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# Factors Affecting Business Performance: An Empirical Study of the Creative Industry in Semarang, Indonesia\*

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## Abstract

The creative industry has an important role in economic development, but creative economy entrepreneurs still face many problems in business development and sustaining their businesses. The purpose of the study is to investigate the effect of entrepreneurship orientation, innovative product advantages, and social network quality on business performance to help companies stay competitive. The research uses a quantitative approach with the population being the owner of the creative industry in Semarang City, Central Java, Indonesia. The sampling technique used is convenience sampling, obtained as many as 126 creative industry owners. Data was analyzed using Structural Equation Modeling Partial Least Square (SEM-PLS). The findings of this study show that entrepreneurial orientation, innovative product advantage, and social network quality have a positive effect on the business performance of the creative industry in Semarang City, Central Java, Indonesia. According to the study, a company with superior resources can win the competition and achieve business sustainability. When compared to competing organizations, the benefits of resources and competitive ability will create a competitive edge. As a result, stakeholders such as the government, the corporate sector, and universities are expected to play a larger role in accelerating the growth and development of creative industries.

**Keywords:** Entrepreneurship Orientation, Innovative Product Advantages, Social Network Quality, Business Performance

**JEL Classification Code:** M31, M00, L21, L26

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## 1. Introduction

The creative industry is one of the sectors in the creative economy subsystem industry that utilizes the creativity and skills of an individual in creating products, jobs, and welfare (Masunah, 2017) and it is proved to have a significant effect on economic growth (Agustina et al., 2020). In Indonesia, statistics on the creative economy was collected twice, in 2016 and 2017. As a result, 223 five-digit Standard Industrial Classification Codes have been classified as creative economy activities, demonstrating the creative economy's significant contribution to long-term development (Lestariningsih et al., 2019). In 2017, the creative economy performed better than expected, contributing more than 7% of GDP (Priambodo et al., 2021).

Semarang, Indonesia's capital and the center of trade and services in Central Java, has many types of creative industries that are rapidly growing but have yet to be mapped in terms of potential, the scope of business, and constraints, and the growth of creative industries requires human resource, industry, technology, resource, institution, and financial institution support. Individuals, goods, and networks' quality

is a crucial aspect in the creative industry's development to continue to thrive in fierce competition, reach projected goals, and maintain the company's competitive edge (Laere & Heene, 2003; Lee, 2010; Mason et al., 2015).

Entrepreneurial orientation (innovativeness, risk-taking, and proactiveness) is a strategic approach seen in creative industries (Parkman et al., 2012). The ability to grow and thrive in the face of fierce business competition, both locally and internationally, necessitates the creativity and invention of creative industry players. In the face of intense business competition, both domestically and internationally, creative sector players must grow and innovate to succeed. Because they exhibit innovativeness, proactiveness, risk-taking, and competitiveness, entrepreneurs with a high entrepreneurial orientation will boost firm performance (Magaji et al., 2017).

The advantages of innovative products are strategic efforts that micro, small, and medium enterprises in the creative industry must take to generate products that are constantly updated to survive and compete in competitive markets (Lee, 2010). Companies that have long-term relationships with customers, especially relationships characterized by trust, commitment, and loyalty, will find it easier to gain sustainable competitive advantage (Morgan & Hunt, 1999).

However, in several previous studies, there are still differences in research results between entrepreneurial orientation, product quality, and social networking on business performance. The results of research conducted by and Darmanto et al. (2021) proved that entrepreneurial orientation has a significant effect on business performance, while research conducted by Frank et al. (2010) and Killa et al. (2017) stated that entrepreneurial orientation did not have a positive and significant effect on business performance.

Previous studies showed that product innovation has a positive and significant effect on business performance (Ramadani et al., 2019; Rousseau et al., 2016), while another study showed that product innovation had no significant effect on business performance (Killa, 2014). The results of research by Killa et al. (2017), Varotto et al. (2017), and Li et al. (2020) proved that network quality has a positive and significant effect on business performance, while research conducted by Tehseen et al. (2018) showed that network competence was not significant for business growth.

Research is needed that empirically explores the elements that affect the success of creative firms in Semarang, based on the backdrop of the problem, the research gap, and the progress of prior research.

## **2. Literature Review**

### **2.1. Entrepreneurship Orientation**

Entrepreneurial orientation can be seen as the process of creating entrepreneurial strategies used by key decision-makers to set their company's organizational goals, maintain its vision, and create a competitive advantage (Mason et al., 2015). Thus an entrepreneur must have an entrepreneurial orientation to manage his business. Entrepreneurs who are autonomous, innovative, proactive, dare to take risks, and prioritize cooperation in carrying out entrepreneurial activities will achieve high business performance. According to Miller (1983) companies with an entrepreneurial orientation pursuing innovation in products and markets, taking the necessary risks rather than avoiding and proactively reacting to opportunities and environmental changes will succeed in their business. This is following the opinion of Magaji et al. (2017) which stated that entrepreneurs with a high entrepreneurial orientation can sell more products and earn high profits because of innovation, proactiveness, risk-taking, and competitiveness.

### **2.2. Innovative Products Advantages**

Innovation refers to a firm's capacity to engage in activities of creating new products or services, new technologies, new organizations, or improving existing products or services using existing technological processes and organizations (Ramadani et al., 2019). Innovation is identified in several different dimensions, namely product innovation (providing new or better goods or services); process innovation (providing new ways to organize and incorporate inputs in the production process); and organizational innovation (providing new or better company resources) (Ramadani et al., 2019). Lee (2010) stated that product innovation is an alternative marketing strategy to support company performance. By offering innovative products, companies can differentiate themselves from competitors, thereby increasing market demand which in turn will improve business performance (Lee, 2010).

### **2.3. Social Networks Quality**

O'Farrell et al. (1993) identified networks as a potential source of competitive advantage. This viewpoint is backed up by Laere and Heene (2003), who claimed that in times of high global competition and rapid environmental change, social networks are an important source for enterprises to obtain a competitive advantage. In this era of fierce global competition, it is critical for businesses to form networks

with partners to have access to resources and thereby gain a competitive advantage that will last. Morgan and Hunt (1999) stated that companies that have long-term relationships with customers, especially relationships characterized by trust, commitment, and loyalty, will find it easier to gain sustainable competitive advantage. Furthermore, Fynes et al. (2008) stated that companies can solve problems, save costs and achieve good financial returns through quality networks based on trust, commitment, and investment.

## 2.2. Hypotheses

Entrepreneurs who have a high entrepreneurial orientation will improve company performance. Grande et al. (2011) and Lisboa et al. (2016) have proven that entrepreneurial orientation has a positive effect on company performance.

In Zimbabwe, innovation plays a critical role in encouraging the informal sector to join the formal sector (Makate et al., 2019). Christa and Kristinae (2021) argued that product innovation is a good marketing strategy to survive when purchasing power decreases due to environmental changes. Furthermore, a meta-analysis of 62 studies for 20 years stated that product innovation can improve company performance (Rousseau et al., 2016). The results of other studies showed a positive influence of product innovation on company performance (Akgün et al., 2007; Lestari et al., 2020; Ramadani et al., 2019).

Network quality successfully assists businesses in anticipating future market demands, collaborating on new ideas, and enhancing overall performance (Li et al., 2020). As a result, building strong relationships with partners that fundamentally provide competitive advantages and eventually boost the company's performance is the most important factor for enterprises to thrive in high-competition environments. Previous research has indicated that network quality has an impact on firm performance. (Li et al., 2020; Varotto et al., 2017).

Based on these explanations, the investigation is based on the following hypotheses:

*H1: Entrepreneurial orientation has a positive effect on business performance.*

*H2: The innovative product's advantages have a positive effect on business performance.*

*H3: The social networks quality has a positive effect on business performance.*

## 3. Research Methods and Materials

### 3.1. Population and Sample

The population in this study is creative industry entrepreneurs in the Semarang. The exact number of the population of creative industry businesses in Semarang City is unknown. The number of samples used in the study is

five to ten times the number of empirical indicators (Hair et al., 2010). The number of indicators is 15, the number of samples is 150 samples. The sampling technique in this study used convenience sampling.

The questionnaires were distributed in May 2021, with a deadline for returning them set for the end of July 2021. The researcher personally gave the questionnaires to the respondents. 135 of the 150 questionnaires were returned by the end of July 2020, accounting for 93 percent of the total. 126 or 84 percent of questionnaires that can be processed. This number still fits the parameters for the suggested sample number (Hair et al., 2010).

### 3.2. Measurement

The independent and dependent variables are latent variables or constructs that are measured by empirical indicators. The measurement for entrepreneurial orientation is based on the opinion of Lumkin and Dess (1996) who stated that the orientation of companies that have principles on efforts to identify and exploit opportunities where the indicators consist of 5 indicators, namely autonomy; innovation; proactive; take a risk; and cooperation. Product innovation is the development and introduction of new products to the market or modification of existing products in terms of function, quality, consistency, or form (Lin et al., 2010). The level of innovation of a product refers to the expansion of the product including the uniqueness and differentiation offered by the company (Lisboa et al., 2011). Indicators of the superiority of innovative products in this study are unique products; differentiated products; and products that are difficult to imitate (Lin et al., 2010; Lisboa et al., 2011).

Network quality is a concept used to describe and evaluate business relationships (Ulaga & Eggert, 2006). Trust and commitment among partners are important elements in the development of social networks (Laere & Heene, 2003; Ulaga & Eggert, 2006). Furthermore, network quality is the level of closeness between the two parties in a sustainable and long-term working relationship (Li et al., 2020). Indicators of the quality of social networks in this study are namely commitment, trust, and loyalty (Huntley, 2006; Ulaga & Eggert, 2006). The business performance variable in this study is defined as a measure of a company's success as a result of its overall production and marketing activities, which originate from business organizations. Sales growth, profit growth, asset growth, and market share growth are all business performance indicators (Gali et al., 2020; Mason et al., 2015).

### 3.3. Data Analysis

This research model will be analyzed using the Structural Equation Modeling Partial Least Square (SEM-PLS) with

SmartPLS v.3.2.8 (Ringle et al., 2015). SEM-PLS has become an alternative for researchers because it is powerful and is easy to understand (Hair et al., 2016). The convergent validity of the loading factor value of each indicator must be above 0.7, the reliability test of the rho A value must be above 0.7, construct reliability (CR) must be above 0.7, and the Average Variance Extracted (AVE) must be above 0.5 at the first stage of evaluating the PLS Algorithm. The AVE root value must be greater than the correlation between constructs in the discriminant validity test (Hair et al., 2017).

The second stage is bootstrapping, it is evaluated by the value of R-square and T-statistics. It must be above 1.96 and probability below 0.05 for the acceptance of the hypothesis. The equation model is stated as follows:

$$\eta_1 = \gamma_1\zeta_1 + \gamma_2\zeta_2 + \gamma_3\zeta_3 + \varsigma_1 \tag{1}$$

- $\eta_1$  : Business Performance
- $\zeta_1$  : Entrepreneurial Orientation
- $\zeta_2$  : Innovative Product Advantage
- $\zeta_3$  : Social Network Quality
- $\gamma$  : Estimate Coefficient
- $\varsigma$  : Error

## 4. Results and Discussion

### 4.1. Descriptive Analysis

Table 1 provides an overview of the research variables (entrepreneurial orientation, superiority of innovative products, quality of social networks, and business performance). On the entrepreneurial-oriented variable and the superiority of new products, the average quality of answers is in the range >3.58–4.44. This indicates that the respondent’s response to these variables is neutral. Because of the Covid-19 pandemic’s influence, this is feasible. The average quality of social networking responses fell between 4.44 to 5.30, indicating that respondents were generally satisfied with the varying quality of social networks. This shows that, even in the midst of the COVID-19 pandemic, creative sector managers still need

**Table 1:** Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev
Entrepreneurial Orientation	2	6	4.09	0.904
Innovative Product Advantages	2	6	4.18	0.811
Social Network Quality	2	6	4.50	0.911
Business Performance	1	6	0.88	1.058

to develop high-quality social networks to make their jobs simpler. Furthermore, for the business performance variable, the average quality of answers is in the interval >2.72 – 3.58, meaning that the respondents gave disagreed responses to these indicators.

### 4.2. Confirmatory Factor Model

The analysis using Partial Least Square (PLS) aims to test the hypothesis of the determinants of business performance. This research model is depicted in Figure 1.

The validity test of the indicators is demonstrated by the resulting loading factor value. According to the rule of thumb, the value of loading factor indicators  $\geq 0.7$  is said to be valid. Construct reliability is observed from the calculation results of Cronbach’s alpha, composite reliability, and average variance extracted (AVE). The calculation results are presented in Table 2.

Table 2 shows that the loading factor value on all indicators has a value >0.7 so that all indicators are accepted. The results of Cronbach’s alpha scores are all greater than 0.7; thus, it can be concluded that the indicators are consistent in measuring the construct (Latan & Noonan, 2017).

In addition to using Cronbach’s alpha to calculate the internal consistency of constructs, rho\_A and composite reliability can also be used. The values of rho\_A and composite reliability are all greater than 0.7; thus, it can be concluded that the indicators are consistent in measuring the construct. The last measurement model is the AVE, which describes the amount of variance that can be captured by the construct compared to the variance caused by the measurement error. The results of all AVE scores have a value greater than 0.5; thus, it can be concluded that the convergent validity of the constructs used is good (Latan & Noonan, 2017).

The test in Table 3 explains that the AVE root value is greater than the correlation between research variables, which means it has met the discriminant validity test (Hair et al., 2016; Latan & Noonan, 2017). This study also uses HTMT for discriminant validity, wherefrom the calculation results in Table 4 it is known that all HTMT values < 0.90, hence they meet the set limits (Latan et al., 2018).

### 4.3. Structural Model

Table 5 describes the structural model analysis using Partial Least Square (PLS) to evaluate the hypothesis.

The first hypothesis, as shown in Table 5, examines whether entrepreneurial orientation has a positive impact on business performance. The beta coefficient of orientation to company performance is 0.179, and the t-statistic is 2.552, indicating that the first hypothesis was supported. This demonstrates that having an entrepreneurial mindset improves performance. The second hypothesis investigates

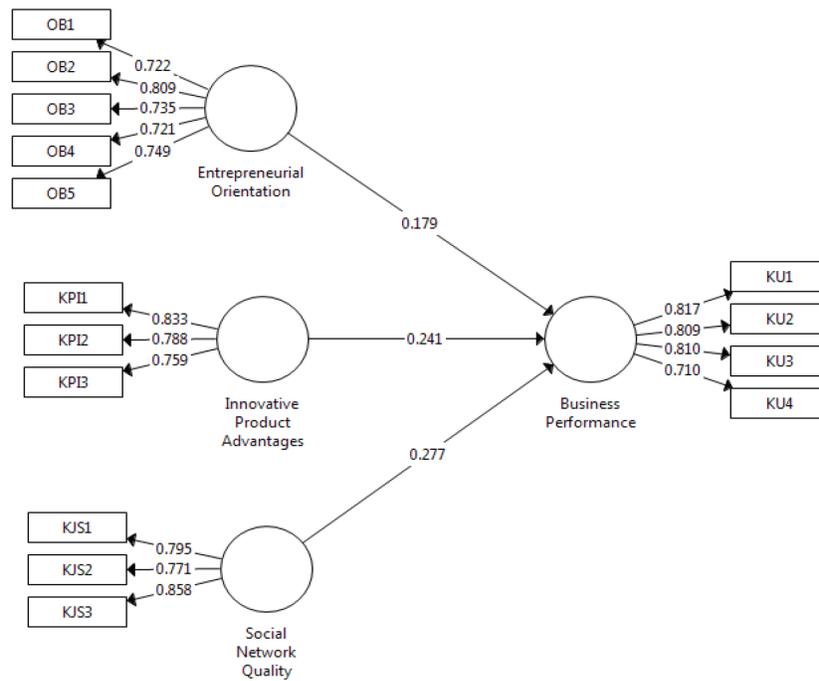


Figure 1: Research Model Result

Table 2: Validity Test

Code	Variables and Indicators	Factor Loading
<b>Entrepreneurial Orientation</b>		
OB1	Have the freedom to develop new ideas	0.722
OB2	Have a strong tendency to develop new products	0.809
OB3	Active in anticipating changing consumer needs	0.735
OB4	Tend to dare to implement new strategies	0.721
OB5	Maintain the cooperation with partners	0.749
<b>Innovative Product Advantages</b>		
KPI1	Produce products with unique designs	0.833
KPI2	Have product advantages compared to competitors	0.788
KPI3	The resulting product is difficult to imitate	0.759
<b>Social Network Quality</b>		
KJS1	Mutual trust between partners in the network	0.795
KJS2	Commitment to maintaining business relationships	0.771
KJS3	Loyalty to maintain business relations	0.858
<b>Business Performance</b>		
KU1	Increased sales growth	0.817
KU2	Profit growth	0.809
KU3	New customer growth	0.810
KU4	Market share growth	0.710

**Table 3:** Reliability Test

Variables	$\alpha$	rho_A	CR	AVE
Entrepreneurial Orientation	0.812	0.827	0.864	0.560
Innovative Product Advantages	0.710	0.727	0.836	0.630
Social Network Quality	0.745	0.794	0.850	0.655
Business Performance	0.797	0.813	0.867	0.621

Note:  $\alpha$ : Cronbach's alpha; CR: composite reliability; AVE: average variance extracted.

**Table 4:** Discriminant Validity Test Results

Variables	EO	IPA	SNQ	BP
Entrepreneurial Orientation (EO)	<b>0.748</b>	0.224	0.234	0.299
Innovative Product Advantages (IPA)	0.154	<b>0.794</b>	0.351	0.429
Social Network Quality (SNQ)	0.199	0.255	<b>0.809</b>	0.459
Business Performance (BP)	0.271	0.339	0.374	<b>0.788</b>

Note: the diagonal value in bold is the root of AVE, the value below the diagonal is the correlation between variables, and the value above the diagonal is HTMT.

**Table 5:** Path Coefficients Result

Hypothesis	Relationship	Est.	T-statistics	P-values	Result
H1	Entrepreneurial Orientation → Business Performance	0.179	2.552	0.011**	Accepted
H2	Innovative Product Advantages → Business Performance	0.241	2.902	0.004***	Accepted
H3	Social Network Quality → Business Performance	0.277	3.797	0.000***	Accepted

Note: \*\* $p$ -value < 0.05; \*\*\* $p$ -value < 0.001. Significant at the 0.05 level.

whether the advantages of innovative products improve business performance. The beta coefficient of innovative product advantage to business performance is 0.241, and the  $t$ -statistic is 2.902, indicating that the second hypothesis is supported. This demonstrates that product innovation's excellence has a positive impact on business performance. The third hypothesis investigates if social network quality has a positive impact on business performance. The test results demonstrate that product innovation excellence has a beta coefficient of 0.277 and a  $t$ -statistic of 3.797, indicating that the second hypothesis is correct. This proves that the quality of social networking is proven to have a positive influence on business performance.

#### 4.3.1. The Influence of Entrepreneurial Orientation on Business Performance

Based on the findings of the data analysis, on business performance, it is concluded that entrepreneurial orientations

have a significant positive impact. These findings suggest that entrepreneurial orientation is one of the significant criteria in predicting the level of business performance improvement. The more enterprising a person is, the better their chances of succeeding in the creative industry. In contrast, if the company's entrepreneurial orientation is poor, the company's performance will suffer as well.

Strong entrepreneurial orientation in the creative industry will improve business performance because, with entrepreneurial orientation, creative industry managers have the freedom to create new ideas, develop new products, be proactive with changing consumer needs, be brave with new strategies even though it is risky and always build new business. Armed with this, creative industry managers will become market leaders because they have high competitiveness.

This empirical study backs up the findings of Grande et al. (2011), who found that entrepreneurial orientation has a long-term and short-term impact on

company performance and that these variables had the highest impact on firm performance when compared to other variables (Grande et al., 2011). The findings of this study corroborate those of Lisboa et al. (2016), who deconstructed entrepreneurial orientation into the dimensions of innovation, proactiveness, and risk-taking, and focused on causative mechanisms (Lisboa et al., 2016). A study of women entrepreneurs in Semarang, Indonesia concluded that entrepreneurial orientation positively affects business performance (Darmanto et al., 2021).

#### 4.3.2. The Influence of Innovative Product Advantages on Business Performance

Based on the findings of the data analysis, it is concluded that the advantages of innovative products have a significant positive impact on business performance. These findings suggest that the superiority of new products is one of the significant criteria in determining the extent of business performance improvement. The higher the superiority of innovative products, the higher the performance of creative industry businesses in Semarang. Conversely, if the advantages of innovative products are not realized, the company's performance would suffer.

This finding demonstrates that, despite the COVID-19 epidemic, creative industry managers in Semarang are still attempting to invent products to gain a competitive advantage over other products. Creative industry managers are aware that product innovation is the spirit or soul of a company to develop. Product innovation can be done by anyone, not just large corporations; small businesses, particularly in the creative industry, must invent products to stay in business. A competitive organization, according to Drucker (1954), has two fundamental goals: generating customer value and innovation.

This empirical study supports the previous study of Ramadani et al. (2019), who stated that product innovation has a significant and positive effect on company performance, and product innovation is one of the determining aspects of company performance, especially in today's increasingly fierce competition environment. Research conducted on 250 small-medium enterprises in Rwanda proved that innovation has a significant influence on the performance of small-medium enterprises and can mediate knowledge management and performance (Byukusenge & Munene, 2017).

#### 4.3.3. The Influence of Social Network Quality on Business Performance

Based on the findings of the data analysis, it is concluded that the quality of social networks has a significant positive impact on business performance. These findings suggest that the quality of social networks is one of the key determinants in determining the extent to which corporate performance

can be improved. The higher the quality of social networks, the better the performance of Semarang's creative industries. On the other hand, if the quality of social networks declines, so will company performance.

Managers in the creative industries recognize that establishing a social network in the workplace is critical to their company's long-term sustainability. According to Craven (2007), to compete, a firm must be able to establish a network with other organizations that, in turn, support the company's activities. Building a network is important since it can boost productivity and performance synergies (Porter, 2008).

## 5. Conclusion

The results of the study show evidence that entrepreneurial orientation, product innovation excellence, and social networking quality have a positive and significant impact on business performance in the creative industry in Semarang City. The theoretical implication underlies the Resource-Based View, a company that has superior resources that can win the competition and achieve sustainability in their business. The advantages of resources and competitive ability compared to competing companies will provide a competitive advantage. As for the managerial implications, creative industry entrepreneurs must constantly develop product innovations, be proactive in tracking the dynamics of developing business and develop business networks for their products to consistently outperform the market. Because the creative industry plays a significant role in supporting economic growth and empowerment, the local government and private sector should pay more attention to it through training, promotion, and financial support.

This research has a few limitations: this study's scope is limited to Semarang and hence the result cannot be generalized the research model is simplistic, and the activities are currently being implemented in the midst of a COVID-19 outbreak. Subsequent research is expected to develop advanced research models, expand the scope of the research, and consider the role of innovative product advantages in improving the performance and competitive advantage of creative industry companies.

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