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Innovation and Competence Enhances Business Performance Through Competitive Intervening Variable, Jakarta Small and Medium Business

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Abstract: Research innovation and competence enhances business performance through competitive intervening variable, Jakarta small and medium business, is based on the background of increasing small and medium enterprises in Jakarta.

The results of respondents who answered questions were dominated by respondents with a high school education background, 157 people (78.5%), with ages ranging between 41-50 years, 124 people (62%), and had an income turnover above 90 million rupiah a month, 114 people (57%), and with a business duration of 3-5 years, 116 people (58%), so that it can be categorized that the majority of small and medium business entrepreneurs are educated high school and in the productive age range, and business duration between 3-5 years.

Business Innovation and Business Competency variables significantly influence the Competitive Advantage variable, and Business Competency variable does not directly affect Business Performance, but must go through Competitive Advantage variable in order to affect Business Performance variable, and the effect of the Competitive Advantage variable on Business Performance variable is very significant at 0.641, therefore it can be concluded that Competitive Advantage variable is an intervening variable of Business Performance.

Key words: business innovation; business competency; competitive advantage
JEL codes: O310

1. Introduction

1.1 Background

The background of this research is the increase in small and medium enterprises (SMEs) and competition in the small and medium business sector in Jakarta. The increase in small and medium businesses is sure to have a good impact on improving the economy in Indonesia. In improving small and medium businesses, business innovation and business competence are needed in order to increase competitive advantage and business performance. The author intends to conduct research: innovation and competence enhances business performance through competitive intervening variable, Jakarta small and medium business.

1.2 Research Urgency

With the rapid development of small and medium businesses in Jakarta, the author wishes to analyze and evaluate whether business innovation and business competence affect competitive advantage and business

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performance, with competitive advantage as an intervening variable. In addition, readers of this study can also find out about the development of several business segments in Jakarta.

2. Literature Review

2.1 Framework

According to Bock, George, (2017), innovation is not just represented by introducing or implementing new ideas or methods. The definition of innovation can be defined as a process that involves multiple activities to uncover new ways to do things. It should not be confused with creation since this can be defined as the act of making, inventing, or producing something. However, new innovations can be realized with creativity. People need to think outside the box in order to create incremental enhancements. Meanwhile, according to Keller (2013, p. 52), innovation is a change of taste in competition with other companies. Companies that want to maintain their leadership position must continually innovate. Meanwhile, according to Najib, Kiminami (2011), innovation factors are needed positively in improving and developing small and medium businesses in Indonesia. According to Sudirga R. S. (2019), found that the variable business innovation or product innovation and business competence significantly influence the performance of SME businesses in Jakarta.

According to Boree Thill (2017), business competencies are skills that allow for success in the world of business. In the absence of these skills, small-business owners may find the task of establishing and maintaining their businesses more difficult than it otherwise would be. Though some of these competencies are simply innate, many of them can be developed or enhanced with a concerted effort. Meanwhile, according to Garcia and Calantone (2002), Herrmann et al. (2007), Janssen et al. (2015), Souto (2015), Un (2010), and Neely et al. (2002) as cited in Musthofa (2017), companies with greater innovation will be more successful in responding to the needs of customers and develop new capabilities that enable them to achieve better performance or profitability superior, and business competence, product innovation, affect business performance, especially small and medium business. According to Sudirga R. S. (2019), and Musthofa (2017), business competence, business innovation or product innovation, and business performance have indicators of operational variables as follows:

Business competence has indicators of operational variables, including:

- Can identify business opportunities
- Can think and act creatively
- Can manage business risks

Whereas business innovation or product innovation has operational variable indicators, including:

- New products on the market
- Offering new ideas in the market
- Creative design
- Offering and presenting new advantages in the market
- Products can provide solutions to problems faced creatively
- Can present new features on the market

Whereas business performance has indicators of operational variables, including:

- Customer growth
- Business growth
- Profit growth

This was also reinforced by Liem Cu Sun and Mei Ie (2018), who found that business competence affected business development in SMEs. While Asyhari, Pudjihastuti S. H., Kurdaningsih D. M. (2018), explained that there is a role for mediating competitive advantage in the business performance factors of SMEs. While Kadarningsih A. (2013), found that there are factors that influence business performance through the variable competitive advantage. And Meutia (2013), found that business innovation and creativity factors improve business performance through the variable competitive advantage, and business innovation factors can improve competitive advantage and business performance in the SME business segment.

While competitive advantage according to Shwom Snyder (2018), Manurung, Sugiarto, and Munas (2016), and Kadarningsih A. (2013) have indicators of operational variables, including:

- Differentiation
- Cost advantages
- Competitive prices
- Market coverage
- Delivery and service of products on time

2.2 Research Road Map

Table 1 Research Road Map

Research Title	Starts	Nov 2019	Dec 2019	Jan 2020	Feb 2020
Competitive advantage; influencing factors and their impact on selling-in performance, Ana Kadarningsih, 2013	Started research and finished in 2013				
Improving competitive advantage and business performance through the development of business network, adaptability of business environment and innovation creativity, Meutia, 2013	Started research and finished in 2013				
The effect of entrepreneurial competency on product innovation and business performance: Empirical cases of fashion business in central Java, Indonesia, Musthofa, 2017	Started research and finished in 2017				
Effect of human capital and competence on business development in SMEs, Liem Cu Sun, May Ie, 2018	Started research and finished in 2018				
The mediating role of competitive advantage in the determinants of SME business performance in batik weaving centers in Central Java, Asyhari, Sri Hindah Pudjihastuti, Dian Marhaeni Kurdaningsih, 2018	Started research and finished in 2018				
Factors that determine the performance improvement of small and medium enterprises in Jakarta, Rudy Santosa Sudirga, 2019	Started research and finished in March 2019				
Innovation and competence enhances business performance through competitive intervening variable, Jakarta small and medium business.	Nov 2019	Plan research and prepare questionnaires	Collect data	Collect data	End research and submit report

2.3 Research Design

In this case the research will be designed with questionnaire questions that are in accordance with the key indicators for all variables that correspond to what has been explained in the literature review chapter for this study.

3. Purpose and Benefits of Research

3.1 Purpose

This study aims to determine whether business innovation and business competence significantly influence SME business performance in Jakarta, through competitive advantage as an intervening variable.

3.2 Benefits

In the long run, it is very useful to know whether business innovation and business competence have a significant influence on the development and performance of small and medium businesses in Jakarta, and also on the development and performance of small and medium businesses in Indonesia.

4. Research Methods

4.1 Research Procedure

According to Wijaya T. (2013, 10), the basic assumption that must be fulfilled in SEM (Structural Equation Modeling) analysis is the number of samples that meet the analytical rules. According to (Sekaran, Uma, 2003) SEM analysis requires a sample of at least 5 times the number of indicator variables used, with the number of questionnaire indicators 21, should the number of samples needed for processing using SEM be sufficient 21 × 5 = 105 samples. The Maximum Likelihood Estimation technique requires samples ranging from 100-200 samples. The author will take a minimum number of 200 samples of SMEs in Jakarta as research data.

In collecting the necessary research data, the writer collected primary data by distributing questionnaires to several small and medium businesses in Jakarta, North Jakarta 40 samples, West Jakarta 40 samples, Central Jakarta 40 samples, East Jakarta 40 samples and South Jakarta 40 samples.

In this case the author took samples of small and medium businesses such as food sales, restaurant businesses, food stalls, bakery businesses, and are generally dominated by restaurant businesses, noodle sales businesses, food stalls, bakery businesses, and food and cake sales businesses.

The sampling technique used by the author is proportionate stratified random sampling which includes probability sampling or random sampling. According to Sumarni and Wahyuni (2006, pp. 74-75), proportionate stratified random sampling is a sampling technique used when the population is heterogeneous and proportionally distributed.

Table 2 Profile of Respondents by Education

Education	Number of Respondents	Percentage (%)
Primary School	-	-
Junior High School	8	4.00
Senior High School	157	78.50
Bachelor Degree	32	16.00
Master Degree	3	1.50
Doctoral Degree	-	-
Other	-	-
Total	200	100

Table 3 Profile of Respondents by Age

Age (Year)	Number of Respondents	Percentage (%)
10–20	-	-
21–30	6	3.00
31–40	62	31.00
41–50	124	62.00
51–60	8	4.00
61–70	-	-
71–80	-	-
Total	200	100

Table 4 Profile of Respondents by Income

Turnover - Income/Month	Number of Respondents	Percentage (%)
< 10 million rupiah	-	-
11–30 million rupiah	16	8.00
31–50 million rupiah	14	7.00
51–70 million rupiah	18	9.00
71–90 million rupiah	38	19.00
> 90 million rupiah	114	57.00
Total	200	100

Table 5 Profile of Respondents by Business Duration

Business Duration (Year)	Number of Respondents	Percentage (%)
< 1	7	3.50
1 – 3	38	19.00
3 – 5	116	58.00
5 – 10	27	13.50
> 10	12	6.00
Total	200	100

4.2 Instrument Development

The research instrument uses a 5-level Likert scale, and the results are for data processing with path analysis, where the exogenous variables, namely business innovation and business competence, influence the competitive advantage and business performance which are endogenous variables, with competitive advantage as a variable intervening.

4.3 Data Analysis Technique

This type of research is causal or associative or correlational research. According to Hair, Bush, Ortinau (2009, p. 52), causal research is research that determines the relationship of causes and effects between 2 or more variables. Causal research is the most appropriate choice if researchers want to find out which variables are very influential on other variables in determining the results of research. According to Hair, Black, Babin, Anderson (2010, p. 634), path analysis is a simple bivariate correlation and is used to estimate relationships in structural equation modeling. Path analysis can search for and determine the strength of the relationship shown in the path diagram. According to Hair, Black, Babin, Anderson (2010, p. 635), in processing this research data, it is better to

use path analysis, because there are some exogenous variables namely business innovation and business competence (exogenous variables are variables whose value is not influenced by other variables in model) that influences the variable of competitive advantage as an intervening variable, and business performance variables which are endogenous variables (endogenous variables are those whose value is influenced or determined by other variables in the model).

For this causal study, the authors process research data with Structural Equation Modeling with IBM SPSS Amos version 23. According to Wijaya T. (2013, pp. 6-8), the main purpose of SEM analysis is to test the suitability of a model, that is the suitability of theoretical models with empirical data.

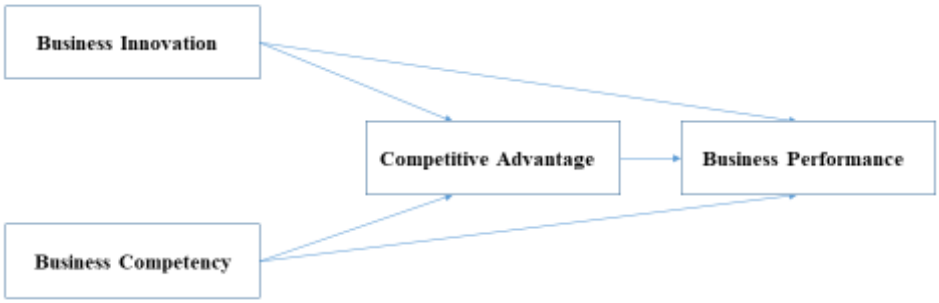

Figure 1 Path Analysis

5. Achieved Results and Outcomes

From the results of data processing with Structural Equation Modeling with IBM SPSS Amos version 23, the following results are obtained:

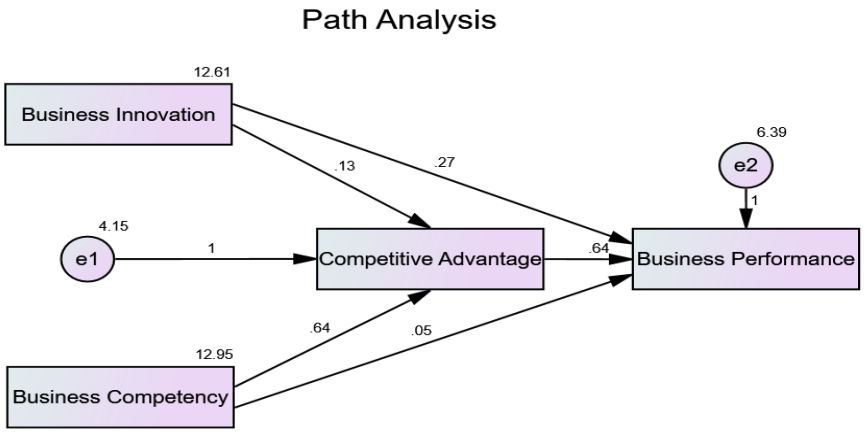

Figure 2 Output Data Analysis

Table 6 shows the estimated value of the effect of one variable on another variable and the probability that shows the significance of the effect of one variable on another variable.

The Business Innovation variable has a significant effect on the Competitive Advantage variable (probability of 0.033 < 0.05, with a beta coefficient of 0.126).

The Business Competency variable has a significant effect on the Competitive Advantage variable (probability of 0.000 <0.05, with a beta coefficient of 0.635).

The Business Innovation variable has a significant effect on the Business Performance variable (probability

of 0,000 <0.05, with a beta coefficient of 0.272).

The Business Competency variable does not affect the Business Performance variable (probability of 0.573> 0.05, with a beta coefficient of 0.052).

The Competitive Advantage variable has a significant effect on Business Performance (probability of 0,000 <0.05, with a beta coefficient of 0.641).

Table 6 Regression Weights

			Estimate	S.E.	C.R.	P	Label
Competitive Advantage	<---	*Business Innovation*	0.126	0.059	2.13	0.033	par_1
Competitive Advantage	<---	*Business Competency*	0.635	0.059	10.849	***	par_3
Business Performance	<---	*Business Innovation*	0.272	0.075	3.645	***	par_2
Business Performance	<---	*Business Competency*	0.052	0.092	0.563	0.573	par_4
Business Performance	<---	*Competitive Advantage*	0.641	0.088	7.284	***	par_5

The Business Innovation variable and the Business Competency variable significantly influence the Competitive Advantage variable, and the Business Competency variable does not directly affect Business Performance, but must go through the Competitive Advantage variable in order to affect the Business Performance variable, and the effect of the Competitive Advantage variable on the Business Performance variable it is very significant that is equal to 0.641, therefore it can be concluded that the Competitive Advantage variable is an intervening variable from Business Performance.

Table 7 shows the total effect (total of direct and indirect) of an independent variable on the dependent variable.

The effect of the total Business Innovation variable on the Competitive Advantage variable was 0.126 = 0.13. The effect of the total Business Innovation variable on the Business Performance variable was 0.353 (direct = 0.270 + indirect = 0.083).

The effect of the total Business Competency variable on the Competitive Advantage variable is 0.635 = 0.64. The effect of the total Business Competency variable on the Business Performance variable is 0.459 (direct = 0.05 + indirect = 0.409).

The effect of the total Competitive Advantage variable on the Business Performance variable = 0.641.

Table 7 Total Effects

	Business Innovation	*Business Competency*	*Competitive Advantage*
Competitive Advantage	0.126	0.635	0.000
Business Performance	0.353	0.459	0.641

The Squared Multiple Correlations table shows that Business Innovation and Business Competency variables have a role of 56.7% in explaining Competitive Advantage variables, and Business Innovation variables and Business Competency variables only have a role of 48.4% in explaining Business Performance variables, so it can also be concluded that the variables Competitive Advantage is an intervening variable of Business Performance.

Table 8 Squared Multiple Correlations

	Estimate
Competitive Advantage	0.567
Business Performance	0.484

6. Conclusions and Suggestions

6.1 Conclusions

The results of respondents who answered questions were dominated by respondents with a high school/ vocational education background of 157 people (78.5%), with ages ranging between 41-50 years as many as 124 people (62%), and had an income turnover above 90 million rupiah per 114 people a month (57%), and with a business duration of 3-5 years are 116 people (58%), so that it can be categorized that the majority of small and medium business entrepreneurs are educated high school and in the productive age range, and long business between 3-5 years.

Data processing with IBM SPSS Amos version 23 gives the results:

The Business Innovation variable and the Business Competency variable significantly influence the Competitive Advantage variable, and the Business Competency variable does not directly affect Business Performance, but must go through the Competitive Advantage variable in order to affect the Business Performance variable, and the effect of the Competitive Advantage variable on the Business Performance variable it is very significant that is equal to 0.641, therefore it can be concluded that the Competitive Advantage variable is an intervening variable from Business Performance.

Competitive Advantage variable which is an intervening variable significantly influences the Business Performance variable of 0.641. This was also reinforced by Kadarningsih A. (2013), who used the SEM method of path analysis, found that Competitive Advantage was able to significantly improve the Selling-In Performance. While research (Asyhari, Pudjihastuti S. H., Kurdaningsih D. H., 2018), also explained that there is a mediating role of the Competitive Advantage variable on Business Performance

The Business Innovation variable has a significant effect on the Competitive Advantage variable of 0.126, while the Competitive Advantage variable also has a significant effect on the Business Performance variable of 0.641, which was adopted from (Meutia, 2013), which uses SEM, also explains that Innovation and Creativity is very influential on Competitive Advantage and Competitive Advantage is one of the important variables in improving Business Performance of Small and Medium Business.

The Business Innovation variable and the Business Competency variable significantly influence the Competitive Advantage variable, and the Competitive Advantage variable significantly influences the Business Performance variable. Product Innovation and Entrepreneurial Competency adopted from (Musthofa, 2017), also explained that Product Innovation and Entrepreneurial Competency can significantly improve Business Performance. In addition, Business Performance is a function of Product Innovation and Entrepreneurial Competency, where the results of the study show that Product Innovation and Entrepreneurial Competency significantly influence the Business Performance of small and medium-sized companies. This was also strengthened by (Liem Cu Sun, May Ie, 2018), who examined that Human Capital and Business Competence greatly influenced Business Development at the SME scale. While the Business Innovation variable and Business Competency variable were also adopted from research (Sudirga R. S., 2019), which reinforces that the Business

Innovation variable and Business Competency variable significantly influence the Business Performance of Small and Medium Business variables in Jakarta.

6.2 Suggestions

The results of the analysis that the Business Innovation variable and the Business Competency variable significantly influence the Competitive Advantage variable, and the Competitive Advantage variable has a significant effect on the Business Performance variable of the small and medium-sized businesses, it can be suggested that to start a small and medium-sized business, businesses must pay attention to factors regarding:

- Do business products have better differences than competitors?
- Does my business product have a production cost advantage?
- Does my business have more competitive price.
- Does my business have a more adequate and broader market coverage?
- Does my business have timely service and product delivery.

Research limitations and future research proposals: This research limitation does not look at the role of capital and investors' opinions on Indonesia that might help develop small and medium business policies in Jakarta. For future research, the authors propose to include competing factors, and to conduct research in a broader area, namely Jakarta, Bogor, Tangerang, Bekasi.

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