THE EFFECT OF BUSINESS PARTNERSHIP AND INNOVATION MANAGEMENT TO BUSINESS PERFORMANCE OF BUSINESS UNITS OF MULTIPLAY PROVIDER IN INDONESIA

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ABSTRACT

Multiplay network refers to the ability to add new and powerful networking service that can be accessed by any customer. This method requires the integration of dynamic bandwidth management and the ability to dynamically manage customers. Broadband anywhere concept promoted by PT Telkom, covering multiplay based service that consists of data (Internet or Intranet), voice and video (interactive TV and multimedia). But the business performance of the Business Units of the multiplay operator in Indonesia has not been said to be optimal. This was based on the acquisition of market share and the number of subscribers in Indonesia that is still very small far below the average of the ASEAN countries. This is assumed because the innovation management and business partnerships that have not been optimized for improved performance.

This study aims to examine the effect of business partnerships and innovation management on business performance of Business Units of multiplay provider in Indonesia. The study conducted by causality. Observations using a scope (time horizon) of cross section/one shot, means any information or data obtained are the results of research conducted at one particular time, namely in 2017. The unit of analysis in this study is the Business Units of the multiplay provider in Indonesia with the observation unit is the head of each Business Unit. Processing data using statistical analysis tools PLS.

The test results indicate that business partnership and innovation management effect on business performance. The innovation management has a greater impact than the business partnership in improving the business performance of Business Units of the multiplay provider in Indonesia. The implication of this study is the importance of the development of innovation management continuously conducted by the management of Business Units of the multiplay provider in Indonesia as the critical effort in enhancing their business performance.

Keywords: Business Partnership, Innovation Management, Business Performance, Multiplay, Internet, Telecommunication Industry.
INTRODUCTION

Research Background

The tendency of the telecommunications industry increasingly shifts towards broadband services (data and internet) for both mobile broadband and fixed broadband, with the largest growth in mobile broadband access, namely 3G and Wi-Fi. On the market side, the observed development is the emergence of convergence services (multi-play and multi-screen) to the consumer segment and enterprise mobility services in a business or enterprise customer segment (www.indonesia-investment.com).

The growth of the use of multiplay services along with the growth of Internet usage in Indonesia. Based on data from the Association of Indonesian Internet Service Provider (APJII), the number of Internet users in Indonesia in 2016 reached 132.7 million peoples (51.8% from 256.2 million inhabitants); an increase compared to the year 2014, which amounted to approximately 88.1 million users.

The use of internet in Indonesia is supported by mobile broadband and fixed broadband network. Meanwhile, in the market, emerging convergence services (multi-play and multi-screen) to the consumer segment and enterprise mobility services in a business or enterprise customer segment. In other words, the use of data services increasingly shifting its basic telephony services such as voice (voice) and SMS, which is supported by the high smartphone population. This marked increase in data traffic of the three mobile operators which jumped from 79,050 terabytes in 2012 to 163,614 terabytes in 2013. The increase in data traffic is consistent with the data service users from 106.9 million in 2012 to 120.8 million in the year 2013. (www.mediadata.co.id).

Some of the services that can be provided with multiplay services include: 1) video streaming services, such as services which the server will broadcast the video in the form of bits of data to all clients over the network; 2) Audio Streaming Service, for example in the form of voice services such as audio streaming, where the server will broadcast bit of data to all clients over the network. Implementation is the same as broadcast radio, where the office broadcast as the server will send voice data to the client with wireless transmission, 3) Service of LAN games, in which the client can play the game with are connected to one another through a LAN network, the game data will be sent to the client in the form of bits of data passing through the network LAN; 4) Data Service, in which used by offices for sending and uploading data. The file will be sent in the form of bits of data and through the available network (Aldila, Hafidudin & Asep, 2016).

The use of technology (multiply/multiservice/multiscreen) is also one of the strategic initiatives of PT Telkom that is transformation costs, in order to execute the company's strategy. Given PT Telkom is the largest holder of a dominant market share in the telecommunications industry, the performance of multiplay services industry represented by the performance of PT Telkom that shows that the business performance of business units of multiplay providers cannot be said to be optimal. This is referred to the sales growth as an indicator of business performance, as stated by Wheelen & Hunger (2015); David (2013); Hubbard & Beamish (2011). David (2013) mentions some financial ratios used to evaluate the strategy consists of Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share, Debt to Equity, Earnings per share, sales growth, Assets growth.

The above conditions, allegedly because of not optimal implementation of innovation management undertaken by multiplay provider’s business units. Qingrui et al. (2007) state that
the core issues in the field of innovation management includes innovation itself and synergy between elements of technology and non-technology (strategy, culture, organization and institution innovation). While based on the observation of some phenomena known of the development of innovation management is not the optimal delivery of multiplay where the company still has weaknesses in identifying customer benefits in accordance with the customer's perspective. In addition, the company also seems to still have difficulties in identifying the consumer segments that have not served as an opportunity to gain market share.

Another issue that allegedly implicated in the non-optimal business performance of multiplay providers in Indonesia in regard to the implementation of a business partnership. According to Cravens (2013), a good business partnership is the establishment of vertical and horizontal partnerships involving the various related stakeholders. Meanwhile, the results of preliminary observations obtained several indications that the existence of problems in conducting marketing activities of products and interdepartmental collaboration. The management is also not optimal in using the customer database for use in developing customer relationship management program effectively and other marketing programs. In addition, the management is still relatively difficult to work together with educational institutions, as well as developers, business associations, intermediary institutions and government authorities (relevant agencies).

Based on the research background, it is interested to study the effect of business partnerships and innovation management on business performance in the business units of multiplay network provider in Indonesia.

**Literature Studies**

**Business Partnership**

The definition of a partnership based on the opinions of Cravens (2013), is an effort to cooperate with stakeholders that include a vertical relationship that consists of relationships with suppliers and customers, as well as horizontal consisting of lateral and internal partnerships.

Wheelen et al. (2015) proposed the concept of cooperative strategies that are used to create a competitive advantage in an industry by working with other companies. Hsiu-Fen Lin supposes:

“Partnership refers to a long-term relationship and is based on mutual recognition and understanding between the transaction parties that each companies’ success in the transaction is intrinsically dependent on the other” (Kim & Park, 2003).

Therefore, the essence of the partnership between two firms matches the social exchange relations. Social interaction (such as mutual dependency, trust and commitment) in e-business firms is related to the following key players: upstream suppliers, downstream customers and market competitors.

Rathi, Given & Forcier (2014) also argue:

“A partnership is a collaborative effort that aims to pool and/or share resources such as finance, staffing, skills, expertise and information or knowledge; this approach benefits the collaborators (Buckup, 2012; Jackson, 2012; Nelson et al., 2005; Samu & Wymer, 2001) and also allows them to focus on common objectives”.
Clement et al. (2013) assumes that partnership in business is more profitable because of some benefit gained. Clement, Clement & Joseph (2013) explain the definition of partnership:

“Partnership is the coming together of two or more people in a contractual agreement with a common aim to establish a business enterprise. It is a strategic alliance, a relationship based on trust, equality mutual understanding and obligation (Kuye, 2011). Partnership involves combination of ideas and resources for the success of the organization”.

Innovation Management

Definition of innovation described by Hitt, Ireland & Hoskisson (2015) as a process that is used to create a commercial product derived from an invention. Invention is an act to produce or develop new processes or products. So innovation follows the invention, where the invention brings something new on something that already exists, while innovation bringing something new in its use.

Qingrui et al. (2006) stated:

“The core issues in the field of innovation management are innovation itself and the synergy between the technological and non-technological elements (strategy, culture, organization and institution) of innovation”.

Business Performance

Definition of performance explained by Wheelen et al. (2015) as:

“Performance is the end result of activity. Select measures to assess performance based on the organizational unit to be appraised and the objectives to be achieved. The objectives that were established earlier in the strategy formulation part of the strategic management process (dealing with profitability, market share and cost reduction, among others) should certainly be used to measure corporate performance once the strategies have been implemented”.

There is a linkage between strategy and performance in the opinion of David (2013) where there is a quantitative criterion commonly used to evaluate the ratio of financial strategy, which is useful for: first: to compare the performance of companies in several periods; second: to compare the company's performance with the performance of competitors; third: to compare the company's performance against the average in the industry. Some financial ratios used to evaluate strategies are Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share and Debt to Equity, Earnings per share, sales growth and Assets growth.

Jin & Paulette (2013) suggest that the company's performance can be measured from different perspectives: operational perspective, customer orientation perspective and market and financial perspective. Yoon (2016) states that the company's business performance is measured by operational performance, growth performance, profitability performance and competitiveness performance.

Multiplay

With regard to the multiplay network, in www.juniper.net, defines:

“A multiplay network refers to the ability to add new and robust networking services that each subscriber can access. This method requires the integration of dynamic bandwidth management and the
ability to manage subscribers dynamically through the use of features such as hierarchical Quality of Service (QoS) and an AAA service framework that provides authentication, accounting, dynamic Change of Authorization (CoA) and dynamic address assignment”.

Previous Research

Past research has shown the relationship between the variables of business partnerships, innovation management and business performance. Kim (2015) found a different configuration of the buyer suppliers likely to produce a distinctive pattern of choice for inter-company innovation activities. Lin, Chen & Chiu (2010) found that company can improve its innovation capability through CRM with the relationship between customer engagement and process innovation; and technology-based CRM has a positive effect on innovation. Weisheng, Liu & Hongdi found a match between the procurement system and the external conditions that are very important for the procurement of innovation.

Chia (2009) found the company had to invest in relational assets to increase competitive advantage and exploit the opportunities of the local market. Qrunfleh & Tarafdar (2013) shows the relationship between strategic supplier partnerships, supply chain responsiveness, with the company's performance.

Choi, Moon & Ko (2013) indicates support for innovation and performance evaluation will moderate the relationship between ethical climate and organizational innovation. Trienekens et al. (2008) developed a framework for supply chain management processes to assess innovation and performance. Moghaddam et al. (2013) showed a significant positive relationship between innovation and financial performance.

Based on the above, the conceptual framework (Figure 1) for this study is described as follows:

![Conceptual Framework](image)

**FIGURE 1**

**CONCEPTUAL FRAMEWORK**

Research Objectives

Based on the research background, this study aims to examine:

METHODOLOGY

This is a causality study with the observation is conducted in a time horizon that is a cross section/one shot, means that information gathered from the research conducted at a particular time, 2017. The unit of analysis in this study is business units of the multiplay provider in Indonesia, while the unit of observation is the manager of that business with the sample size of 44 respondents. The data then processed by statistical tools PLS.

RESULT AND DISCUSSION

Fit Model Testing

In this section will be discussed the fit model testing by using Partial Least Square (PLS) that seen by structural models (inner model) and measurement model (outer model).

Structural Model (Inner Model)

In the inner test, the model is done by looking at the value of R Square on endogenous constructs and Prediction relevance (Q square) or known as Stone-Geisser's used to know the capability of prediction with blindfolding procedure. Refer to Chin, the value of R square amounted to 0.67 (strong), 0.33 (medium) and 0.19 (weak). If the value Q square obtained 0.02 (minor), 0.15 (medium) and 0.35 (large) and only used for the endogenous construct with reflective indicator.

<table>
<thead>
<tr>
<th>Variable</th>
<th>R Square</th>
<th>Q square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partnership</td>
<td>-</td>
<td>0.583</td>
</tr>
<tr>
<td>Innovation Management</td>
<td>-</td>
<td>0.598</td>
</tr>
<tr>
<td>Business Performance</td>
<td>0.860</td>
<td>0.853</td>
</tr>
</tbody>
</table>

Table 1
TEST OF INNER MODEL

Source: SmartPLS 2.0

The Table 1 shows that the value of $R^2$ of Business Performance as endogenous variables on the strong criteria (>0.6) and the value of Q square is on the great criteria and then can be concluded that the model is supported by empirical condition or the model is fit.

Measurement Model (Outer Model)

<table>
<thead>
<tr>
<th>Variable</th>
<th>AVE</th>
<th>Cronbach’s Alpha</th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partnership</td>
<td>0.690</td>
<td>0.898</td>
<td>0.919</td>
</tr>
<tr>
<td>Innovation Management</td>
<td>0.638</td>
<td>0.958</td>
<td>0.963</td>
</tr>
<tr>
<td>Business Performance</td>
<td>0.961</td>
<td>0.980</td>
<td>0.987</td>
</tr>
</tbody>
</table>

Table 2
TEST OF OUTER MODEL

Source: SmartPLS 2.0
Analysis of measurement model (outer model) in Table 2 show manifest variables (indicators) as with each latent variable. It is used as validity and reliability test to measure latent variable and indicator in measuring dimension that is constructing. It is can be explained by the value of AVE and Cronbach’s Alpha that is to see the reliability of dimension in measuring variables. If the value of Cronbach’s Alpha bigger than 0.70 (Nunnally, 1994), it shows that the dimensions and indicators as reliable in measuring variables. Recommended value of AVE>0.50. Composite reliability and Cronbach’s Alpha of variables >0.70 show that all of the variables in the model estimated to fulfill the criteria of discriminant validity. Then, it can be concluded that all of variables has a good reliability.

The usage of Second Order in the research model causes loading factor obtained can explain the relationship between latent variables-dimension and dimensions-indicators. The Table 3 below shows the result of the measurement model for each dimension on the indicator.

<table>
<thead>
<tr>
<th>Variable-Dimension</th>
<th>Indicator-Dimension</th>
<th>$\lambda$</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership -&gt; Internal</td>
<td>Part1 &lt;- Internal</td>
<td>0.882</td>
<td>40.997</td>
</tr>
<tr>
<td></td>
<td>Part2 &lt;- Internal</td>
<td>0.864</td>
<td>44.727</td>
</tr>
<tr>
<td></td>
<td>Partnership -&gt; Customer</td>
<td>Part3 &lt;- Customer</td>
<td>0.915</td>
</tr>
<tr>
<td></td>
<td>Part4 &lt;- Customer</td>
<td>0.915</td>
<td>88.097</td>
</tr>
<tr>
<td></td>
<td>Partnership -&gt; Supplier</td>
<td>Part5 &lt;- Supplier</td>
<td>0.892</td>
</tr>
<tr>
<td></td>
<td>Part6 &lt;- Supplier</td>
<td>0.837</td>
<td>38.032</td>
</tr>
<tr>
<td>Partnership -&gt; Lateral</td>
<td>Part7 &lt;- Lateral</td>
<td>0.817</td>
<td>23.247</td>
</tr>
<tr>
<td></td>
<td>Part8 &lt;- Lateral</td>
<td>0.887</td>
<td>25.673</td>
</tr>
<tr>
<td>Innovation Management -&gt; Strategy Innovation</td>
<td>IM1 &lt;- Strategy Innovation</td>
<td>0.873</td>
<td>44.963</td>
</tr>
<tr>
<td></td>
<td>IM2 &lt;- Strategy Innovation</td>
<td>0.797</td>
<td>14.794</td>
</tr>
<tr>
<td>Innovation Management -&gt; Project Management</td>
<td>IM3 &lt;- Project Management</td>
<td>0.916</td>
<td>72.611</td>
</tr>
<tr>
<td></td>
<td>IM4 &lt;- Project Management</td>
<td>0.929</td>
<td>71.490</td>
</tr>
<tr>
<td></td>
<td>IM5 &lt;- Project Management</td>
<td>0.885</td>
<td>44.122</td>
</tr>
<tr>
<td>Innovation Management -&gt; Portfolio Management</td>
<td>IM6 &lt;- Portfolio Management</td>
<td>0.933</td>
<td>93.685</td>
</tr>
<tr>
<td></td>
<td>IM7 &lt;- Portfolio Management</td>
<td>0.959</td>
<td>127.460</td>
</tr>
<tr>
<td></td>
<td>IM8 &lt;- Portfolio Management</td>
<td>0.901</td>
<td>65.806</td>
</tr>
<tr>
<td></td>
<td>IM9 &lt;- Portfolio Management</td>
<td>0.897</td>
<td>59.124</td>
</tr>
<tr>
<td>Innovation Management -&gt; Innovation Process</td>
<td>IM10 &lt;- Innovation Process</td>
<td>0.882</td>
<td>50.814</td>
</tr>
<tr>
<td></td>
<td>IM11 &lt;- Innovation Process</td>
<td>0.771</td>
<td>23.027</td>
</tr>
<tr>
<td></td>
<td>IM12 &lt;- Innovation Process</td>
<td>0.611</td>
<td>15.268</td>
</tr>
<tr>
<td></td>
<td>IM13 &lt;- Innovation Process</td>
<td>0.776</td>
<td>16.929</td>
</tr>
<tr>
<td></td>
<td>IM14 &lt;- Innovation Process</td>
<td>0.811</td>
<td>24.290</td>
</tr>
<tr>
<td></td>
<td>IM15 &lt;- Innovation Process</td>
<td>0.763</td>
<td>17.200</td>
</tr>
<tr>
<td>Innovation Management -&gt; Technology</td>
<td>IM15 &lt;- Technology</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Business Performance -&gt;BP1</td>
<td></td>
<td>0.990</td>
<td>520.065</td>
</tr>
<tr>
<td>Business Performance -&gt;BP2</td>
<td></td>
<td>0.990</td>
<td>520.065</td>
</tr>
</tbody>
</table>
Table 3
LOADING FACTOR OF LATENT VARIABLE-DIMENSION-INDICATOR

<table>
<thead>
<tr>
<th>Indicator</th>
<th>BP2</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.960</td>
<td>116.998</td>
</tr>
</tbody>
</table>

The result of measurement model of dimensions by its indicators shows that the indicators are valid which the value of t<2.02 (t-table at α=0.05).

The result of measurement model of latent variables on their dimensions shows to what extent the validity of dimensions in measuring latent variables. The following Table 3 shows the result of the measurement model for each latent variable on dimension.

The following Figure 2 shows the complete path diagram:

![Complete Path Diagram of Research Model]

Based on the research framework and then obtained a structural model as follow:

\[ Y = 0.280X_1 + 0.668X_2 + \zeta_1 \]

Which are:

- \( Y \): Business Performance
- \( X_1 \): Business Partnership
- \( X_2 \): Innovation Management
- \( \zeta_1 \): Residual

**Hypothesis Testing**

The effect of business partnership and innovation management on business partnership of business units of the multiplay provider in Indonesia.

Below is the result of hypothesis testing both simultaneous and partially.
Simultaneous Hypothesis Testing

Below is the result of simultaneous testing of hypothesis:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>$R^2$</th>
<th>$F$</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partnership and Innovation Management → Business Performance</td>
<td>0.859</td>
<td>94.009*</td>
<td>Hypothesis accepted</td>
</tr>
</tbody>
</table>

*Significant at $\alpha=0.05$ (F-table=3.226)

Based on the Table 4, it is known that within the degree of confidence of 95% ($\alpha=0.05$) simultaneously there is the effect of Business Partnership and Innovation Management to Business Performance amounted to 85.9%, while the rest of 14.1% is affected by other factor did not examine.

Partial Hypothesis Testing

Below is the result of partial testing of hypothesis:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>$\gamma$</th>
<th>$t$</th>
<th>$R^2$</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partnership -&gt; Business Performance</td>
<td>0.280</td>
<td>3.045*</td>
<td>0.246</td>
<td>Hypothesis accepted</td>
</tr>
<tr>
<td>Innovation Management -&gt; Business Performance</td>
<td>0.668</td>
<td>7.566*</td>
<td>0.613</td>
<td>Hypothesis accepted</td>
</tr>
</tbody>
</table>

*Significant at $\alpha=0.05$ (t-table=2.02)

The Table 5 shows that partially, Business Partnership and Innovation Management influential significantly to Business Performance, which is Innovation Management has a greater influence (61.3%).

FIGURE 3
RESEARCH FINDING
The results of this study (Figure 3) indicate that business partnership have a relationship with management innovation. Then management innovation provides a higher impact than the business partnership in improving business performance. Dimensions of innovation management that deliver the highest is project management, followed by the innovation process, portfolio management, strategy innovation and technology.

Project management involves the effort to determine the needs and expectations of customers then develop new products and services on the market today and the future and innovating together with the customers. The second aspect that supports innovation management is innovation process, in the form of structured steps to direct and manage innovation, improved teamwork powerful, optimizing time to market, adoption of methods and techniques to support innovation, establish a mechanism to resolve the issue. In improving the process of innovation, it is also necessary the development of a portfolio of technologies, products and projects.

The dimensions of partnerships which give the greatest effect on the improvement of business performance is a partnership with a supplier, then the partnership with the customer, internal and lateral. Supplier’s partnerships must be accompanied by commitment and coordination. Partnership with the customer must be equipped with the development of customer trust and loyalty of customers.

Thus increasing business performance in the multiplay industry, more influenced by the extent to which the company is able to improve the innovation management, especially in the aspects of project management. Development of innovation management has to be supported by the development of partnerships notably with the suppliers.

The findings of this study support the previous research such as Choi, Moon & Ko (2013) show that the support for innovation and performance evaluation will moderate the relationship between ethical climate and organizational innovation. Trienekens et al. (2008) developed a framework for supply chain management processes to assess innovation and performance. Moghaddam et al. (2013) showed a significant positive relationship between innovation and financial performance.

The results also support the findings of Chia (2009) who found that the company should invest in relational assets to increase competitive advantage and exploit the opportunities of the local market. Qrunfleh & Tarafdar (2013) shows the relationship between strategic supplier partnerships, supply chain responsiveness, with the company's performance.

CONCLUSION AND RECOMMENDATION

Conclusion

The result of the study show that business partnership and innovation management effect on business performance of business units of multiplay providers in Indonesia in which innovation management have a greater effect than business partnership in improving business performance. The development of innovation management is dominantly shaped by the extent to which the management’s effort in developing project management, followed by the effort in developing the innovation process, portfolio management, strategy innovation and technology. Project management involves the effort to determine the needs and expectations of customers then develop new products and services on the market today and the future and innovating together with the customers. Meanwhile, business partnerships also have a role in improving business performance, which is mainly supported by the development in building partnership with a supplier. Supplier’s partnerships must be accompanied by commitment and coordination.
Partnership with the customer must be equipped with the development of customer trust and loyalty of customers. In addition, the development of business partnerships also needs to be strengthened by partnerships with customers, internal and with lateral parties.

**Recommendation**

The findings of this study can be used as a reference for further research by making these findings as part of the premise in developing the framework. Next researcher is expected to be interested in doing research on multiplay industry with the insight from a different perspective in an effort to increase the performance of business.

The results show that innovation management contributes the most in influencing business performance. In addition, it is necessary to explore more about project management and innovation process to support the improvement of business performance.

**REFERENCES**


