

Improving Business Performance Through Entrepreneur Motivation and Value Creation on Small and Medium Enterprises

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Abstract The main goal of government program for Small and Medium Enterprises (SMEs) is to support SMEs in enhancing their performance, since SMEs' performance has not meet government's expectation. Several indicators showed that SMEs still have low competitive advantage, high mortality rate, and slow pace of change from small to medium enterprises and medium to big enterprises. The main objective of this research was to study how entrepreneurship motivation affects value creation and performance of SMEs. The descriptive and explanatory methods were applied. Data was obtained from SMEs of West Java Province, Indonesia, which has survived in their business for at least three years. This study utilized cross sectional time horizon to obtain current situation of the objects. The hypotheses of this research were tested using statistic methods of Structural Equation Modeling (SEM) with 217 samples. The results of this study showed that entrepreneurship motivation positively affected value creation and value creation affected business performance. Also, entrepreneurship motivation became a driver to conduct innovation creation. It was also found that, generally, the performance of SMEs strongly depended on the success of implementing value creation as a business strategy.

Keywords Entrepreneurship motivation · Value creation · Business performance · Small and medium enterprise

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1 Introduction

The economy in the third millennium is now including not only international but also global economy, where traffic circulation of goods and services commodity is massive and fast, supported by ICT (*Information Communication Technology*) and rapid, reliable transportation system; so it is true what Thomas Friedman (2006) suggests that “the world is flat” and eventually becomes a “global Village.” A country can be said to participate in international trade if it has an indicator showing an increase in the rate of export and import reflected from the increase of export share in global market and the increase of import ratio to its gross domestic product (GDP). The more active the process of production that involves many countries, the greater flow the foreign investment into the country, or the greater investment from the country to other countries.

Furthermore, Forsman and Temel (2011) argue that SMEs are the engine of economic growth, and innovation as a form of value creation is a tool for SMEs to improve competitiveness, as well as improving business performance.

Alam et al. (2013) conducted a research on SMEs and suggested that there is a connection between innovation and competitiveness, and the performance improvement proposed. On the other hand, Heunks (1998) argues that innovation also improves financial performance, as the success indicator for SMEs.

As explained by Kasali (2010), economy that relies on conglomerate business was proven to be unable to overcome multi-dimensional crisis, including economy, which also caused unemployment. On the other hand, small and medium enterprises including micro enterprises were proven to be reliable. They also were considered as resilient, independent, flexible in mobility, efficient, does not rely on debt, and are based on local resources. SME doers are mostly both the owners and managers, and they are innovative, willing to take risk, and proactive businessmen (Wiklund and Shepherd 2005).

Related to West Java, according to the Department of Cooperation, micro, small, and medium Enterprises of the Province of West Java (2011), there are 8,731,790 business units of micro, small, and medium enterprises (MSMEs), whereas the number of micro enterprises is 8,616,254 units, small enterprises of 10,692 units, medium enterprises of 7408 units, and large enterprises of 1536 business units. According to the result of a specifically conducted survey in 2012, the most dominant constraint for SMEs is the inability to compete and capital.

Mortality problem that occurred in small and medium enterprises (SMEs) is not only a problem for Indonesia, but also for other countries. It is stated that the ups and downs of SMEs depend on the business motivation, including the characteristics and persistency of SME doers individually. There were well-developed SMEs, but there are also SMEs that went bankrupt, only 50 % of SMEs left that still survive and develop after they are 10 years old. In addition, Chupp (2010) from Toledo University of Canada also argued that for the past decades, SMEs have contributed to economic growth by 70 %, the creation of employment by 70 %, and

99.5 % of employers work in this sector (SMEs), but more than 60 % of them failed in 6 years of period. This was due to the inability to compete.

Based on the explanation of the research background, this topic is worth studying because the role of small and medium enterprises is very important and strategic, particularly in the national economy and in the level of the province of West Java, because of their role in overcoming unemployment.

It can be pointed that motivation of entrepreneurs is one of the causes of the declining ability to compete as well as the ability of entrepreneurs in creating value. Value creation can be seen by emphasizing the innovation aspect, not only the product, process, or organization (as an independent variable), but also its implication for business performance.

The unit analysis of this research is small businesses in the Province of West Java, focusing on processing or manufacture and trade industries considering that this is the most reliable sector with the most population in business area, both nationally and in West Java. Therefore, the objectives of this research are (1) Does entrepreneurial motivation affect positively the value creation of the company's innovation? (2) Does innovation value creation affect positively the business performance? (3) Does entrepreneurial motivation affect the innovation value creation that implicates business performance?

Based on the explanation given above, the objective of this research is to create a model which has the ability to explain the problems in SMEs performance in the Province of West Java and to predict the variables tested.

2 Literature Review

2.1 *Entrepreneurial Motivation*

Entrepreneurial motivation is important because failure is an integral part or attached to business behavior, particularly in the process of becoming a successful entrepreneurship. Bessant and dan Tidd (2011) argues that an entrepreneur may fail but not the person, because an entrepreneur will learn from the failure or the failure will become a part in the process toward success. Next, Bessant and Tidd (2011) propose that entrepreneurship will be a driving force to innovate in creating value for customers, businesses, and socials. In addition, Kemelgor and Bruce (2002), Wiklund and Shepherd (2005) state that there is a positive and significant relation between entrepreneurship orientation (**innovation**, risk taker, and proactive) to business performance. On the other hand, Smith, Guthrie, and Chen (1989) state that business performance is not influenced by entrepreneurship orientation. Then, Wiklund (1999) state that several studies have shown that entrepreneurship orientation affects innovation in long term, not in the short term. Shane et al. (2003) argues that the will to achieve high performance in business is an important motivation to be a reliable entrepreneur.

2.2 *Value Innovation*

Furthermore, Bessant and Tidd (2011) argue that entrepreneurship will be a driving force to innovate creating value for customers, businesses, and socials. This is confirmed by Bessant and Tidd (2011) that creating value is the meaning and purpose of an innovation that is expressed in financial, growth, employment, business continuity, or the increase of social welfare. Gunday et al. (2009) states that innovation is an instrument of growth strategy in entering new market, which is used to increase market share and to make the company more competitive. In globalization context, innovation business is a component in corporation strategies.

2.3 *Business Performance*

A study by Covin (1991) measured business performance of its financial performance with a 5-point Likert scale. Financial performance can be seen from sales level, sales growth rate, cash flow, ROE, gross profit margin, net profit from operation, profit to sales ratio, ROI, and the ability to fund business growth from profit. This study employs the measurement of ability to generate profits or how far business can be managed effectively and efficiently. These measurements do not question the business scale. Hughes (2002) concludes that the success of innovation and its impact to business performance will last depending on managerial skills and competence of the company. Gunday et al. (2009) confirms that the effect of innovation to business performance has a positive correlation. The innovation includes product, process, and organizational innovations. According to the research plan, hypotheses can be drawn.

Hypothesis 1

Entrepreneurial motivation affects innovation value creation of small and medium enterprises in the Province of West Java.

Hypothesis 2

Innovation value creation affects business performance of small and medium enterprises in the Province of West Java.

3 **Methodologies**

This was a causality research, testing the cause–effect relationship between independent and dependent variables. Analysis unit of this research was organizations, the small and medium enterprises in the Province of West Java, with the doers

particularly the leaders of SMEs in manufacture and trade industries as the unit of observation. This was a cross sectional research, where survey was conducted in a period of time. Samples were taken from companies that had been running ≥ 3 years, where they had survived with all entrepreneurship motivations and orientations. Samples were taken randomly and 217 samples were used. Structural Equation Modeling (SEM) was used as statistic method for analysis.

4 Finding

To test the hypotheses, statistic of the student test was used with the test result as shown in Table 1.

Based on the test result, it can be seen that the value of t_{count} of entrepreneurial motivation variable (9.850) is bigger than t_{critical} (1.96). Therefore, based on the rest result, it can be concluded that entrepreneurial motivation affects the value creation or innovation of the small medium enterprises in West Java positively (Table 2).

There is an effect of entrepreneurial motivation to value creation with a coefficient of determination R^2 of 73.7 % in SMEs in West Java Province, while the remaining 26.3 % is the effect of other factors not examined by this study. On the other hand, the effect of innovation value creation to business performance is 65.5 % in SMEs, while the remaining 34.5 % is the effect of other factors not examined in this study. High innovation value creation of SME doers will increase business performance of small and business enterprises in West Java (Table 3).

Table 1 The test result of the effect of entrepreneurial motivation to innovation value creation

Path coef.	T_{count}	T_{critical}	Ho	Ha
0.859	9.850	1.96	Rejected	Accepted

Table 2 Structural model

Sub structure	Path	Coefficient	T_{count}^a	R-Square
First	EM \rightarrow VC	0.859	9.850	0.737
Second	VC \rightarrow BP	0.809	10.315	0.655

^a $t_{\text{critical}} = 1.96$

Source Processed data, output result of AMOS 20

Table 3 Test result of the effect of innovation value creation to business performance

Path Coef.	T_{count}	T_{critical}	Ho	Ha
0.809	10.315	1.96	Rejected	Accepted

^{*} $t_{\text{critical}} = 1.96$

Source Processed data, output result of AMOS 20

Based on the test result, it can be seen that the value of t_{count} of entrepreneurial motivation variable (10.315) is bigger than $t_{critical}$ (1.96). Thus, based on the test result, it can be concluded that value creation affect business performance of small and medium enterprises in West Java positively.

This condition strengthens the previous study by Forsman and Temel (2011), Tidd and Bessant (2011) that the aspect of innovation affects business performance significantly. This becomes clear because innovation will increase competitive advantage, both directly and indirectly, for companies as well as create value for consumers (Cravens and Piercy 2013) (Fig. 1).

Government’s program is the most dominant in supporting entrepreneurial motivation is the availability for both good infrastructure and access to model in developing business. The marketing strategy by Igor Ansoff Matrix (Kotler 2006)

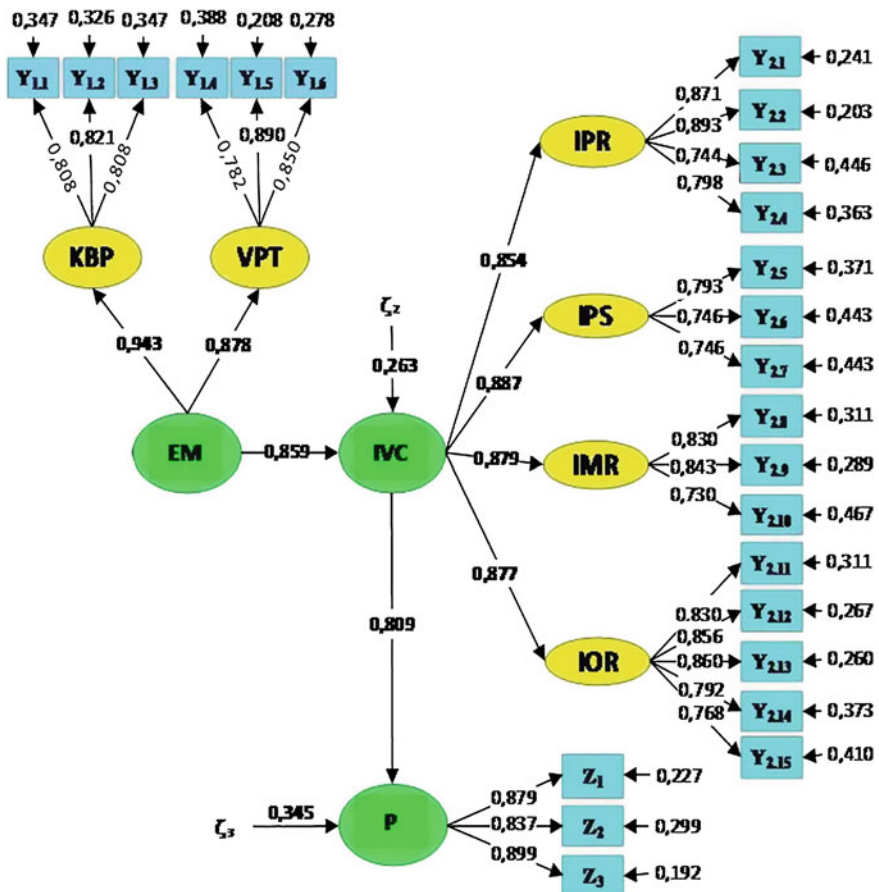


Fig. 1 Model structure of the influence of entrepreneur motivation toward innovation value creation and impact to performance

can be used in this matter, namely marketing penetration strategy where existing products are allocated for the market at a price lower the average prices of competitors on the assumption that SMEs are innovation in the process with an emphasis on efficiency. Companies carry out innovation-based product development both incremental and radical innovation. In addition, SMEs can also implement the concept of marketing strategy by Michael Porter (Craven and Piercy 2013), namely the innovation of process aimed at building low cost so that the output price is cheaper, or by attempting to create differentiated product whose difference is considered important by the consumer. Finally, in marketing the products, SMEs have to focus on their targeted markets, and market segmentation is needed in the process so that the marketing effort become more focused.

5 Discussion

From the hypotheses, it is revealed that entrepreneurial motivation and value creation of motivation are dominant factors in increasing business performance. Based on the formulation of the problems, the factors needed to be considered to enhance business performance, including Government's Program (forming factors of entrepreneurial motivation), are infrastructure, education and training, and marketing and R&D aspects for internal empowerment. Next, innovation value creation is the product that uses alternative and innovative materials, innovation in delivery process, innovation in promotion and pricing technique, and everything should be within the framework of innovation organizationally so that all can be facilitated well structurally, in management of procedural innovation and information system.

For Research and Development or R&D, although it only has produced the incremental products and not the radical one, this department is important and strategic in sustaining business continuity, particularly in sustaining competitive advantage. This is impossible because innovation value creation will only grow and be developed by R&D's effort.

Entrepreneurial motivation also becomes a driven force for the creation of innovation.

Regarding the variable innovation creation value, it can be seen from the verification research that generally the high performance of SMEs strongly depend on the success of running the innovation value creation as a business strategy. The creation of innovation value includes product, process, marketing, and organizational elements. The effectiveness of innovation value creation will be realized if organizational innovation is built first so that the creation of product, process, and marketing innovation can run effectively, considering that organizational aspect is the platform for the effectiveness of company program implementation.

To develop innovative products and processes for SMEs, the cooperation between universities in West Java should be improved, considering they have been doing a lot of applied researches, which can be developed into prototypes of product for marketing test, in addition to carrying community service. On the other

hand, collaboration researches or joint researches can be conducted in order to reach a mutually beneficial cooperation.

SMEs also need to develop business on the basis of innovation value creation because it is very important and strategic to build competitiveness and achieve superior business performance. Therefore, in business management, HRD, marketing, financial, and production should be developed. Business management is important, particularly in the aspect of how to develop a competitive business through product, production process, marketing, and organizational innovations.

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