

# **Effect of Entrepreneurial Orientation, Product Innovation and Competitive Advantage on Business Performance in Creative Industries in Bandung City, Indonesia**

— *Review of* —  
**Integrative  
Business &  
Economics**  
— *Research* —

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## **ABSTRACT**

Entrepreneurial orientation is one of the factors that can improve the performance of a business. The characteristics of entrepreneurial orientation can be seen from several aspects, such as the need for achievement, internal locus of control, self-reliance and extroversion. This study aims to analyse the influence of entrepreneurial orientation, product innovation and competitive advantage on business performance in creative industries in Bandung. The object of this research is entrepreneurial orientation and product innovation as a variable in Bandung's creative industry. This study uses quantitative method with verification research to test the influence hypothesis of entrepreneurial orientation, product innovation and competitive advantage simultaneously and partially towards competitive advantage. Data collection was conducted through library studies and questionnaires sent to creative industries. The questionnaire was distributed to 585 respondents who were selected through simple random sampling. Data analysis was performed using structural equation modelling analysis. Results showed that the entrepreneurial orientation variable influenced business performance by 4%. The innovation and competitive advantage variables do not significantly affect business performance. Simultaneously, the effect of entrepreneurial orientation variables of product innovation and competitive advantage on business performance constitutes 4%. The remaining 96% is the influence of other variables and was not explained in this study.

**Keywords:** entrepreneurial orientation, product innovation, competitive advantage, creative industry, Bandung city

## **1. BACKGROUND**

The performance of a business can be seen when the business is able to achieve a competitive advantage in the marketplace. Achieving excellence given the competitive nature of businesses today is a challenge because an increasing number of businesses are releasing similar products. Given the number of similar products, consumers tend to choose the best product for themselves. Consumers choosing a business' products out of loyalty is a major achievement for a business. Increasing customer satisfaction is another major achievement because of the addition of value to product or service innovation (Gopalakrishnan & Damanpour, 1997).

Company resources and the ability to coordinate and combine all available resources will provide a competitive advantage and affect business performance (Barney, 1991; Grant, 1991). A research about competitive advantage found that businesses with some resources can

optimise them into capability. The capabilities of the creative industry in Bandung City include highly qualified standard, product innovation, business actor creativity, product differentiation, service differentiation, unique packaging, selling promotion, price fixing, social media usage, high ownership involvement and cash flow smoothness (Tresna and Raharja, 2017). Many researchers have conducted research on how the performance of a business relates to innovation (Cainelli et al., 2004, 2006; Cefis & Marsili, 2005; Cefis & Ciccarelli, 2005; Wolff & Pett, 2006), but most do not focus on performance evaluation from a perspective competitive advantage (Siqueira & Cosh, 2008). Siqueira and Cosh (2008) found that innovation can improve performance, which in turn helps a company achieve a competitive advantage. In addition, the innovation process helps improve efficiency in business operational systems (Dost et al., 2018).

A business can maintain its competitive advantage through product innovation. Innovation can be performed successfully by exploiting the competencies of the business and by searching for something new (Atuahene - Gima, 2005). Innovation cannot occur if a business does not undertake various risks or is unwilling to change. Risk is one aspect that can create innovation (Gupta & Batra, 2016; Kraus, 2013). In addition, risk-taking and proactivity will help achieve innovation (Lumpkin & Dess, 1996; Perez et al., 2011; Shirokova et al., 2016). All these dimensions are part of the entrepreneurial orientation of a business (Gupta & Batra, 2016; Loewe & Dominiquini, 2016; Perez et al., 2011).

Some researchers mentioned that the risk-taking and proactivity dimensions of entrepreneurial orientation are the main predictors that can indicate product or service innovation and business performance (Lechner & Gudmundsson, 2014; Naldi et al., 2007; Wales et al., 2015). However, Wales et al. (2015) found that the relationship is not consistent. This finding is not in line with the findings of other studies, which state that risk-taking and proactivity influence the process of product innovation (Dost, et al., 2017; Perez et al., 2011).

Entrepreneurial orientation is a factor that can improve the performance of a business (Irwin et al., 2018). Clovin and Slevin (1989, 1991) explain that entrepreneurial orientation characteristics are observed from business behaviour, which involves several aspects such as risk-taking, innovation and proactivity. All these aspects are predictors of the performance of a business (Wiklund & Sheperd, 2003). Lee and Tsang (2001) suggests that entrepreneurial orientation factors that influence company growth are entrepreneurial personality, their background and communication. Personality is seen from the four main characteristics, namely, the need for achievement, internal locus of control, self-reliance and extroversion. The characteristics of the studied background are experience and education. In addition, communication is seen from the number of partners and their connection activities, which not only improve performance but also ensure excellence in competition. The increase in vigilance, agility and ability to adapt and absorb the power of information will increasingly provide excellence to a business model and help in gaining a competitive advantage (Mishra, 2017). Making business decisions and actions will be easier with entrepreneurial orientation (Angkanurakbun, 2016). Competitive advantage can be established because entrepreneurial orientation is achieved by identifying the goals and the vision of the organisation (Rauch et al., 2009).

A study of the reviews and results of previous researchers found that an interesting detail to examine is the influence of entrepreneurial orientation, product innovation and competitive advantage on business performance in creative industries, especially in the city of Bandung. Given the rapid growth of its creative economy, Bandung was designated by UNESCO as a Creative City in 2015.

Research on creative industries has focused on the point of view of an individual's motivation as an entrepreneur (Filis, 2002; Boorsma, 2006) or the macroeconomic benefits obtained from creative industries (Foord, 2006; Florida 2005; Caves, 2002). Parkman et al.

(2012) conducted research on potential relationships in entrepreneurial orientation, innovation capabilities and business performance. Efforts in the creative industry can be seen from its competence in terms of innovation, creativity, art and aesthetics (Parkman et al, 2012). Furthermore, Parkman stated that entrepreneurial orientation has a relationship with competitive advantage through innovation capabilities. Without innovation capability, achieving competitive advantage will not be easy for the creative industry.

## 2. LITERATURE REVIEW

### Entrepreneurial Orientation

Entrepreneurial orientation was first introduced by Miller (1983) and later expanded by Covin and Slevin (1989, 1991). Entrepreneurial orientation can explain business behaviour trends, managerial philosophy or decision-making in a business. Entrepreneurial orientation refers to processes, practices and decision-making that encourage new input and have three aspects of entrepreneurship: always innovative, acting proactively and taking risks (Lumpkin and Dess, 1996).

The literature describes entrepreneurial orientation as 'entrepreneur personality' (Littunen, 2000, Lee and Tsang, 2000). Hisrich, Petes and Shepherd (2005,) describe it as 'entrepreneurial feelings'.

Lee and Tsang (2001) suggests that entrepreneurial orientation factors that influence company growth are entrepreneurial personality, their background and communication.

The need for achievement comes from the theory presented by Clelland (1961) and has often been associated with entrepreneurial behaviour. High achievers have a strong desire to be successful, thus setting challenging goals and standards for themselves. Many studies have found that entrepreneurs generally have a higher need for achievement than non-entrepreneurs do (Hornaday and Aboud, 1971; DeCarlo and Lyons, 1979; Begley and Boyd, 1987; Lee and Tsang, 2001).

Internal locus of control refers to the ability perceived by individuals to influence the events they face. Individuals with internal locus of control believe that they can influence the outcome of events through the efficacy of their own behaviour. External locus of control is the belief that external forces are the main determinant of results.

The initial conceptualisation of the construction of locus of control is unidimensional (internal vs. external) and has been repeatedly questioned (Lefcourt, 1981; Lee and Tsang, 2001).

To maintain a complete internal component, Levenson (1974) argues that the external dimension must be broken down into two sub-dimensions: opportunity and 'others who are strong'. Lee and Tsang's research and other studies that focus on internal dimensions linked internal control beliefs to events in one's life and the tendency of individuals to engage in entrepreneurial activities (Gartner, 1985; Perry, 1990; Shaver and Scott, 1991; Lee and Tsang, 2001)

### Product Innovation

Innovation capability is one aspect related to empowering business resources to produce new products (Hertog et al., 2010; Tavitiyaman et al., 2011). A business requires capabilities that can empower all resources so that they can adapt to changing market conditions and achieve increased business performance to develop a competitive advantage. Innovation capability has become one of the interesting areas of study for researchers who seek to identify its impact on performance and explain the resources, assets and capabilities of a business (Angkanurakbun, 2016). Product innovation is the introduction of products or services that have novelty in terms of their characteristics or uses, including increasing

technical specifications, components, materials and other functions (OECD/Eurostat, 2005). Wang and Ahmed (2004) explain that product innovation is often seen as a change or development of a product or service.

Product innovation can also change the entire product or make small changes to product accessories by highlighting uniqueness (Steward et al., 2008). Good product innovation provides various benefits to organisations, such as increasing market position, brands, attracting new consumers and increasing consumer loyalty (Chandy & Tellis, 2000; Mu et al., 2009; Lin et al., 2013). The creative industry not only has a high level of innovative capacity but can also form an environment that can support creative ideas and assist in making new products, processes or systems (Szeto, 2000).

### **Competitive Advantage**

In formulating policies and actions, business actors have different interpretations of an event and its external environment in accordance with their respective views. A strategy is essential for all companies to be able to compete with similar companies based on internal performance or external company (Raharja, 2017). Achieving business performance that can provide a competitive advantage in business is fundamental in strategic management (Teece et al., 1997). Porter (1985) explains that, to achieve added value is needed for consumers so the business can compete with its competitors.

Porter (1985) classifies four competitive strategies that can be performed by a business: broad leadership costs, broad differentiation, cost focus and differentiation focus. Cost leadership or differentiation has a dominant position among competitive strategies. Rua (2018) uses two dimensions in competitive advantage, namely, cost leadership and differentiation. Cost leadership is evident when the business can achieve lower costs than its competitors can, and differentiation is evident when the business can create added value for consumers unlike other businesses (Lechner & Gudmundsson, 2014). The group of product line segments or geographical purchases has also been given attention (Porter, 1985)

### **Business Performance**

Company performance is the ability of a company to manage existing resources so that it can provide value to the company. By knowing the performance of the company, we can measure the level of efficiency and productivity of the company. An assessment of company performance is useful in determining the extent of a company's development. Performance is defined as the work that can be achieved by a person or a group of people in a company in accordance with the authority and responsibility of each to achieve corporate objectives legally without violating the law and contradicting morals and ethics (Rivai & Basri, 2004).

Company performance (firm performance) is produced by a company in a certain period with reference to a set of standards. The measurement of company performance activities is designed to assess the performance of the activity and how the final results are achieved.

Venkatraman and Ramanujam (1986) explain that organisational effectiveness is broadly due to business performance, and the primary internal aspect is financial performance. The success of a company's performance depends not only on the efficiency of the company itself but also on where the company operates. In the financial sector, is also known as financial stability or financial health. Organisational performance is defined as the efficiency and effectiveness of a company in utilising resources to produce economic results. Organisational

performance is the most important part of management and business research (Abdi & Ali, 2013).

Companies generally have certain goals to be achieved to meet the interests of its members. Success in attaining company goals is an achievement. The performance of a company is measured because it can be used as a basis for decision-making by internal and external parties.

Performance measurement can be used to suppress unwanted behaviour and to stimulate and enforce desired behaviour through feedback on performance results and intrinsic and extrinsic rewards. Through performance measurement, top leaders can obtain an objective basis for providing compensation in accordance with the achievements each contributes to the company as a whole. Thus, the goal of corporate performance is to motivate employees to achieve organisational goals and adhere to predetermined standards of behaviour so they produce the desired results and actions.

Company performance can also be a multi-dimensional construct that not only includes financial performance. According to Majeed (2011), company performance is described as the extent to which an organisation can meet stakeholder needs and their own needs to survive. Organisational performance can be measured through return of assets and sales growth ratio.

### **3. RESEARCH METHODS**

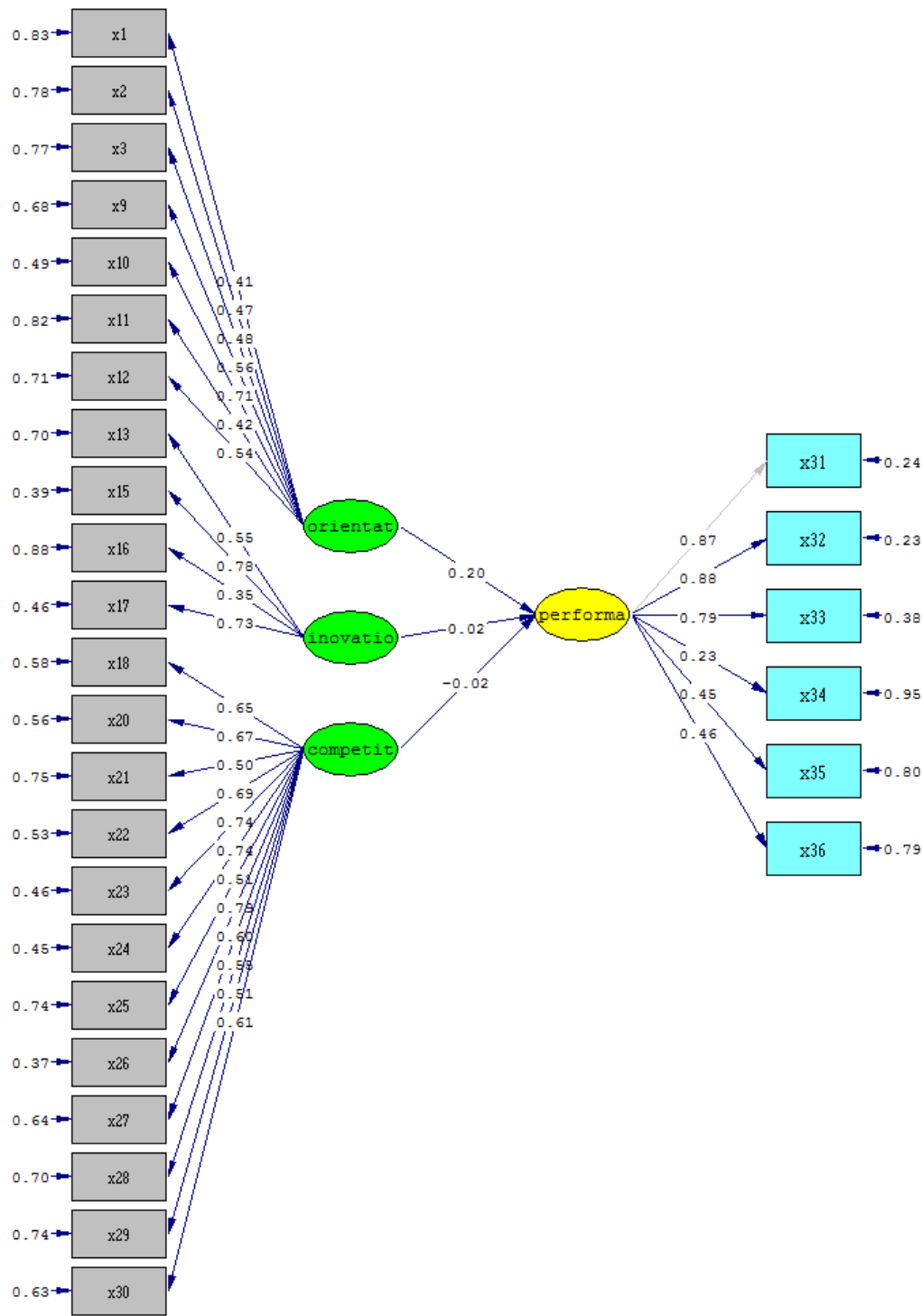
This research uses the descriptive–verification method. The descriptive method is used to describe entrepreneurial orientation, product innovation, competitive advantage and company performance. The verification method is used to test the hypotheses based on the results of statistical analysis (Nazir, 1998) and to know the magnitude of the influence of entrepreneurial orientation, product innovation and competitive advantage simultaneously and partially on company performance. Data collection is performed by distributing questionnaires to 585 people within Bandung's creative industry who were selected by simple random sampling. Data were analysed using structural equational modelling (SEM) analysis.

### **4. RESEARCH RESULTS AND DISCUSSION**

The entrepreneurial orientation variable was examined using four dimensions, namely, the need for achievement, locus of control, self-reliance and extroversion. The dimensions of the need for achievement are measured by using four statements. Calculation results show that all four dimensions are in the high category.

The second independent variable is product innovation, which was measured by using five statements. The third variable is competitive advantage, which was measured by using 13 statements. The last variable is business performance, which is the dependent variable and was measured by using six statements. Calculation indicates that all variables are in the high category.

The results of the calculation of the influence of entrepreneurial orientation, product innovation and competitive advantages on business performance in the creative industry of Bandung City were obtained by using SEM analysis.



Chi-Square=4834.31, df=371, P-value=0.00000, RMSEA=0.143

**Structural Equations:**  
 performance = 0.20\*orientation + 0.020\* innovation - 0.020\*competition  
 Error var= 0.96, R<sup>2</sup> = 0.040

The results of these calculations indicate that entrepreneurial orientation variables had a positive effect on business performance by 4%. The innovation and competitive advantage variables do not affect business performance. This study shows that entrepreneurial orientation influences business performance. This finding is in accordance with the opinion of Irwin et al

(2018) that entrepreneurial orientation is known as a factor that can improve the performance of a business. The results of the study also show that product innovation has no influence on business performance. This finding is different from that of Siqueira and Cosh (2008), who found that product innovation improves performance and in turn helps achieve competitive advantage.

Entrepreneurial orientation, innovation and competitive advantage variables simultaneously have an effect of 4% on business performance. The remaining 96% is influenced by other variables and is not explained in this study. This finding is in line with the opinion of Parkman et al. (2012), who examined the potential relationship of entrepreneurial orientation, innovation capability and business performance. Business competencies in the creative industry can be seen as competing in terms of innovation, creativity, art and aesthetics. Parkman et al. (2012) also stated that entrepreneurial orientation has a relationship with competitive advantage through innovation capabilities. Without innovation capability, achieving competitive advantage is difficult for the creative industry.

## 5. CONCLUSIONS AND RECOMMENDATIONS

The results of the descriptive analysis show that the variables of entrepreneurial orientation, product innovation, competitive advantage and business performance are in the high category. Statistical analysis shows that entrepreneurial orientation has a positive influence on business performance. Innovation variables and competitive advantage variables do not affect business performance. The following interesting conclusions based on the findings of this study can be made:

Firstly, this research was conducted on SME-scale creative industries. An SME-scale business can be easily opened and closed (low-cost entry and exit). On the basis of this assumption, creative industries that are the object of research are established not based on the entrepreneurial orientation of the founders but rather based on the attitude of 'escaping from the conditions of unemployment' of business people.

Secondly, the efforts of creative industries in certain sectors such as culinary and publication are mostly imitations rather than innovations and therefore do not require high competence.

Thirdly, further research on sectors that are specific to creative industrial products, such as crafts, art and other aesthetic goods, would be interesting. These products require innovative ideas and high technical and aesthetic competencies. If the results of research on this specific sector produce different findings, then the assumptions as stated in the first conclusion are true, and vice versa.

This research presents the following recommendations: Firstly, entrepreneurial orientation education for business people is needed. Education is expected to generate motivation and attitudes towards entrepreneurship choice, it is no longer an 'escape alternative', but a profession.

Secondly, in line with the transformation of business today into a profession of choice, training is needed so that imitation of a product becomes innovation. This concept is especially important in the culinary, printing and publishing industries. Lastly, further research on entrepreneurial orientation for specific products is needed to determine how high the influence of entrepreneurial orientation and product innovation is on business performance.

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