



THE ROLE OF INNOVATION CAPACITY IN IMPROVING COMPANY PERFORMANCE IN CREATIVE INDUSTRY SUB-SECTOR LEATHER INDUSTRY

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Abstract: This study aims to empirically examine the role of innovation capacity in improving the company's performance. The study used a quantitative explanatory survey method. Collecting data using a questionnaire with a random sampling technique. Respondents are the creative industries of the leather, leather goods, and footwear sub-sector with a sample of 252 MSMEs in the leather, leather goods, and footwear industry in West Java. The data that has been collected was analyzed using the Structural Equation Model (SEM). The results of the study show that innovation capacity significantly plays a role in improving company performance. The highest contribution of each dimension of innovation capacity came from investment in research and development and the lowest was contributed by new distribution channels. Meanwhile, the highest achievement of the company's performance came from the growth and learning perspective and the lowest was contributed by the customer perspective. The results of the hypothesis test show a positive and significant effect that the role innovation capacity affects in improving a company's performance is empirically acceptable.

Keywords: Company Performance; Creative Industries; Innovation Capacity

INTRODUCTION

Advances in technological innovation and scientific creativity have shifted economic orientation from an agricultural economy to an industrial economy, a service economy, an information economy (e-commerce), and finally to a creative economy (Suryana, 2013). Howkins (2017) said that the orientation shift is referred to as the economic wave, namely the "creative economy wave", which is an economic activity driven by the creative industry that prioritizes the role of intellectual property. This creative industry is driven by entrepreneurs namely people who have creative and innovative abilities. Schumpeter in Suryana (2013) view that these discoveries are the result of the creativity and innovation of entrepreneurs. The economic movement as described previously has encouraged the development and increasing market share of creative industry products.

As an illustration of the creative economy in Indonesia, there are around 8.2 million creative businesses that have contributed to the national economy in 2019 of 7.3% of GDP with a value of IDR 1,153.4 trillion), absorbing the number of workers. as many as 15.2 million people and contributed 11.9% to total national exports (Kemenparekraf, 2022). In Indonesia, the development of the creative economy is still dominated by small and medium-scale industries. One of them is the creative industry sub-sector of the leather, leather goods, and footwear industry, which from 2011-2015 only grew 0.27% on average. This shows that the business performance of this sub-sector is not encouraging, it can even be said to be stagnant. This certainly must be a concern of stakeholders with the growth and sustainability performance of this industrial sub-sector because it involves quite a lot of entrepreneurs and absorbs a lot of manpower.

The Creative Industry sub-sector of the leather, leather goods, and footwear industry in Indonesia, by the naked eye is relatively underdeveloped from the products of the past. At first, one of the problems that caused the underdevelopment of small and medium-scale creative industries was due to capital problems, but based on the results

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of Herlinawati & Sumawidjaja (2017) research, the capital was not the cause of the inability to develop small and medium-scale industries. There are other factors such as limited creativity, lack of entrepreneurial competence of managers, and lack of capacity to innovate that lead to low company performance. The results of the study by Zimmerer & Scarborough (2010), found the low performance of small and medium industries which are generally more dominant due to the use of traditional technology, lack of capital, weak managerial aspects, weak decision-making abilities, low-quality of human resources, too small business scale, and the lack of experience and limited access to finance also lacks creativity and innovation from the managers/owners of MSMEs, making them unable to compete in both local and global markets.

The purpose of this study is to analyze how the influence of innovation capacity on firm performance in the creative industry MSME sub-sector of the leather, leather goods, and footwear industry in Bandung City, Bandung Regency, Bogor City, Bogor Regency, Regency of Bandung, Garut, Tasikmalaya City, West Java Province. It is hoped that this study can contribute to developing a new model of company performance development through the identification of factors that influence it to improve performance to maintain and develop business in this industry.

There are several concepts regarding performance. Rivai & Basri (2011) define performance as work that can be achieved by a person or group of people in a company under their respective authorities and responsibilities to achieve company goals legally, not violating the law, and not contrary to morals or ethics. According to Bastian (2010) Performance is a description of the level of achievement of the implementation of tasks in an organization, to realize the goals, objectives, mission, and vision of the organization, while according to Bernardin & Russel (2002) Performance is a record of the results obtained from certain job functions. or activities for a certain time.

According to Pelham & Wilson (1996), company performance is as successful as a new product in market development, where company performance can be measured through sales growth and market share. Meanwhile, according to Helfert (1996) company performance is a result made by management continuously. Corporate performance is the ability of an organization/company to efficiently exploit available resources to achieve performance that is consistent with the goals set by the company and considers its relevance to users (Ulferts et al., 2009). While according to Verboncu & Zalman (2005), company performance is the specific results obtained in management, economics, and marketing that give the characteristics of competitiveness, efficiency, and effectiveness to the organization, and its structural and procedural components.

Measurement of company performance can offer valuable information that allows management to monitor performance, report progress, improve motivation and communication and point out problems (Waggoner et al., 1999). One of the company's performance measurements can use the Balanced Scorecard concept which considers the balance between financial performance and non-financial performance with 4 perspectives, namely: financial perspective, customer perspective, internal business process perspective, and learning and growth perspective (Kennerley & Neely, 2003).

Innovation capacity is the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the company and its stakeholders (Chen & Xu, 2009; Szeto, 2000). Lawson & Samson (2001) believe that the ability to innovate is not just the ability to be successful in running a new business stream, or for the ability to manage the mainstream but to synthesize these two operating paradigms. Balan & Lindsay (2010) argue that the capacity/ability to innovate involves the interaction between the key factors of the company's operations, namely various types of resources such as knowledge, processes and products/services, the company's



external relations with the community, market changes and individual creative input in the company.

Measurement of innovation capacity refers to product innovation, process innovation, investment in research and development, and new distribution channels (Robert & Amit, 2003; Silva, 2003). On the relationship between the influence of innovation capacity in improving firm performance, research by Hamidi & Naser (2017), Jayani & Hui (2018), and Kennerley & Neely (2003) show that the capacity to innovate affects the company's performance. Meanwhile, research by Vilcea (2014) shows the opposite result where the capacity to innovate has no relationship and/or effect on company performance. The research of Ulferts et al. (2009) showing the ability to innovate has a direct impact on the company's operational performance but does not have a direct impact on financial performance, while the research of Tugba & Safak (2016) shows that product innovation and process innovation have a positive impact on company performance, while market innovation and organizational innovation do not show a significant impact on company performance.

The data analysis model uses Structural Equation Modeling (SEM), to describe the relationship that occurs between the investigated variables, namely the causal relationship between exogenous variables and endogenous variables, as well as latent variables and manifest variables. An overview of the research model is shown in Figure 1 below:

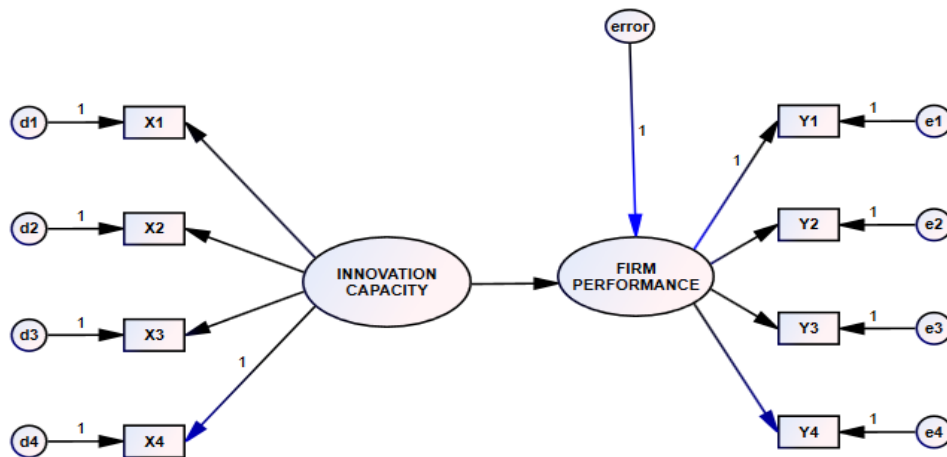


Figure 1 . Causal Relationship Innovation Capacity with Firm Performance

Source: Data that has been processed by the author (2021)

Referring to the problems and the results of previous research, the hypothesis proposed in this study is: The role of innovation capacity affects improving a company's performance.

METHODS

The research method uses quantitative methods through causal explanatory survey research to examine the relationship between innovation capacity and the performance of MSME companies. The unit of analysis in this study is the MSME creative industry sub-sector of the leather, leather goods, and footwear industry in the Bandung City Region, Bandung Regency, Bogor City, Bogor Regency, Garut Regency, Tasikmalaya City, West Java Province, Indonesia. The study used a questionnaire



consisting of 8 questions for the capacity to innovate and 8 questions for company performance.

The population size is 2,286 business units and with a sample size that refers to the opinion of Issac & Michael, a sample of 252 respondents, was taken based on the probability sampling proportional random sampling technique. This study uses a semantic differential measurement scale of 1-5, which is a scale arranged in a continuum line with very positive answers located on the far right and very negative answers on the far left. The research questionnaire was pilot tested on 40 MSME business actors using Pearson Correlation ($r > 0.50$ and $sign < 0.05$) and Cronbach's Alpha (0.915 and 0.760), all question items were valid and reliable. To examine the effect of entrepreneurial competence on business performance, Structural Equation Modeling (SEM) was used.

In this study, a conceptual model will be tested that describes the relationship between the construct of innovation capacity and company performance. The innovation capacity is measured according to the opinion of Robert & Amit (2003) or Silva (2003), namely: (1) product innovation; (2) process innovation; (3) investment in research and development; and (4) new distribution channels. Company performance is measured using the Balanced Scorecard concept covering four perspectives: (1) Financial Perspective; (2) Customer Perspective; (3) Internal Business Process Perspective, and (4) Learning and Growth Perspective (Kaplan & Norton, 2005; Kennerley & Neely, 2003).

RESULTS AND DISCUSSION

SEM analysis is used to test the model in the form of causality. Whether the innovation capacity with indicators of product innovation, process innovation, investment in research and development, or new distribution channels is a strong predictor of the performance of SMEs in the creative industry sub-sector of the leather, leather goods, and footwear industry. The results of the Structural Equation Model (SEM) measurement are as follows:

Table 1 . Assessment of normality (Group number 1)

Variable	Min	Max	Skew	c.r.	Kurtosis	c.r.
Y4	2,0000	10,0000	,9728	6,3042	-,2678	-,8677
Y3	2,0000	8,0000	,1962	1,2717	-1,1920	-3,8624
Y2	2,0000	10,0000	-,3097	-2,0068	2,0919	6,7786
Y1	2,0000	10,0000	1,0288	6,6676	,9886	3,2034
X1	3,0000	9,0000	-,1667	-1,0801	,3002	,9727
X2	2,0000	9,0000	-,4632	-3,0020	,5049	1,6361
X3	2,0000	10,0000	-,3510	-2,2748	-,3786	-1,2268
X4	4,0000	10,0000	-,0103	-,0669	,2473	,8015
Multivariate					7,4193	4,6556

Source: Data that has been processed by the author (2021)

Table 2. Mahalanobis d-squared

Number	Mahalanobis d-squared
160	23,1663
157	23,0974
20	22,8606
202	22,8606
121	22,5835

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78	22,0050
139	21,4880
152	19,7597

Source: Data that has been processed by the author (2021)

Table 3. Goodness of Fit

Goodness-of fit Index	Cut-off value	Analysis Result	Evaluation
Chi-Square	$< t_{table}$	55,5733	No Fit
P-value	$\geq 0,05$	0.000	No Fit
AGFI	$\geq 0,90$	0,9053	Fit
GFI	$\geq 0,90$	0,9500	Fit
CFI	$\geq 0,90$	0,8764	Marginal
TLI	$\geq 0,90$	0,9179	Fit
RMSEA	$\leq 0,08$	0,0776	Fit

Source: Data that has been processed by the author (2021)

The multivariate data normality test gave $c.r (4.6556) > 2.58$, which means that the multivariate data distribution is not normally distributed. The results of the confirmatory factor analysis in this research model all indicator values have a loading factor above the standard 0.40 and a Critical Ratio (CR) value of 2.58 (Ferdinand, 2014, p. 287) so all indicators can be accepted. The Mahalanobis distance (d^2) test is used to test the possibility of the presence or absence of multivariate outliers at the level of $p < 0.001$ and $df =$ the number of observed variables. The test results show the value of $d^2 (23.1663) < X^2 (26.12448)$ meaning that there are no cases of outliers.

The multicollinearity test gives the value of the Determinant of the sample covariance matrix = $108.0069 > 0$ So it can be concluded that there is no multicollinearity problem. Based on the test results, it is known that the data is not normally distributed, but there are no cases of outliers and the sample data set empirically fulfills the main statistical assumption, namely that there is no multicollinearity problem. Thus, it can be concluded that the sample data set is suitable for use in further analysis.

The Goodness of Fit test shows that not all sizes of the research model fit the data, but overall the research model is fit. As stated by Maholtra (2010, p.733), (1) use at least one measure that is absolute good (GFI, AGFI). (2) Use at least one measure that is bad (Chi-square, RMSR, SRMR, RMSEA). (3) Use at least one comparative measure (NFI, NNFI, CFI, TLI, RNI).

The magnitude of the role of innovation capacity in improving company performance is as follows.



Table 4. Results of the Role of Innovation Capacity in Improving Company Performance

			SRW	RW	S.E.	C.R	P
FIRM_PERFORMANCE	<-	INNOVATION	,1536	,1364	,2414	,5653	,5719
	--	_CAPACITY					
X4	<-	INNOVATION	,2899	1,0000			
	--	_CAPACITY					
X3	<-	INNOVATION	,8619	4,1755	1,4301	2,9196	,0035
	--	_CAPACITY					
X2	<-	INNOVATION	,4732	1,9065	,6009	3,1726	,0015
	--	_CAPACITY					
X1	<-	INNOVATION	<u>,3571</u>	1,0426	,3472	3,0030	,0027
	--	_CAPACITY					
Y1	<-	FIRM_PERFO	,5283	1,0000			
	--	RMANCE					
Y2	<-	FIRM_PERFO	,2347	,3007	,0871	3,4521	***
	--	RMANCE					
Y3	<-	FIRM_PERFO	,5625	1,1778	,1667	7,0675	***
	--	RMANCE					
Y4	<-	FIRM_PERFO	,9725	2,1252	,3542	5,9994	***
	--	RMANCE					

Source: Data that has been processed by the author (2021)

The results show that the innovation capacity significantly affects the company's performance with a contribution of $(0.1536)^2$ which means 2.36% of the variation that occurs in the company's performance can be explained by the innovation capacity and the remaining 97.64% is the influence of other variables that are not explained in models. The highest contribution of each dimension of innovation capacity came from investment in research and development at 86.19% and the lowest was contributed by new distribution channels at 28.99%. Meanwhile, the highest achievement of the company's performance came from the growth and learning perspective of 97.25% and the lowest was contributed by the customer perspective of 23.47%.

The results of the hypothesis test show a positive and significant effect so that the role of innovation capacity affects in improving a company's performance is empirically acceptable.

CONCLUSION

Based on the results of the data analysis process, the conclusions of the research show that innovation capacity has a significant effect on improving a company's performance with a contribution of $(0.1536)^2$ which means 2.36% of the variation that occurs in the company's performance can be explained by innovation capacity and the remaining 97.64% is the influence of other variables that are not explained in model. The highest contribution of each dimension to the innovation capacity comes from investment in research and development at 86.19% and the lowest is contributed by new distribution channels at 28.99%. Meanwhile, the highest achievement in the company's performance dimension comes from the growth and learning perspective of 97.25%, and the lowest is contributed by the customer perspective of 23.47%.

To improve the performance of MSMEs companies in the creative industry sub-sector of the leather, leather goods, and footwear industry in Indonesia, it is necessary to optimize the capacity to innovate through the effective use of distribution channels and the addition of new distribution channels by MSMEs in addition to product innovation and process innovation, as well as developing perspectives. customers through efforts to retain customers (retention rate) and growth in the number of customers (acquisition



rate) as well as through a financial perspective and an internal business process perspective.

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