

THE DETERMINANT OF FURNITURE BUSINESS PERFORMANCE IN JEPARA REGENCY

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Abstract

In the current business context, entrepreneurial orientation (EO) has been highlighted as key to improving firm performance. Despite the overall positive evidence on the association between EO and firm performance, scholars have stressed the importance of taking into account and properly managing intermediate capabilities. This study was conducted to examine the effect of entrepreneur orientation on business performance and Innovation. This research was carried out in Jepara Regency. The sample in this study amounted to 75 Furniture Business Owners. The data collection method used a questionnaire. The analytical method used in this study is SEM with Smart PLS 3.3.3. The results of this study indicate that entrepreneur orientation does not have a significant influence on business performance. Innovation can mediate the influence of Entrepreneur Orientation on Business Performance. This study makes a novel contribution to the EO kinds of literature as it finds evidence that business model innovation is an effective way to funnel the firm's entrepreneurial orientation into its innovation processes and to increase the success of new product development. Some suggestions for managers and future lines of research are proposed.

Keywords: entrepreneur orientation; innovation; business performance.

Introduction

The Covid-19 pandemic has had a negative impact on the creative industry sector, especially in Indonesia. 98% of creative industry entrepreneurs are affected by the Covid-19 pandemic (Annur, 2020). In addition, the Covid-19 Pandemic has also increased the number of unemployed, economic disparities, and the bankruptcy of various types of businesses. Including the furniture industry (Lath, Lee, Tan, & Wibowo, 2020; Practice, 2021). The furniture industry is an industry that processes rattan, wood, metal, and other raw materials into products that have added value and certain economic value. 80% of furniture or furniture production uses wood, while 11% uses bamboo and rattan raw materials (Victor, 2017). Indonesia has great potential in developing the furniture and furniture industry. This is because Indonesia has natural resources that can be used as the main raw material for making furniture or furniture. In 2019 it was noted that the furniture industry was able to grow to 8.35% and the export

value reached USD 1.95 billion, an increase of 14.6% from 2018. Furthermore, Indonesia was also able to become the fifth largest exporter in the world after China, Vietnam, Malaysia, and Chinese Taipei. However, data on the growth of the furniture industry in Indonesia from 2010 – 2020 show different things, where from 2010 – 2019 the growth of the furniture industry experienced a fluctuating trend.

The downward trend that occurred from 2010 – 2020 was motivated by various factors including the increasing number of imported furniture products, the production capacity of the furniture business was not optimal and the occurrence of the Covid-19 pandemic which resulted in a decrease in demand for furniture products in Indonesia and in various countries which in turn had an impact on the decline in sales of the furniture industry production reached 70% in 2020. The region which is known as one of the best and largest furniture producers in Indonesia is Jepara Regency. In 2019 information was obtained that the Jepara Furniture and Carving Industry contributed as much as 34.87% of the Jepara Regency's Gross Domestic Product (GDP). The occurrence of the Covid Pandemic also negatively impacted the furniture industry's activities in Jepara, as evidenced by the decline in exports reaching 30% in 2020. Besides that, based on data from the Central Bureau of Statistics for Jepara Regency (2021) it was found that 25% of furniture entrepreneurs were forced to close their businesses and choose to work as a farmer because they do not have enough capital to fund operational costs which continue to increase while demand tends to stagnate or decrease. Furthermore, it was also found that there were 3,250 people or workers in the Jepara furniture industry who had to lose their jobs only in 2020. These conditions require business owners to have the ability to control and manage their business in order to survive in crisis conditions, where one of the skills that must be possessed is entrepreneurial orientation. Entrepreneurial orientation can change and influence several aspects of business performance such as: sales, Return on Equity (ROE) and assets (Kremer, Villamor, & Aguinis, 2019; Raju, Lonial, & Crum, 2011; Rao, 2016; Rauch, Wiklund, Lumpkin, & Frese, 2009).

Kamuri (2021) conducted a test of the role of entrepreneurial orientation on business performance, which, based on the test results, resulted in an influence of entrepreneurial orientation on business performance. Entrepreneurial orientation is also an essential factor determining the success of local SMEs who want to become international SMEs. However, another study found that the high level of entrepreneurial and market orientation did not significantly affect company performance (Hernández-Perlines, Covin, & Ribeiro-Soriano, 2021). Innovation can improve performance, solve problems, add value, and create a competitive advantage. For companies that are small in size and have limited resources, Innovation is one of the steps that must be implemented to be able to continue to survive in the competition in the market (Chang, Wang, & Cui, 2019; Ciabuschi, Baraldi, Lindahl, & Callegari, 2020; Dabić et al., 2021; Singh, Bhowmick, Eesley, & Sindhav, 2021). Meanwhile, other studies show that the influence of Innovation on business performance is not significant (De Jong & Vermeulen, 2006).

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The research problem as explained in the paragraph above is that there has been a decrease in the number of furniture SMEs to the level of production and export volume and there are still several research gaps that have encouraged researchers to carry out this research. This study uses indicators that are adapted to the conditions of Furniture SMEs in Jepara City, besides that the research model applied in this research is still relatively rarely implemented in Furniture SMEs in Indonesia. This research is expected to make a significant contribution to improving the business performance of Furniture SMEs in Jepara Regency.

Research Method

This study uses a technical data analysis Structural Equational Model (SEM). The population in this study are 120 furniture SMEs owners in Jepara Regency. The criteria for determining the sample in this study were furniture SMEs that have been operating for at least 4 years, export their furniture products, and have an annual turnover of IDR 100,000,000. There are 75 furniture SMEs owners who meet these criteria. The data collection technique used in this study used a questionnaire given to the research sample on 23rd December 2022 – 27th January 2023. Entrepreneurial orientation indicators: dare to take risks, be proactive, competitively aggressive, and autonomous (Calic & Shevchenko, 2020; Rauch et al., 2009). Innovation indicators: new products and new distribution systems (Fariborz, 1991). Business performance indicators: increased sales and increased market share (Rauch et al., 2009; Wiklund & Shepherd, 2005).

Result and Discussion

In Table 1, the results of Factor Loading (FL) of all indicators (0.729 – 0.835) are greater than 0.70 and significant ($p < 0.001$) (Hair, Black, Babin, & Anderson, 2010). The value of Cronbach Alpha (CR) (0.862 – 0.867) is greater than 0.70. Next, the value of Average Variance Extracted (AVE) (0.613 – 0.721) > 0.50 (Hair, Black, Babin, & Anderson, 2010). So based on all the test results, it can be concluded that all indicators have met the assumptions of validity and reliability.

Table 1 Measure of Indicators Validity and Reliability

Instruments	FL	α	AVE	VIF's	Weights
Entrepreneur Orientation (EO)					
EO1	0.729	0.867	0.613	2.231	0.368***
EO2	0.817				0.320***
EO3	0.835				0.319***
EO4	0.723				0.328***
Innovation (IO)					
IO1	0.771	0.866	0.721	2.271	0.341***
IO2	0.784				0.366***
IO3	0.767				0.397***
Business Performance (BP)					
BP1	0.731	0.862	0.633	2.287	0.339***
BP2	0.784				0.353***

Instruments	FL	α	AVE	VIF's	Weights
BP3	0.796				0.365***

Notes: FL = Factors Loading; AVE = Average Variance Extracted; α = Cronbach's alpha; *** = $p < 0.001$

In Table 2, it is known that Entrepreneur Orientation has a positive and significant influence on Innovation ($\beta = 0.608$; $p < 0.05$), so H1 is Supported. These results are in line with research that finds entrepreneurial orientation is a method, a practice that combines creative ideas and actions using management expertise to create innovation (Huang & Wang, 2011). A high level of entrepreneurial orientation requires increased innovation and the creation of new markets (Boso, Story, & Cadogan, 2013).

However, in testing the influence of Entrepreneur Orientation on Business Performance, the results were not significant ($\beta = 0.090$; $p > 0.05$), so H2 was not supported. The results of this study are consistent with research from Wang, Mao, & Archer (2012) who found a high level of entrepreneurial orientation did not have a significant effect on business performance.

Innovation has a positive and significant effect on Business Performance ($\beta = 0.747$; $p < 0.05$), H3 Supported. The results of the Coefficient of Determination (R²) test show that Entrepreneur Orientation influences Innovation by 37% (0.370), while the influence of Entrepreneur Orientation and Innovation on Business Performance is 64.8% (0.648). In Table 3, the indirect effect test found that Innovation could significantly mediate Entrepreneur Orientation Business Performance ($\beta = 0.454$; $p > 0.05$). The results of this study further emphasize that innovation has the capacity to improve performance, solve problems, add value, and create competitive advantages. For companies that are small in size and have limited resources, innovation is one of the steps that must be implemented to be able to continue to survive in competition in the market (Rosenbusch, Brinckmann, & Bausch, 2011).

These factors include management strategies, financial resources, and customer relationships. The results showed that the three factors, namely management strategy, financial resources, and relationships with customers had a partial effect on the performance of furniture entrepreneurs in Jepara. Financial management and management strategy planning will help him achieve his financial success.

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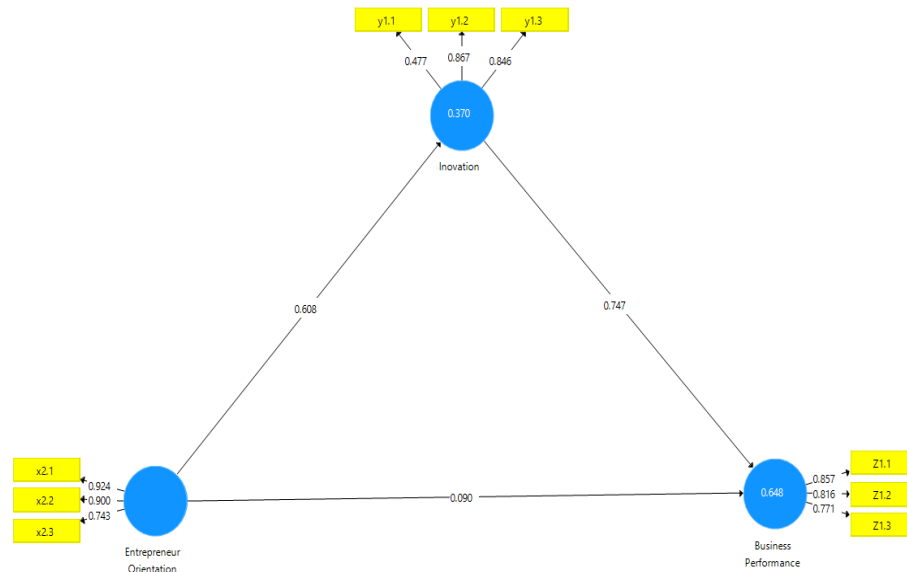


Fig 1. Outer Model Result

Table 2. Result of Partial Hypotheses Testing

Instruments	FL	α	AVE	VIF's	Weights
Entrepreneur Orientation (EO)					
EO1	0.729				0.368***
EO2	0.817				0.320***
EO3	0.835				0.319***
EO4	0.723	0.867	0.613	2.231	0.328***
Innovation (IO)					
IO1	0.771				0.341***
IO2	0.784				0.366***
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Business Performance (BP)					
BP1	0.731				0.339***
BP2	0.784				0.353***
BP3	0.796	0.862	0.633	2.287	0.365***

Note: β = Path Coefficient; f^2 = Effect Size, Sig. Level = 0.05.

Table 3. Result of Mediation Hypotheses Result Testing

Hypotheses	β	T Statistics (O/STDEV)	P Values	Decision
EO \rightarrow IO \rightarrow BP	0.454	5.188	0.000	Supported

Note: β = Path Coefficient, Sig. Level = 0.05.

Conclusion

Based on the study results, it was found that to enhance furniture business performance in Jepara Regency, it was necessary to increase the entrepreneurial abilities

of furniture business owners and increase the ability of Innovation (product and distribution). The ability to be entrepreneurial and innovate will help furniture business owners to earn more income. To improve the entrepreneurship and innovation skills of furniture business owners, the government's participation is urgently needed to provide training and incentives. The provision of training and incentives will help furniture business owners to find out market demand and the most optimal distribution methods. This study has limitations, where the research was carried out in a short time, and the number of research samples was relatively small. So for future research, it is recommended to research with a longer time and with a relatively large number of samples so that the research results are more comprehensive. Furthermore, this research is only carried out in one sub-sector of the creative industry, so that for future research, it is recommended to carry out testing of more than one sub-sector so that the results of the study can show a comparison of the phenomena of Entrepreneur Orientation, Innovation and Business Performance in various sub-sectors of the creative industry. For Future Research, it is also recommended to add other variables such as Learning Orientation and Marketing Orientation.

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