Li , Lee and Chen , 2011) .

Entrepreneurship orientation is organization desire to promote and support the creativity, flexibility and risk considerations. It demonstrates entrepreneurial process and to answer the question of how an activity implemented. Jambulingan et.al (2005), in Muchtalifah (2008) stated that entrepreneurial orientation is defined as the process. Practices and decision- making activities that lead to the development and delivery of new and innovative services that can differentiate an organization from others in its market. Lumpkin dan Dess (1993) Wiklund dan Sheppard (2005), in Muchtolifah (2008), stated that entrepreneurial orientation to firm's strategic orientation, capturing specific entrepreneurial aspects of decision – making styles, methods, and practices “.

In connection with an entrepreneurial orientation, Solomon (2004) states that there are significant contributions from several authors associated with entrepreneurial orientation from time to time. It says further that entrepreneurial orientation has a positive correlation with the performance of small businesses. These dimensions are independence, innovative, the courage to take risks, the aggressiveness of the competition and proactive.

Innovation

There are five types of innovation: 1) the introduction of a new product or a qualitative change in an existing product, 2) new process innovation to an industry, 3) new market opening, 4) new source development to supply raw material or other inputs and 5) the changes in industrial organization (Bierly, et.al., 1996).

According to Damanpour, F., (2010) Innovation is openness and usage of new knowledge, technology, and creativity process to create a product or service according to customer desires. Innovation is transformation the knowledge to products, processes and services; action using something new. Innovation is the successful exploitation of a new idea. In other words, innovation is the mobilization of knowledge, technological skills and experience to create products, processes and services. Innovation is the main function in entrepreneurial process (Damanpour, F., 2010). But according to Hilmi et.al. (2011), Innovation is a broader concept in discussing the application of an idea, a product or a new process and a high level of an individual or a unit in a system.

There are many ways to classify innovation (Yang and Hsu , 2010). some scholars classify innovations in product and technology innovation (Lumpkin and Dess, 1996), others classify to innovation in products and processes (Adner and Levinthal, 2001; Akgun, Keskin and Byrne, 2009) , while some use as a measure of the level of innovation and classify innovation in incremental and radical innovation (Verganti, 2011) . As this study examined the relationship between EO and firm performance cosmetics manufacturers in China and the company's performance is measured in terms of sales revenue growth and return on equity, innovation, within the context of this study, is defined as the innovation in products and services (Dess and Lumpkin , 2005)

Business Performance

Business performance can be perpetuated by empower any strategic asset which is distinctively companies and have capabilities to inhibit competitors (Amit and Schoemaker, 1993). Successful of firm in provide high quality product (*superior product*) and success in market (*superior market*) is company performance measurement which is applied market oriented-strategies (*market orientation*) and strategies which is oriented to technology (*technology orientation*). Measurement of company performance which is based on successful in market and product called as *firm performance and product performance* (Zhou et al. 2005)

Wiklund, J & Shepherd D (2005) stated that performance can be seen from the company's sales, profitability, return on capital, turnover level and market share. According to Hilmi et.al. (2011), business performance can be measured by seven indicators: number of complaint, return on investment, financial performance, sales growth, productivity, customer satisfaction and employment satisfaction.

Performance measurement can be divided into four phases: design, implementation, use, and maintenance of a performance measurement system (Neely et al . , 2000). Neely et al . (2005) defines performance measurement as a process of measuring the efficiency and effectiveness of action. Performance measurement can also be defined to measure the input, output, or the level of activity of an event or process (Radnor & Barnes , 2007)

3. Research Methodology

Primary data collection in this research was conducted by distributing the open- and close-ended questionnaires to the Embroidery Motifs SMEs in Aceh. This research is conducted in Aceh. The Secondary data was collected from Central Bureau of Statistic and Micro, Small and Medium Enterprises (SMEs) Agency based on time series data.

This research is essentially a explanatory research with the objective to examine the hypothesis about the correlation between the studied variables and the formulated hypothesis. For the purposes of explaining the relationship between Management Capabilities and Entrepreneurship Orientation to Innovation and Implication on Business Performance as described in the formulation of the problem, the various relationships between variables were analyzed using descriptive statistics and inferential statistics. The Structural Equation Model (SEM) is used for inferential statistics.

4. Result and Discussion

Innovation is influenced by the entrepreneurial orientation significantly and positive. This is shown from result of data processing such as coefficient value is 0.063. This coefficient value is significant in significance level 0.05 with p-value is 0.044. The results are supported by the theory of two factors which states satisfaction or job dissatisfaction can be connected with the entrepreneurial orientation style in an organization. The statement explained that innovation can arise if it based on entrepreneur characteristics that has attitude to always outperform its competitors. This will bring innovation and ultimately improve business performance of

Embroidery Motifs SMEs in Aceh, as stated in earlier results which done Madhousi et.al (2011) that a good entrepreneurship orientation will enhance SME innovation that will ultimately improve the performance. Innovation is influenced by management capabilities significantly and positive. This is shown from result of data processing such as coefficient value is 0.016. This coefficient value is significant in significance level 0.05 with p-value is 0.040.. The results of this study reinforce the notion that innovation is an outcome of management capabilities to be able to produce high performance (Populova, Zuzana and Matej Mokros, 2007). That is, management capabilities that managed rightly will generate innovation that needed for business performance excellence.

Business performance influenced by the entrepreneurial orientation significantly and positive. This is shown from result of data processing such as coefficient value is 0.035. This coefficient value is significant in significance level 0.05 with p-value is 0.005. It supports research Kohli et al., (1998) who said that the manager-oriented capabilities and stressed the skills development can improve the procedural knowledge employees, so very helpful and motivate them to learn better ways to the task. Previous research conducted with a sample of 368 SMEs Malaysia. It showed that entrepreneurship orientation was required as a key factor to create high products quality to encourage increased business performance. The nature and specific characteristics of SME is keen to see the opportunities and creative to use its resources. It makes SMEs to survive and win the competition (Madhousi et.al., 2011).

Business performance is influenced by the management capabilities significantly and positive. This is shown from result of data processing such as coefficient value is 0.020. This coefficient value is significant in significance level 0.05 with p-value is 0.016. The study supported several studies mention the business performance affected by the management capabilities. The study result supports the concept which is stated by Yahya et.al., (2011) which states that if you want to run a business successfully, it is necessary to maintain good management capabilities. These study findings confirm the management skills theory by Robbins, S. P (2003) which states that an entrepreneur, in addition to having a creative talent, also must understand good management to create innovations in their work.

Business performance is influenced by the Innovation significantly and positive. This is shown from result of data processing such as coefficient value is 0.793. This coefficient value is significant in significance level 0.05 with p-value is 0.003. The results consistent with the research result which is done by Damanpour, F., (2010) and Ma'atofi, Ali Reza, Kayhan Tajeddini, (2010) that final result of business performance depends on a high degree of innovation. The result of this study confirms innovation theory which is stated by Zheng, Wei, Baiyin Yang & Gary N McLean (2009) which states that simultaneous innovations can improve business performance. That is, a good innovation can support business performance improvement. Innovation is an important function in management, and has a direct effect toward performance. The results of this study extend research studies by Jimenez, Daniel Jimenez and Raquel Sanz-Valle (2011) and Rofiaty, (2010) who found a positive effect of innovation toward business performance. Embroidery Motifs SMEs Innovation also encouraged the emergence of new success ideas that reflected on product, process and managerial innovation. Product innovation is a factor preferred in practice, measured by the ability to increase the novelty of product produced as compared to competitors, improving the new product quality that produced, quicker development of new products compared to competitors. SMEs current is required to produce good quality products, creative motifs and Embroidery Motifs dyeing and innovation in new product development. Empirical facts show that product innovation is the most preferred factor in the implementation. These results confirm the findings by Salavou, H., G. Baltas, S. Lioukas (2004) that product innovations are important determinants of business performance.

5. Conclusions

Entrepreneurial orientation and management capabilities are directly positive influence and significantly to the innovations. Entrepreneurial orientation, management capabilities and innovations are directly positive influence and significantly to the business performance. Innovation can provide significant and tangible contribution to support business performance improvement on Embroidery Motifs SMEs in Aceh, as a partial or complete mediation. The results also showed that high innovation can improve business performance. These results indicate that indicator of product innovation implementation became priority and have dominant contribution to reflect innovation. Meanwhile, growth in assets is the most important indicator to reflect business performance measurement. That is, an increase in product innovation can determine which assets growth as a reflection of business performance, thereby providing a significant contribution toward business performance improvement of Embroidery Motifs SMEs in Aceh.

This research limitation is not using control variables, such as age entrepreneur. Older entrepreneurs showed a more conservative attitude in running the business than younger entrepreneurs. The study also does not

distinguish between Embroidery Motifs SMEs managed by men and women entrepreneurs. Women employers of Embroidery Motifs SMEs seem more willing to take risk and be more proactive in running their business than men

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