

# THE INFLUENCE OF ENTREPRENEURIAL COMPETENCE AND INNOVATION ON PERFORMANCE MEDIATED BY OPPORTUNITIES ON SMALL HANDICRAFT INDUSTRY CRAFTSMEN IN WEST JAVA

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## ABSTRACT

*This study aims to determine the influence of entrepreneurial competency and innovation on performance that is moderated by opportunities in small handicraft industry craftsmen in West Java. The unit of analysis in this study is the craftsmen in small handicraft industries in West Java which are grouped into 27 districts/cities. The number of samples in this study is 368 craftsmen of small handicraft industries. The data analysis method used is descriptive analysis and path analysis test. The results of this study reveal that either jointly or separately entrepreneurial competencies and innovation influence performance either directly or through opportunities. Additionally, opportunity proves to be an influencing moderator between the independent and dependant variables, as it has an effect on significant differences in influences if compared to direct influences (full intervening variable). The novelty is that to improve the performance, the craftsmen have to develop the innovation based on the spiritual intelligence and entrepreneurial competence by optimizing the existing opportunities.*

**Keywords:** Entrepreneurial Competency, Innovation, Opportunity, Performance.

## INTRODUCTION

West Java is the one of provinces that drives the national economic for it has various natural resources, enormous population, strategic geograph spot, and diverse culture as the assets of competitive advantages. West Java Province has a strategic position as the heart of the national industry by controlling more than 50% of the contribution of the industrial sector to the national economy. As raw materials and capital are limited, small industries, including the small handicraft industry, need to develop is to develop creative industries by promoting new and renewable resources.

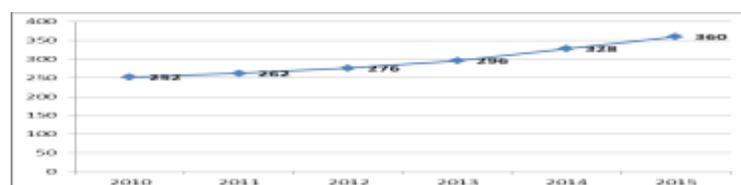
The low entrepreneurial competence possessed by craftsmen will certainly have an impact on their performance in producing a work of art; this is also confirmed by entrepreneurial research which shows that entrepreneurial competence has a positive impact on SME performance. Companies with managers who have a relatively high level of entrepreneurial competence are likely to scan and manage the environment in which they operate to find new opportunities and consolidate their competitive position (Covin & Miles, 1999). Generally

performance is interpreted only in terms of the output of achieving measurable goals. But more than that, performance is a process of what people achieve. This means, performance is not only about the end result but also about the work process, viewed from how people achieve it (Armstrong, 2006). Craftsmen' performance in SME is a measure of the quantity and quality of the work produced, which is expected to meet market demands.

The output of performance in the form of a product certainly varies from each craftsman, even though the type of product created is the same. This is due to the influence of each craftsmans' competency. In addition, their products can also be different because of the innovations made by the craftsmen. Innovation is the company's efforts by using technology and information to develop produce and market new products in the industry (Freeman, 2004). In other words, innovation is the modification or discovery of ideas for continuous improvement and development to meet customers' demand. Product improvements or enhancement are solely carried out to meet the market demand, so it is not surprising that if the craftsmen have the opportunity then they will make best use of it by performing innovation to align their products with market demand. Therefore, creative industry craftsmen must be able to see a lot opportunities, and before taking these opportunities, they have to firstly identify those opportunities (Krueger, 1998).

Indonesian creative industry has been one of the most successful and promising industries since 2002. The average GDP contribution from the Indonesian creative industry during 2002-2015 was 3.6% of the total National GDP with a value of Rp. 104.6 trillion. The export value of creative industry reached Rp. 81.4 trillion and contributed 9.13% to the total value of the national exports with employment reaching 5.4 million workers (Indonesian Ministry of Trade, 2015). Although in general creative industry experienced a positive growth, the development of creative industry in the craft sub-sector, which in the economic classification belongs to the MSME category, is still unstable and vulnerable to bankruptcy. When viewed from the scope of creative economy in the craft sub-sector, the increase in achievement tends to rely on the quality of Human Resources (HR), because the main capital needed is a creative and tough workforce, combining creativity, expertise and individual talent. This is in accordance with the definition stated by the Department of Culture, Media and Sports (DCMS) which explains that creative industry are activities emerging from creativity, skills and talents of individuals who have the potential to realize prosperity and employment through the creation and exploitation of intellectual wealth (UNCTAD, 2008; Gibbons, 2011).

The development of the craft sub-sector creative industry in West Java from 2010-2015 showed an increase (Figure 1), but based on observations upon 15 small-scale handicraft industries, it was found that the product sales turnover of each craftsman was not significant each year; this detects the existance of problems in performance and innovation so that annual targets were not achieved. This condition can be viewed in the following graph:



**FIGURE 1**  
**THE AVERAGE TURNOVER OF SMALL HANDICRAFT INDUSTRIES IN WEST JAVA**

The problem of innovation and performance in the craft sub-sector of the creative industry in the province of West Java can be seen from their low capability and low access to technological-based information and their limited business opportunities; small-scale handicraft industry craftsmen also have low capability in accounting and business feasibility studies, in understanding export-import trade mechanisms and systems, and they have no clear competence standardization.

From the explanation above, the formulation of research problems can be done by conducting some tests to find out the influence of entrepreneurial competence and innovation on opportunities and performance. The objectives of this study are: (1) to reveal the influence of entrepreneurial competence and innovation on the performance of small handicraft industry craftsmen in West Java both partially and simultaneously; and (2) to reveal the influence of entrepreneurial competence and innovation on the performance which is mediated by opportunity in small handicraft industry craftsmen in West Java.

## **LITERATURE REVIEW**

### **Entrepreneurial Competence**

In literature on competency, a number of studies agree on the positive influence of competency on performance, although the studies are still exploring to find a more complex framework. Locke & Latham (2002), for example, recognize that at a general level, building competence is perhaps just one reason that positive competencies can affect performance and achieve better goals. Entrepreneurial competence can contribute more to the company's performance in this context, from the characteristics of the company. Sánchez (2011) in his research shows that entrepreneurial competence plays an influential role in the organization's ability and competitive scope, and also has a direct influence on company performance. In addition, Hulbert & Fitzroy (2005) states that the best opportunities recognized by business owners are possessed through the knowledge obtainable from their experience or analysis and these tend to trigger or motivate. Liao & Kickul (2009) states that the ability to deal with opportunities depends partly on the individual ability related to knowledge in the field of finance in accordance with the work done.

### **Innovation**

Innovation is an important factor in entrepreneurial activities. This is stated by Zimmerer & Scarborough (2008), who point out that innovation is the ability to apply creative solutions to problems and make use of opportunities to improve or to enrich one's life. Rogers & Williams (1983) stated that innovation deals not only with new knowledge and new methods but also with values, because it must bring better results, so besides involving new science and technology, innovation also involves social perspectives and changes. Furthermore, Rogers & Williams (1983) stated that sustainable innovation activities make SMEs more competitive and produce a higher level of performance. An innovation carried out on a product or service can be measured based on its dimensions. Experts divide innovation into dimensions differently, but this study uses the dimension construct developed by Okpara (2007), that is, innovation in processes, innovation in products or services, innovation in management and work organizations,

innovation in the exploitation of human resources, and innovations centered on people, culture, structures, processes as well as technology.

## **Opportunity**

Christensen et al. (1989) define opportunities as: a) observing the possibility of creating a new business, or b) significantly improving an existing business position. In both cases an opportunity results in new potential benefits. In entrepreneurship, opportunities refer to a kind of learning process that utilizes one's tacit knowledge (Marvel & Lumpkin, 2007), while Ardichvili, et al. (2003) suggests that the ability to recognize an opportunity is determined by three main factors: entrepreneurial vigilance, entrepreneurial networks, and knowledge of market and customers' problems. According to Marvel & Lumpkin (2007) opportunities appear in different ways and can be categorized as such. One of the simplest ways of opportunity mapping is the locus of their changes that manifests onto the environment. Then, the opportunity referred to in this study is derived from some experts' opinions, and this opportunity construct explains the ability to identify, recognize environmental threats and opportunities preceded by information awareness and the use of one's knowledge to create and develop business, undertaking, market and new technology. Whereas the effort of measuring opportunity is based on the dimension construct developed by some experts, and the opportunities in question are imitation-based opportunities, allocative-based opportunities, technology-based opportunities, discovery-based opportunities, and creation-based opportunities.

## **Performance**

Anwar & Shahzad (2011) point out that an employee's performance is his general belief in behavior and his contribution to the success of his organization. Armstrong (2006) mentions that performance is often defined only in terms of the achievement of measurable goals. Performance is actually not only issues of what people achieve but how they achieve it. Performance is not only about the end result, but also about the performance process, seen from how people achieve it. Brahmasari (2004) suggests that performance is the achievement of organizational goals that can take the form of quantitative or qualitative outputs, creativity, flexibility, dependability, or other things desired by the organization. The factors influencing performance achievement are the ability factors and motivational factors (Prabu, 2005). Wood et al. (1998) view factors that affect individual performance (job performance) as a function of interaction of individual attributes, work effort, and organizational support. Meanwhile, Buchari (1989) suggests three factors that can affect an employee's performance, namely: (1) the characteristics of a person, (2) external environment, and (3) attitudes toward the employee's profession. Furthermore, Viethzal (2005) states that in assessing the performance of an employee, various aspects of assessment are needed, including his knowledge of work, initiative leadership, quality of work, cooperativeness, decision making, creativity, reliability, planning capability, communication, intelligence, problem solving, delegation, attitude, effort, motivation and organization capabilities. According to Bernadin (Edwardin, 2006) there are five indicators to measure an employee's performance, namely: quality, timeliness, effectiveness, and independence and work commitment. From those performance definitions, a performance construct can be defined, that is the achievement of a task or goal by someone in his work activities during a certain period of time in conformance to some expected standards. Hence, performance appraisal in this study is measured based on the

constructs of performance dimensions, namely quality, quantity, timeliness, effectiveness, independence and commitment.

The correlation among competence, opportunities and innovation has been scrutinized by Ozkaya et al. (2015) that market knowledge competence is the mediation of market orientation and market-based innovation. Sánchez (2011) revealed that Entrepreneurial competence has a significant influence on organizational competence and competitive scopes, and have direct effect on company performance. In this sense, the company performance has been influenced by company ability to integrate, develop, and reconfigure the resource (capability) and competence. The correlation between innovation and performance has been asserted by Ndesaulwa & Kikula (2016) that innovation has an influence on performance where the positive impact of innovation is on efficiency and company performance.

## HYPOTHESES

Based on the previously explained description, the hypothesis proposed for this research are:

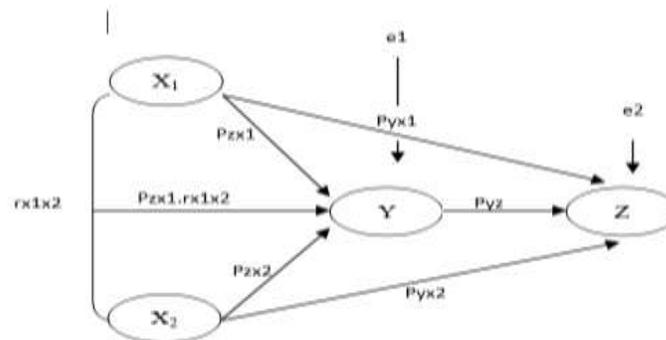
*H<sub>1</sub>: There is an influence of entrepreneurial competence and innovation on the performance of small handicraft industry craftsmen in West Java both partially and simultaneously.*

*H<sub>2</sub>: There is an influence of entrepreneurial competence and innovation on performance which is mediated by opportunities on small handicraft industry craftsmen in West Java.*

## RESEARCH METHOD

### Research Design

This study uses a quantitative correlational design. A correlational design is also called a non-experimental design or survey design. Silalahi & Atif (2015) says that a non-experimental research is a systematic empirical study in which scientists cannot directly control independent variables because their manifestations have emerged, or because the nature of the variables indeed closes the possibility of manipulation. While the sample in this study amounts to 368 people, comprising 27 districts/cities. The data analysis in this study uses path analysis (Figure 2) with the following mind frame:



**FIGURE 2**  
**PATH ANALYSIS MODEL**

The path equation is as follows:

$$Z = P_{zx1} + P_{zx2} + e$$

$$Y = P_{yx1} + P_{yx2} + P_{yz} + e$$

The hypothesis test uses the F test and t test. The F test aims to find out whether the independent variables simultaneously affect the dependent variable at 5% confidence level and the degree of freedom  $df = (nk-1)$  with the test criteria that: if  $F_{count} > F_{table (nk-1)}$  then there is a significant effect of the independent variable on the dependent variable and vice versa. Partial hypothesis testing is done by t test at 5% confidence level and degrees of freedom  $dk = (nk-1)$  with the test criteria that: if  $t_{count} > t_{table (nk-1)}$ , then there is a significant effect of each independent variable on the dependent variable and vice versa.

## RESULTS & DISCUSSION

The results of descriptive analysis shows the followings:

No	Variables	Scores		%	Criteria
		Ideal	Ideal		
1	Entrepreneurial Competence	14522	22080	65.77	Fair
2	Opportunity	12581	18400	68.38	Good
3	Innovation	21557	33120	65.09	Fair
4	Performance	22568	33120	68.14	Good

Source: Questionnaires Data Processing.

The entrepreneurial competence variable is in Fair category. This shows that craftsmen have enough combination of knowledge, abilities, skills and personality sufficient to run and develop their business. In this case, craftsmen have a good conceptual understanding of how to start, run, and develop handicraft businesses, have the ability to continually innovate and run businesses professionally, with strong beliefs to achieve goals, and relentless mental attitude in building a business.

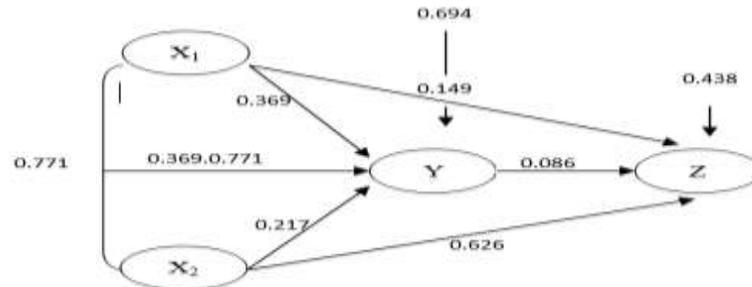
The results of the study shows that handicraft business owners are able to implement the principles of innovation into their business management practices. This is possible due to the environment that supports the development of innovation such as government policies and financial support from the private sector that supports the development of SMIs and SMEs, the use of information technology that supports marketing activities, as well as the existing market potential.

The opportunity variable is in good category. This shows that the craftsmen are already able to take advantage of every opportunity based on business ideas that has existed and been implemented by other craftsmen, they also have a good understanding of market demand to find new business opportunities, have mastery of technology and have sufficient experience to create new business opportunities based on the currently already running businesses.

The result of processing data regarding the performance variable shows that the response of craftsmen is in good category. This shows that in general craftsmen already have adequate managerial ability in organizing all operational activities in the company to achieve

predetermined business plans. In the context of this research, an indicator of performance success is that the organization is able to produce quality products, reach production quantities in accordance with business plans, have an effective control and evaluation system, and have high independence and commitment to develop its handicraft business.

The test result using the path analysis produces the following equation (Figure 3):



**FIGURE 3**  
**PATH ANALYSIS MODEL**

Based on the analysis results it is known that the influence of entrepreneurial competence and innovation on opportunity can be described with the following path equation:

$$Y = 0.369 X_1 + 0.217 X_2 + 0.694$$

While the analysis of the influence of entrepreneurial competence and innovation on the performance moderated by opportunity is described with the following path equation:

$$Z = 0.149 X_1 + 0.626 X_2 + 0.086 Y + 0.438$$

From the simultaneous and partial path test results it is known that the  $F_{\text{count}}$  value of the influence of entrepreneurial competence and innovation on opportunities is  $80.595 > 3.020455$  and the simultaneous influence value is 30.6%. While partially, the  $t_{\text{count}}$  for entrepreneurial competence is  $5.396 > 1.966485$  and the influence is 13.6%, and the  $t_{\text{count}}$  of innovation is  $3.167 > 1.966485$  and the influence is 4.7%. While the influence of competence on opportunities through innovation is 28.4%. Based on the results of paths tests it is revealed that entrepreneurial competence and innovation have a significant influence on opportunities.

Based on the path test of the influence of entrepreneurial competence and innovation on the opportunity-moderated performance, it reveals an  $F_{\text{count}}$  of  $155.965 > 2.396469$  with a value of simultaneous influence of 56.2%. Whereas partially, the  $t_{\text{count}}$  for entrepreneurial competency is  $2.065 > 1.966503$  with an influence of 2.2%, innovation  $11.015 > 1.966503$  with the effect of 39.1%, and opportunity  $2.069 > 1.966503$  with the influence of 0.7%. While the influence of entrepreneurial competence on performance through opportunities is equal to 8.2%, and the influence of innovation on performance through opportunities is equal to 34.6%.

Based on the test results, it is known that all variables have a significant influence both simultaneously and partially on performance. In addition, it is also known that the opportunity can mediate entrepreneurial competency and innovation on performance as seen from the change in the influence of entrepreneurial competence and innovation from 55.5% to 55.9%.

## Validity and Reliability Tests

Validity and reliability tests were carried out to assess the feasibility of the distributed questionnaire. The test was carried out upon 30 people with the same characteristics as research samples. Validity testing using Pearson Product Moment correlation with the  $r_{\text{count}} > 0.30$  is declared valid, while the reliability test using Cronbach Alpha with the  $\alpha > 0.60$  is declared reliable. Based on the validity test on all variables, it is known that the  $r_{\text{count}}$  of each variable is greater than  $r_{\text{table}}$ .

Based on the reliability test results it is known that each variable has an alpha value ( $\alpha$ ) greater than 0.60, so it is declared reliable and meets the requirements for further testing.

## CONCLUSION

The test results on the two regression equations reveals that entrepreneurial competence and innovation have a significant effect on performance which is mediated by opportunities. This explains that opportunity is a trigger for craftsmen to improve their performance by increasing entrepreneurial competence and innovation. Opportunities can encourage craftsmen to be more innovative so that they can produce better performance. This means, the craftsmen in West Java have generally realized that with the existence of opportunity they feel compelled to improve performance and this also triggers craftsmen to improve entrepreneurial competence and innovation. Additionally, opportunity proves to be mediating the effect of the independent to the dependent variables, because it gives an impact on the difference in the significance of the relationship compared to the direct intervening variable (full intervening variable). The variable that has the greatest influence is innovation. The implication of this research is that entrepreneurial competence, innovation and opportunity have the same important roles both separately or jointly in improving the performance of craftsmen in West Java.

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