

Effect of Company Resources and Products Innovation of the Performance SMEs in East Java Batik

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This research aims to clarify the effect of company resources, and product innovation on the performance of small and medium enterprises (SMEs) in East Java Batik. his study uses a quantitative approach with a sample of 92 (SMEs) in Banyuwangi district, Bangkalan district, Sumenep district, and Tuban district. The data analysis was performed by using a regression technique. The results showed that company resources, and product innovations significantly influence the company's performance. The originality of this study is found in valuable and rare indicators of company resource variables that affect the performance of batik SMEs in East Java.

Keywords: *Company resources, Product innovations, Company performance, Batik*

Introduction

A company's performance is a measure of the success of a company in conducting business activities. Moreover, it is the final result of all activities within a company. For example, if the company's performance is poor, it is indirectly extremely difficult for the company to maintain its existence. Theory explains the many factors that affect the performance of a company. However, in general, they can be classified into internal, and external factors (Sampurno, 2011). The internal factors affecting the company's performance include: the company's resources, organisational strength, entrepreneurial orientation, product innovation, and competitive advantage. Meanwhile, the external factors comprise the attractiveness of the market and competition. This study focusses on the internal factors (Barney et al., 2007).

To build the internal strength of a company, it requires finding the best combination between the power source, accompanied by the creativity and innovation within the company to produce products that have an added value. The specificity of the motif has been shown to create new

markets, as well as reflect the internal forces behind these products, which are able to influence the external environment (Barney, 1991).

Innovation occurs because of the individual capabilities, and the availability of company resources. In particular, in achieving an optimal business performance, product innovation becomes an absolute necessity and should be performed by the company. The company which offers products according to the needs and desires of its customers, is constantly changing, and is more efficient than its competitors, will obtain a better position in the market in realising the company performance (Campbell et al., 2016).

Supporting innovation and its characteristics and constraints affects the relationship of innovation with performance. The more aspects that support innovation, the performance of the company will increase. Conversely, financial constraints, and the challenges of the market are the most common barriers to innovation and growth, as well as government regulatory issues (Al-Ansari *et al.*, 2013). The success of managing human resources has also become an important point in improving the quality of small and medium enterprises (SMEs).

A dynamic economic environment requires SMEs to find the right strategy and implement policies that have been established (Subrahmanya, 2015). The right strategy will improve the effectiveness of the use of raw materials, and creativity in product innovation will produce goods of quality and competitiveness. This is further supported by the ability of employees to seek innovation and develop products to increase sales and win market competition. The creativity, initiative, and innovation of employees in creating products has a significant contribution to the progress of the company.

Company Performance

The company's performance can be defined conceptually and empirically. The empirical research in management strategies is likely to rule out a clear alternative to the calculation of benefits, as a measure of company performance over time, and the growth in the size of the company. Many companies are looking for a growth in profits. When there is an absence of growth, companies can improve their performance simply by reducing costs or raising prices. Market forces and technological constraints have often restricted company from achieving maximum profit as support for years. Instead, companies often seek growth from the increased sales of products and services for existing products, products that have been repaired, and new products in existing markets or new markets.

Moreover, by understanding the competition in the market economy, the analysis of the growth is highly important, as the analysis for profit. The empirical studies based on the persistence of growth were derived from economics literature. The studies typically use one of four measures: the size of the company, the sales revenue, number of employees, and the asset value calculation. Measuring the business performance can be achieved in four ways. Firstly, the profit or economic performance of the companies, which includes the profit, margin, and return on investment (ROI). Secondly, the

market response to a request or response marketing company, which includes the sales, sales growth, and market share. Thirdly, the market position, which is defined as reaching a favourable position in the mind of the consumer, which includes customer satisfaction, image, reputation, and customer loyalty. Fourth, and lastly, the success of new products, as an indicator of business performance (Benito et al., 2009).

Product innovation

The effect of product innovations upon business performance has become one of the most important issues in today's literature. From the point of view of the positive, it reflects product innovationsolutions to threats and market opportunities, creating what is called the 'basis of survival', and successful companies into the future (Hult et al., 2007). On the other hand, its contain costs and product innovationactivities at risk (Sirmon et al., 2010), and one of the very particular issues relating to small companies is the 'handicap' of limited competence and financial management.

Product innovationcan be measured in various ways, and within previous studies it is mainly measured by using the company's new products that are introduced. However, innovation does not only concern new products, as it can also include research and development costs, and time, and such as a pioneer (Valencia et al., 2010).

Company Resources

In developing the principles of the resource-based view (RBV), it is explained that in company resources there are tangible asset and intangible asset, that make them a source of competitive advantage. A resource company must have the characteristics of being valuable, rare, inimitable, and nonsubstituable (VRIN) (Hsieh et al., 2008).

Research Hypothesis

Resources and Corporate Performance

The strategic resources of the company which possess the characteristics of being valuable, rare, inimitable, and irreplaceable, are the source of the performance (Hitt et al., 2001) (Camison et al., 2010). This explanation indicates that there is a relationship between the company resources, especially the intangible resources, and corporate performance (Barney et al., 2007). Based on the description above, the following can be hypothesised:

H₁: the company's resources which are valuable and rare have a significant effect upon the company performance.

Product innovation and Corporate Performance

There are four types of innovation, one of which is product innovation. This explanation indicates that there is a relationship between product innovation— being that of the product variety, and the quality of products — and corporate performance (Changwei et al., 2019). Based on the description above, the following can be hypothesised:

H₂: the product innovation has a significant effect upon the performance of the company.

Research Methods

Based on the problems and research objectives, this study used quantitative methods. According to Indriantoro et al. (2002), research that employs quantitative methods places emphasis upon testing theories through the measurement of research variables with numbers, and performs statistical data analysis procedures.

Population and Sample

The study samples was comprised of 92 batik SMEs in Banyuwangi district, Bangkalan district, Sumenep district, and Tuban district. According to Slovinto, to determine the propotion of samples the propotion of samples, the proportionate method was utilised and grouped the samples as follows: 19 batik SMEs in Banyuwangi district, 31 batik SMEs in Bangkalan district, 27 batik SMEs in Sumenep district, and 15 batik SMEs in Tuban district. The research analysis unit was at the level of the represented company owner.

Measurement

The company's resources are the corporate assets — both tangible, and intangible — which were measured by the indicators of 'precious' and 'rare'. The product innovationis the result of production in the product variety, and quality of products. The questionnaire measurements used a Likert scale.

Method of Data Collection and Analysis

The collection of data was performed by using an enclosed statement. The enclosed statement had five answer choices, according to the Likert scale. The analysis of data was completed by using the regression technique.

Discussion

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.399a	0.159	0.140	1.91736	1.749

The model summary (see Table 1 above) contains a summary regarding the strength of the relationship between the dependent, and independent variables. The regression model has:

- a) The R value of 0.399 means that the relationship between the independent variables and the dependent variable has a positive value. The rated R is the value of the multiple correlation coefficient. The R value ranges from 'negative one' to 'one'. If the value is closer to negative one or one, it indicates the relationship is getting stronger. Alternatively, if the value is closer to 'zero', it indicates a weaker relationship. The relationship between the independent variables and the dependent variable is positive, which means an increase in the value of the independent variable causes an increase in the value of the dependent variable.
- b) For regression with more than two independent variables, in the use value of adjusted R² (R² adjusted), as the coefficient of determination, a value of 0.14 means that the diversity of the independent variables (company resources, and product innovation) can explain 14 per cent of the diversity of the dependent variable (the variable performance of the company). This means that only 14 per cent of the company's performance can be explained by resource companies, and product innovation. Meanwhile, the remainder (100% -14% = 86%) is explained by other causes.

Table 2: Analysis of Varians

Model	Sum of Squares	df	mean Square	F	Sig.
1 Regression	61.888	2	30.944	8417	0.000a
residual	327.188	89	3676		
Total	389.076	91			

The results of the above analysis show an obtained F value of 8417, and p (0.000) < α (0.05), which means that H₁ is accepted. It can be deduced that simultaneously the independent variables affect the dependent variable or resource companies (X1), and product innovation(X2), and together they affect the company performance (Y1).

The partial test result shows that:

- The company resource has a p-value (0.008) $< \alpha$ (0.05), so H_1 is accepted, which means that there is an influence by the company resource upon the company performance.
- The product innovation has a value of p (0.029) $< \alpha$ (0.05), so H_2 is accepted, which means that there is an influence by product innovation upon the company performance.

The partial test, which is the effect of each independent variable on the dependent variable partially, produced that all independent variables affect the dependent variable.

The model discovered is:

$$y = B_0 + \beta_1 X_1 + \beta_2 X_2$$

$$y = 11.705 + 0.103 X_1 + 0.38 X_2$$

Conclusion

The company resources have a significant affect upon the performance of the company. This means that the more the resources owned by the batik SMEs are valuable and rare, the higher the company performance result. If the product innovation in product variety, and quality has a positive value, it will significantly affect the performance of the company. This means that greater the product innovation and the quality of the product owned by batik SMEs, the higher company performance. The limitation of this study is that the sample taken by researchs is only four district. Therefore, for further research, the research sample could take more than four district in East Java.

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