

# The Entrepreneurial Competency, Innovation Capability, and Business Success: The Case of Footwear Industry in Indonesia

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## Abstract

*This research analyzes the effect of entrepreneurial competence and innovation capability on the business success of the footwear industry in Indonesia. This research uses a survey method with a quantitative approach. The questionnaires were distributed of 450 and 340 were returned. The hypotheses were examined by structural equation modeling. Hypothesis testing result proves that entrepreneurial competency influence innovation capability. Entrepreneurial competency and innovation capability positively influence the business success of the footwear industry in Indonesia. Innovation capability has the greatest influence on business success. We suggest improving innovation capability and entrepreneurial competence to improve the business success of the footwear industry in Indonesia. The originality of this study is entrepreneurial competence and innovation capability can predict business success and the finding also shows that innovation capability can mediate the entrepreneurial competency's effect on business success of the footwear industry in Indonesia.*

**Keywords:** *entrepreneurial competency; innovation capability; business success.*

## 1. Introduction

The footwear industry has become an important role in the Indonesian economy (Antonio & Kusumastuti, 2019). According to the Central Bureau of Statistics (Badan Pusat Statistik Indonesia), footwear industries contributed approximately 0.27% of the Indonesian gross domestic product in 2018 (Antonio & Kusumastuti, 2019). Indonesian footwear industry production is also exported to many countries, but in recent years the growth of Indonesia's footwear exports has tended to decrease, in 2018 there was an increase of export value, but it was not significant if compared to the previous few years.

Year	Export Value	YoY Growth
2018	\$5.3 billion	6.5%
2017	\$5.0 billion	3.5%
2016	\$4.8 billion	6.7%
2015	\$4.5 billion	2.3%
2013	\$5.3 billion	6.5%
2014	\$4.4 billion	13%
2013	\$3.9 billion	11%
2012	\$3.5 billion	6%
2011	\$3.3 billion	32%

Table 1. The Indonesian Footwear Export 2011-2018  
Source: www.indonesia-investments.com

The previous study proved that entrepreneurial competencies and innovation capability can improve business success.

Dhamayantie (2017) examined the entrepreneurial competency's effect on business success. She found that entrepreneurial competency positively effects on the firm success. Antonio & Kusumastuti, (2019) also found that entrepreneurial competencies on the business performance or success of small and medium enterprises (SMEs) in the Malaysian hospitality and tourism industry (HTI). Besides influencing business success, entrepreneurial competence also affects innovation capability. The findings of research conducted by Mohammadkazemi, et al, (2016) found that entrepreneurial competence has a role as a predictor of innovation. Innovation capability can also increase business success. Mai, et al (2019) conducted a study about the effects of innovation on firm profitability in Vietnam. They found that there was a positive effect of innovation on the profitability of the firm. In contrast, a study by Dessyana, et al (2017).found that innovation did not significantly affect on business success. Besides that, we also set innovation as an intervening variable. This is based on a study by Umar et al., (2018) which places innovation as mediating or intervening variables. We will examine it in the case of the footwear industry in Indonesia.

Therefore, our study intends to examine:

1. The entrepreneurial competency's effect on innovation capability;
2. The entrepreneurial competency's effect on the success of the business;
3. The innovation capability's effect on the success of the business.

## 2. Literature Review

### 2.1. Entrepreneurial Competency

Entrepreneurship defines as an individual being willing in taking a risk to create value (Frederick, et al., 2016). Entrepreneurship also refers to the opportunity recognition process and pursuit that leads to growth that creates value and bears risk (Mohsin, et al., 2017). Sánchez, (2012) defines competency as individual characteristics that improve their performance and work effectiveness. Meanwhile, Man, et al. (2008) entrepreneurial competencies are also related to managerial competencies. According to S Sajilan, et al., (2016) entrepreneurs must develop their competencies, because entrepreneurs must manage all their business activities. Entrepreneurs can develop essential entrepreneurial competencies by training. Thus, management development programs should be implemented in the small business sector to enhance the ability of the firm to compete successfully. Man, Lau, & Snape, (2008) entrepreneurial competency dimension are:

1. Strategic competencies;
2. Opportunity competencies;
3. Relationship competencies;
4. Conceptual competencies;
5. Organizing competencies;
6. Commitment competencies.

### 2.2. Innovation Capability

Yang, (2012) cited that innovation defines as idea generation and new idea implementation, processes of works, product development, and services improvement. Innovation capability is the potential ability of an organization to position itself in an arena of modernism such as new product development, technology and other advancements that result in competitive advantages over its rivals (Yang, 2012). Huang, (2018) cited that innovation capability as the abilities (1) to develop new products to satisfy market requirements; (2) to apply proper processes and technologies to produce new products; (3) to develop and adopt new products, processes, and technologies to satisfy future requirements; and (4) to respond to unexpected technological actions taken by competitors and to create sudden opportunities. Innovations can be classified into several forms (Okpara F.O, 2007):

1. Innovation in the process, including changes and improvements to the method. This contributes to increasing productivity;
2. Products or services innovation. While progressive innovation is dominant, radical innovation opens new markets. This increases demand effectively, which encourages increased innovation and work;
3. Innovation in management and work organizations, and the exploitation of human resources.
4. Innovations centered on people, culture, structure, processes, and technology.

### 2.3. Business Success

Business success is a general term that is often used for some or all of the activities of an organization in a period regarding several standards such as past costs or projected based on efficiency, accountability or accountability of management and the like (Priansa & Cahyani, 2015). The principle business success is the achievement obtained from the implementation of certain tasks, in realizing the goals, objectives, mission, and vision of an organization, as well as the level of achievement of results, to realize company goal (Lee, et al., 2013). It appears that business success is the result of work-related to organizational goals, efficiency, and effectiveness of other business successes (Munisi & Randy, 2013).

The business success seen from business performance in the industry, in general, is a picture of the achievements obtained by the company in its operations, both related to financial aspects, marketing, the collection and distribution of funds, technology and human resources (Zhu et al., 2016). Each company has determined each business strategy carried out, this is aimed at the end of business performance. Business performance is the result of a company's work or work performance that can be known through a comparison between the totality of expenditures at a certain time divided by the totality of inputs during a certain period (Lopes-Costa & Munoz-Canavate, 2015, p. 64). Measuring Business Success (Butler, 2006.p. 49).

1. Growth or maximization of profitability;
2. Growth of venture capital;
3. Reached market share, or expansion of the customer base;
2. Sales turnover growth;
3. Personal income or wealth.

### 2.4. Hypotheses and Research Model

#### 2.4.1. The Influence of Entrepreneurial Competency on Innovation Capability

An entrepreneur must have entrepreneurial competence so that they are able to innovate in carrying out their business activities. The existence of a link between entrepreneurial competence is proved by a study conducted by Mohsin, et al (2017) shows that some entrepreneurial competencies influence corporate innovation. They argued that entrepreneurs must have the right competencies for undertaking innovative projects. Umar et al., (2018) also found that business success in Malaysia was influenced by entrepreneurial competencies and firm innovation. All dimensions of entrepreneurial competencies influence innovation. It means that the entrepreneurial competencies are very crucial in fostering innovation capability.

*H1: Entrepreneurial competency influence innovation capability.*

#### 2.4.2. The Influence of Entrepreneurial Competency on Business Success

Entrepreneurs with high entrepreneurial competency will tend to be more successful in running their business because they have the competencies needed to manage their business. Ardyan & Putri, (2014) entrepreneurial competence has a positive and significant effect on business success in Indonesia. Sajilan & Adeyinka-ojo, (2016) which shows that there is an influence between competence on business growth in carrying out business activities. Ahmad, Wilson, & Kummerow, (2010) concluded that there was a significant influence between competencies on the success of small and medium enterprises in Malaysia. They also stated that entrepreneurial competence is very crucial for entrepreneurs because it gives entrepreneurs knowledge about how they do their business and encourages them to be more aware of the potential positive or negative impacts of their behavior.

Research results by Chatterjee (2016) research entrepreneurial competencies on business success in India. Competence is measured by leadership, communication, relationships, and technical competence. The finding informed that not all competency dimensions tested in the study affected business success. Technical competence did not significantly affect business success. The same research results by Abraham & Tupamahu, (2016) also show that competence is one of the factors that influence the success of micro small and medium enterprises.

Laguna, M, & W, (2012) conducted research related to manager competencies on the success of small and medium businesses. They examined how general and specific managerial competencies influence small and medium enterprises

success with 264 managers as respondents. The success of SMEs was measured with economic growth indicators compared to competitors in the market. They found that success in running a business was influenced by managerial competence.

*H2: Entrepreneurial competency influence business success*

### 2.4.3. The Influence of Innovation Capability on Business Success

The innovation capability of the firm will make business more successful. Gunday, et al., (2011) conducted a study about innovation on the firm success of Turkish manufacturing firm. They found that there was an innovation's effect on the success of a firm. The results of research conducted by Zuliarni (2014) shows that innovation is also very important and will provide benefits to entrepreneurs in the continuity of their businesses so that business objectives are achieved efficiently and effectively.

*H3: Innovation capability influence business success*

Based on the literature, we proposed the conceptual model below:

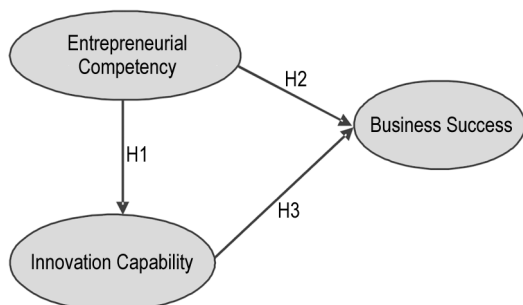


Figure 1. Conceptual Framework

## 3. Research Methodology

### 3.1. Sample and Respondent

The unit of analysis in this study is small and medium enterprises in the case of the footwear industry in Bogor Regency, West Java Province, Indonesia. Respondents who became the observation unit in this study were entrepreneurs or the owner of

the footwear industry in Bogor Regency, West Java Province. Respondents in the study filled the questionnaire given. Questionnaires were distributed as many as 450 questionnaires and returned to 340 questionnaires.

### 3.2. Measures

Business success is measured using 5 items we adopted from Butler, D, (2006, p. 49). Entrepreneurial competency is measured using 8 items adopted from Man et al., (2008). Innovation capability uses 6 items from the opinion of Okpara F.O, (2007). Data collection was done by questionnaire, which is measured using a Likert scale 1 to 5: 1-very low, 2-low, 3-moderate, 4-high, 5-very high.

Variable	Indicator	n item
Business Success	1. Profitability growth	5
	2. Capital growth	
	3. Market share	
	4. Sales growth	
	5. Personal income or wealth	
Entrepreneurial Competency	1. Strategic competencies	8
	2. Opportunity competencies	
	3. Relationship competencies	
	4. Conceptual Competencies	
	5. Organizing Competencies	
	6. Commitment Competency	
Innovation Capability	1. Process innovation	4
	2. Structure Innovation	
	3. Product innovation	

Table 2. Construct and Measurements

## 4. Result and Discussion

### 4.1. Measurement Model

The measurement model explains the relationships between manifest (observed variables) and latent variables (unobserved variables). The value of factor loading, the Composite Reliability (CR), and Average Variance Extracted (AVE) was used to see convergent validity test. The recommended loading factor value of > 0.50 (Bagozzi, Yi, & Sing, 1991), while the recommended Composite Reliability (CR) value of > 0.70 and the Average Variance Extracted (AVE) value > 0.50 (Hair at al., 2013).

Variables	Item	Factor Loadings	CR	AVE
Entrepreneurial Competency	EC_1: I always set the goal and vision of our firm	0.754	0.89	0.501
	EC_2: I can formulate the business strategy	0.814		
	EC_3: I can make an environmental scanning	0.638		
	EC_4: I can make an opportunity recognition	0.667		
	EC_5: I can make cooperation and networking	0.778		
	EC_6: I dare to take a risk	0.649		
	EC_7: I have flexibility and willingness to adapt	0.733		
	EC_8: I have good motivation and ambition	0.603		
Innovation Capability	IC_1: The firm has a good technology in making a product	0.672	0.86	0.502
	IC_2: The firm has adequate production equipment	0.686		
	IC_3: The firm has adequate human resources	0.737		
	IC_4: The firm gives support for creative employees	0.666		
	IC_5: The product in our firm has many designs	0.757		
	IC_6: The product of our firm has a variety of prices	0.726		
Business Success	BS_1: The firms has always been profitable in the past 3 years	0.691	0.83	0.501
	BS_2: The capital of our firm is always available and increasing in the past 3 years	0.777		
	BS_3: Market share of our firm is growing	0.674		
	BS_4: The product sales of our firm is growing	0.729		
	BS_5: My incomes from this business is growing	0.664		

Table 3. The Measurement Model

The measuring model result shows that all items have loading factor value > 0.50. The entrepreneurial competency's Composite Reliability (CR) value shows value of 0.89 > 0.70, and the Average Variance Extracted (AVE) value show value of 0.501 > 0.50. Innovation Capability's Composite Reliability (CR)

value shows value of 0.86 > 0.70, and Average Variance Extracted (AVE) value show value of 0.502 > 0.50. Business Success Composite Reliability (CR) value shows value of 0.83 > 0.70, and Average Variance Extracted (AVE) value show value of 0.501 > 0.50. It means the data in this study are valid and reliable.

## 4.2. The Goodness of Fit Test

According to Hair et al, (2017) some criteria in the goodness of fit test are the value of Adjusted GFI (AGFI) > 0.90, the value of Goodness of Fit Index (GFI) > 0.90, the value of CFI > 0.90, TLI value >0.90, RMSEA < 0.08, and RMR value < 0.05.

The Goodness of Fit Index	Result	Decision
Cmin/DF	1.732	Good Fit
Adjusted Goodness of Fit (AGFI)	0.902	Good Fit
The Goodness of Fit Index (GFI)	0.923	Good Fit
Comparative Fit Index (CFI)	0.960	Good Fit
Tucker Lewis Index (TLI)	0.954	Good Fit
Root Mean Square Error of Approximation (RMSEA)	0.046	Good Fit
Root Mean Square Residual	0.020	Good Fit

Table 4. The Goodness\_of Fit Test

The value of Adjusted Goodness of Fit (AGFI) is 0.902 > 0.900. The value of Goodness of Fit Index (GFI) is 0.923 > 0.900. The value of Comparative Fit Index (CFI) has a value of 0.960 > 0.900. Tucker-Lewis Index (TLI) is 0.954 > 0.900. The Value of Root Mean Square Error of Approximation (RMSEA) is 0.046 < 0.080 and Root Mean Square Residual (RMSR) value is 0.020 < 0.05. It means that the overall model is fit and suitable, and we do not need to modify the model and can proceed with the estimation of the model.

## 4.3. Hypotheses Testing

Table 5 shows that all hypotheses in this study can be accepted. The recommended critical ratio (C.R.) value is > 1.96 and probability value < 0.05 (Byrne, 2010).

			Estimate	S.E.	C.R	P
Innovation Capability	<---	Entrepreneurial Competency	.453	.085	6.323	.000
Business Success	<---	Entrepreneurial Competency	.142	.087	2.166	.008
Business Success	<---	Innovation Capability	.477	.086	6.256	.000

Table 5. Regression Weight Full Model

The first hypothesis testing shows that entrepreneurial competence positively and significantly affect the innovation capability of the firm with t-value = 6.323 > t-table = 1.967, and probability value (P-value) of 0.000 < 0.05. It means that entrepreneurial competence positively and significantly influences innovation capability. In terms, the more competent an entrepreneur, the innovation capability of the footwear industry tend to increase. The second hypothesis also show that entrepreneurial competence has positive effect on business success with t-value = 2.166 > t-table = 1.967, and p-value of 0.008 < 0.05. It means that entrepreneurial competence positively and significantly influences business success. In other words, the higher the entrepreneurial competencies of. an entrepreneur, then business success tends to increase. The third hypothesis test results indicate a positive and significant effect between innovation capability on business success with t-value = 6.256 > t-table = 1.967, and p-value of 0.000 < 0.05. It means that business success was positively and significantly influenced by innovation capability. In other words, the higher innovation capability of the firm, then business success tends to increase.

## 4.4. Direct and Indirect Effect Result

The information about the direct and indirect influence of entrepreneurial competence, innovation capability, and business success is shown in table 6.

Table 6 shows that the direct effect of entrepreneurial competence on innovation capability was 0.453 or 45.3%. The

	Direct Effect	Indirect Effect	Total Effect
Entrepreneurial Competency → Innovation Capability	0.453	-	0.453
Entrepreneurial Competency → Business Success	0.142	-	0.142
Innovation Capability → Business Success	0.477	-	0.477
Entrepreneurial Competency → Innovation Capability → Business Success		0.216	0.216

Table 6. Direct and Indirect Effect

effect of direct entrepreneurial competency on business success is 0.142 or 14.2%. The direct effect of innovation capability on business success is 0.477 or 47.7%. The indirect effect of entrepreneurial competency on business success through innovation capability is 0.216 or 21.6%.

## 4.5. Discussion

This present research results of our study find that there is a positive and also significant influence of entrepreneurial competencies on business success. The finding shows that entrepreneurial competence influences innovation capability. We begin to analyze the first hypothesis that shows entrepreneurial competency positively and significantly effect on innovation capability. It means the higher of entrepreneurial competency the higher the innovations capability. This finding consistent with a study conducted by Mohammadkazemi, et al. (2016) examined that there was a correlation between entrepreneurial competence and innovation.

Hypothesis 2 also was successfully examined that proves entrepreneurial competency influences business success. In this case, the higher the entrepreneurial competencies, the higher the chance of business success of the footwear industry in Bogor, West Java Province, Indonesia. This finding confirms some of the results of previous studies related to entrepreneurial competencies' effect on business success. Sánchez (2012) has also conducted research related to entrepreneurial competencies on business success, the result found that entrepreneurial competency can predict firm success. Dhamayantie (2017) also found that entrepreneurial competency affect performance. Ahmad, Wilson, & Kummerow, (2010) concluded that there was a significant influence between competencies on the success of small and medium enterprises in Malaysia. They also stated that entrepreneurial competence is crucial for entrepreneurs because it gives entrepreneurs knowledge about how they do their business and encourages them to anticipate the potential positive or negative impacts of their behavior. The same results also found by Christiana, et al (2014) entrepreneurial competence has a significant influence on business development. The results inform that business success was positively influenced by entrepreneurial competency, this means that the higher the entrepreneurial competency possessed by business owners, the higher the development of batik SMEs in the Center for Pesindon will also be higher. This means that to improve business development there needs to be entrepreneurial competence in the form of technical competence, marketing competence, finance competence and human relations competence in managing their business.

The result of hypothesis three also found that innovation capability influences the business success of the footwear industry in Indonesia. If the company can innovate well this will encourage increased sales and profitability of the company. The results of this study are consistent by Zaheer (2015) shows that innovation is an important factor in supporting business success in Australia. This research is also supported by the results of research by Setiawan, et al., (2019) shows that eco-innovation can increase business success, in this case of improving the marketing performance of the food industry in Indonesia. (Egwu, Udu, & Onu, 2019) found that the three relevant innovation

dimensions (process, market and supply chain) are significantly correlated with business success or firm performance.

The finding of our study also shows that innovation capability has the greatest effect on business success. The indirect effect of entrepreneurial competence through innovation capability on business success is larger than the direct effect of entrepreneurial competency on business success. It means that innovation in this study has a role as an intervening variable or in another term, innovation capability can mediate entrepreneurial competency's effect on business success.

## 5. Conclusion

The findings show that business success is influenced by entrepreneurial competence and innovation capability. It means entrepreneurial competence and innovation capability play a role to improve the success of the footwear industry in Indonesia. According to the direct and indirect effect, the direct effect of innovation capability has the greatest influence on business success. It means that innovation capability has a greater contribution to improving business success. The indirect effect of entrepreneurial competency on business success through innovation capability has the greatest effect than the direct effect of entrepreneurial competency on business success. It means that innovation capability has a role as an intervening variable or mediates the effect of entrepreneurial competency on the business success of the footwear industry in Indonesia.

Based on the research results, our suggestions are:

1. For further research, we suggest to use more independent variables and also make a larger sample to get better results and more accurate.
2. We suggest to improve innovation capability and entrepreneurial competencies, for example by doing training in using technology to make products better and the process more efficient.

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