Innovation Capability towards Business Performance trough Company Resources Industry Creatif Handycraft in Bali

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Abstract— **This study aims to explain the role of innovation capability in mediating company resources on business performance to overcome the gaps in internal human resource relations which are unable to provide a strategic composition that improves the performance of the business. Determination of the sample in this study using a purposive sampling method with a sample of 120 respondents and data collection was carried out by distributing questionnaires which were measured using a Likert scale. The data analysis techniques used in this research are Path Analysis and Sobel Test to test the hypothesis about the role of mediation. The results showed that company resources had a positive and significant effect on business performance. Company resources also have a positive and significant effect on innovation capabilities. Furthermore, innovation capability has a positive and significant effect on business performance and innovation capability can partially mediate the influence of company resources on business performance. The implication of the research results is to develop the previous theory about RBV which emphasizes the role of intangible resources that can lead companies to achieve competitive advantage. In this study, the company resource variables, both tangible and intangible, can influence their ability to compete by increasing innovation capabilities and having an impact on improving business performance. Also, the practical implications are providing input to SME businesses in the handicraft sector to always develop their resources thoroughly so that innovation capabilities are higher and ultimately have an impact on business performance. The novelty of this research is the efficiency of the process in relation to creating a value supply chain Management which is able to affect Capital Management both tangible and intangible, which is an asset which is anything that has economic value in creating a Sustainable Competitive Advantage.**

Keywords: *company resources, innovation capabilities, and business performance.*

1. INTRODUCTION

Ref [7] showed that the effect of company resources on business performance shows a positive and significant effect, but there are other researchers such as show the opposite result, namely company resources have a positive and insignificant effect on the achievement of business performance and research conducted by [8] in 723 employees at 10 companies in Nederland, where internal human resource relations are not able to provide a strategic composition that can improve business performance. Based on the existing research gap, it is necessary to find a solution by including the mediating variable. One of the mediating variables that can be used as a solution to fill the existing research gap is innovation capability. [9] Tangible resources can be in the form of technology; information technology is unable to provide a role to transform performance improvements because changes to this technology are not solely due to technology itself but human factors and various technologies that influence the decision to use. The reasons for considering innovation capability as a mediating variable include: 1) the availability of resources can build a higher company innovation capability so that with innovation capability, the company can produce new products according to consumer desires. This can increase consumer demand and have a positive impact on increasing sales performance [10]. 2) From several empirical studies, the results show that innovation capabilities can improve business performance [11]; [12]; [13]; [14] Based on the business issue in the handicraft sector SMEs in Bali and the absence of previous researchers who examine the role of innovation capabilities and pay attention to the resources owned, and are equipped with several empirical studies related to existing issues, the objective of this research is to explain the role of innovation capability to mediate

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Company resources on the the performance of the handicraft sector SME business in Bali.

CONCEPT FRAMEWORK AND RESEARCH HYPOTHESIS

Company resources can be tangible and intangible. Tangible resources can be in the form of capital resources, human resources, information technology resources [15]. Intangible resources such as organizational culture, product reputation, company brand, knowledge resources [6]. Resources owned by the company as a whole can determine the company's innovation capabilities to increase the achievement of its business performance.

According to [26], company capabilities consist of adaptation capabilities, absorption capabilities, and innovation capabilities. One of the most important company capabilities today is innovation capability [16]; [10]. In an era of increasingly fierce competition and turbulent environmental conditions, all companies are required to innovate [13]. Therefore, all available resources are used to support the development of innovation capabilities. Once the company has innovation capabilities, business performance can be improved. Business performance can be measured from the achievement of sales volume, market share control, and profit that can be achieved [17]; [18].
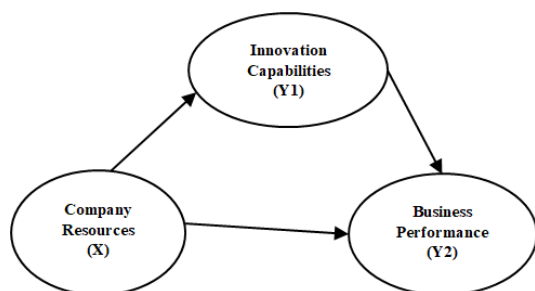

Figure 1. Research Concept Framework

Effect of company resources on business performance

The availability of resources in a company greatly determines the smooth operation of the company. If a company, including SMEs, has greater resources, it will be easier for the company to increase its sales volume and share market share [18] financial resources will determine the intensity of strategies that can be implemented and which have an impact on improving performance [19]. Human resources as well, including knowledge resources, can be used as a determinant that these resources can have a positive and significant effect on several things, namely: the company's ability to adjust products to consumer tastes so that sales volume continues to increase [18]. Productive human resources are also able to produce higher

Products and sales [5]. Based on the results of empirical studies, the following hypothesis can be formulated.

H_1 : **Company resources have a positive and significant effect on business Performance.**

The effect of company resources on innovation capabilities

Company resources can include tangible resources and intangible resources, including capital resources, human resources, technology resources, cultural resources, knowledge resources [4]. One of the intangible resources, such as knowledge resources, can increase company capabilities such as innovation capabilities [17]; [20]. Intangible resources are very often used by companies including SMEs to improve company capabilities [11]; [5], the results of the research shows that the higher the intangible resources, the higher the learning and innovation capabilities of the company. Based on the results of existing empirical studies, the following hypothesis can be formulated.

H_2 : **Company resources have a positive and significant effect on innovation capabilities**

The effect of innovation capabilities on business performance

Innovation capability is one of the company's capabilities. Innovation capability is a company capability that is very important in a volatile business environment. Innovation capabilities can improve company performance [20]; [21]; [22]. The company's innovation capabilities include product innovation, process innovation, marketing innovation, and management system innovation [10]; [22-25]. According to [22], process innovation can improve business performance positively and significantly. This is also revealed in the research results of several researchers, including [25]; [27]. Likewise, product innovation can improve business performance positively and significantly [26]; [37]. Products that suit the market needs and desires are certainly able to increase sales turnover as a measure of business performance. In addition to product innovation and process innovation, marketing innovation also needs to be carried out by companies including SMEs to suit the consumer needs. If marketing innovation is carried out, business performance will also increase [28]; [25]. Furthermore, the company's innovation capabilities in the form of managerial innovations such as changes in management systems, changes in organizational structure have a direct impact on improving business performance [28]; [29]; [30]. Based on the results of existing empirical studies, the following hypothesis can be formulated.

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H3   :   Innovation capability has a positive and significant effect on business performance

The role of innovation capability mediates the effect of company resource on business performance

Innovation capability is very important to be considered and developed in companies including SMEs. If SMEs can develop innovation capabilities, there will be many performance improvements, such as sales turnover, market share control, and increased operating profit. This is shown by the research from [31]. Furthermore, innovation capabilities, such as marketing innovation, are also able to mediate marketing resources to increase sales volume [32]; [33]; [34]. Based on the results of existing empirical studies, the following hypothesis can be formulated.

H4   :   The   innovation   capability   can

Table 1. Research Variable Indicator

Significantly mediate the company's resources on business performance.

RESEARCH METHODS

The method used in this research is an associative quantitative approach because it discusses the influence of resources on business performance, then the effect of resources on business performance, and tests the mediating variable, namely the role of innovation capability to mediate the influence of resources on business performance. The research locations chosen were all districts in Bali.

The variables to be analyzed in this study are: (1) the exogenous variable is the availability of company resources (X), (2) The mediating variable is innovation capability (Y1), (3) and the endogenous variable is business performance (Y2). The variables and indicators in this study are summarized in Table 1.

No	Variable	Indicator	Sources
1	Company of resources (X)	a) Capital resources (X_1) b) Human resources (X_2) c) Information technology resources (X_3) d) Knowledge resources (X4) e) Marketing resources (X5)	Morgan et al., 2006 Karia *et al.* (2015)
2	Innovation capabilities (Y_1)	a) Product innovation capabilities (Y_{11}) b) Process innovation capabilities (Y_{12}) c) Marketing innovation capabilities (Y_{13}) d) Management innovation capabilities (Y_{14})	Gonzalo et al., 2018
3	Business Performance (Y_2)	a) The sales turnover has increased in the last three years (Y_{21}) b) The market share has increased in the last three years (Y_{22}) c) The operating profit has increased in the last year (Y_{23})	Julia dan Gonzalo, 2016; Yasa et al., 2020

The population of this study was all SMEs in the handicraft sector in Bali Province. The sampling method in this study uses a non-probability sampling method because the population of members does not get the same opportunity to be sampled. The nonprobability sampling technique used in this study was purposive sampling, in which the sample was determined in a certain number and with certain criteria. The criteria for determining the sample in this study are as follows:

(1) SMEs in the handicraft sector registered with the Bali Cooperatives and SME Service (2) Have been operating for at least 5 years.

The number of samples in this study is 120 respondents. The data collection method for this research used a survey method, with a questionnaire. This study used an instrument analysis tool consisting of validity and reliability tests as well as data analysis tools consisting of Path Analysis and Sobel Test.

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RESULTS AND DISCUSSION

Validity testing is done by calculating the Pearson Correlation value. The questions in the questionnaire are stated to be valid if the correlation coefficient is ≥ 0.03 [35]. The following table presents the results of the validity test.

Table 2 shows that all statement indicators in the variables of company resources, innovation capability, and business performance have a

Pearson Correlation greater than 0.30. Therefore, it can be explained that all indicators of each variable are valid so that they can be used as research instruments.

Reliability testing shows the degree to which the measuring instrument is reliable. This test is carried out on instruments with Cronbach's Alpha coefficient, if it is greater than 0.60 the instrument used is reliable. Table presents the results of the reliability test.

Table 2. Validity Test Results

No.	Variable	Indicator	Coef. Correlation	Information
1	Company resources (X)	X_1	0,739	Valid
		X_2	0,709	Valid
		X_3	0,587	Valid
		X_4	0,721	Valid
		X_5	0,807	Valid
2	Innovation Capability (Y_1)	$Y_{1.1}$	0,637	Valid
		$Y_{1.2}$	0,870	Valid
		$Y_{1.3}$	0,824	Valid
		$Y_{1.4}$	0,674	Valid
3	Business Performance (Y_2)	$Y_{2.1}$	0,921	Valid
		$Y_{2.2}$	0,869	Valid
		$Y_{2.4}$	0,797	Valid

Table 3 shows that the three research instruments, namely the variable company resources, innovation capability, and business performance have a Cronbach Alpha coefficient that is greater than 0.60. Therefore, it can be explained that all variable indicators in this study are reliable so that they can be used as research instruments.

To determine the assessment of the research variables as a whole, it is seen from the average score with the following criteria: 1.00 - 1.79 means Very Not Good. 1.80 - 2.59 means Not Good. 2.60 - 3.39 means good enough. 3, 40 - 4, 19 means Good. 4.20 - 5.00 means Very good. Based on the research results, it can be seen that the respondent's response, namely the manager or SME

Businessman in the handicraft sector in Bali to each indicator of each variable as follows: The variable of company resources, with a total average of 3.82 can be stated that in general, the respondents have a perception good about the resources of SME companies in the handicraft sector in Bali. The innovation capability variable, with a total average of 4.06, it can be stated that in general, the respondents have a good perception of the innovation capability obtained from process innovation. The business performance variable, with a total average of 3.46, can be stated that in general, the respondents have a good perception of the performance achievement of the SME business in the handicraft sector in Bali.

Table 3. Reliability Test Results

No.	Variable	Cronbach Alpha	Information
1	Company resources	0,753	Reliable
2	Innovation capabilities	0,751	Reliable
3	Business Performance	0,828	Reliable

Based on the results of the path analysis for substructure 1 as presented in Table 4, the structural equation is as follows:

$$Y_1 = \beta_1 X + e_1 \quad Y_1 = 0{,}719\ X$$

Table 4. Results of Path Analysis of Regression Equations 1

1 Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	5,785	0,934		6,196	0,000
Company resources	0,544	0,048	0,719	11,247	0,000

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1Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	5,785	0,934		6,196	0,000
Company resources	0,544	0,048	0,719	11,247	0,000
R_1^2		0,517			
F-Statistic		146,488			
Sig F		0,000			

Table 5. Results of Path Analysis Regression Equations 2

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-0,834	1,128		-0,739	0,461
Company resources	0,341	0,073	0,446	4.460	0,000
Innovation Capabilities	0,306	0,097	0,302	3,163	0,002
R_2^2		0,696			
F Statistic		54,829			
Sig F		0,000			

Based on the results of the path analysis for substructure 2 as presented in Table 5, the structural equation is as follows:

$$Y_2 = \beta_2 X + \beta_3 Y_1 + e_2$$
$$Y_2 = 0,446 X + 0,302 Y_1$$

Direct effect: the influence of company resource variables (X) on innovation capabilities (Y_1) is equal to $\beta_1 = 0,719$; the influence of resource variables (X) on business performance (Y_2) is equal to $\beta_2 = 0,446$; the influence of the innovation capability variable (Y_1) on business performance (Y_2) is equal to $\beta_3 = 0,302$.

Indirect effect; the influence of company resource variables (X) on business performance (Y_2) with innovation capability as an intermediary variable (Y_1):

$$Indirect\ effect = \beta_1 \times \beta_3$$
$$= 0,719 \times 0,302$$
$$= 0,217$$

Total effect; the total effect of company resources on business performance through innovation capabilities is as follows:

$$Total\ effect = \beta_2 + (\beta_1 \times \beta_3)$$
$$= 0,446 + (0,719 \times 0,302) =$$
$$0,663$$

Based on the substructure 1 and 2 substructure models, the final path diagram model can be drawn up. Before compiling the final path diagram model, first the standard error values are calculated as follows:

$$e = \sqrt{1 - R1^2}$$
$$e_1 = \sqrt{1 - R1^2} = \sqrt{1 - 0,517} = 0,653$$
$$e_2 = \sqrt{1 - R2^2} = \sqrt{1 - 0,696} = 0,860$$

Based on the calculation of the effect of the Pe_1 error, the effect of the Pe_1 error is 0.653 and the effect of the Pe_2 error is 0.860. The results of the total coefficient of determination are as follows:

$$R^2m = 1 - (Pe_1)^2 (Pe_2)^2$$
$$= 1 - (0,653)^2 (0,860)^2$$
$$= 1 - (0,426) (0,740)$$
$$= 1 - 0,315 = 0,686$$

The total determination value of 0.686 means that 68.6 percent of the business performance variables are influenced by variations in company resources and innovation capabilities, while the remaining 31.4% percent is explained by other factors not included in the model.

The coefficient of F ≤ 0.05 with a significant coefficient of ≤ 0.05 then H_1 is accepted, that is, company resources and innovation capabilities have a simultaneous effect on business performance. So, it can be explained that the structural equation model has met the Goodness of Fit requirements through the F test.

Based on the results of the analysis of the influence of company resources on the business performance obtained sig. t is 0.000 with a beta coefficient value of 0.719. Based on the sig value of t-test which shows the value of 0.000 <0.05, it can be explained that H_0 is rejected and H_1 is accepted. So, company resources have a positive and significant effect on business performance.

Based on the results of the analysis of the influence of company resources on innovation capability, it is obtained sig. t is 0.000 with a beta coefficient value of 0.446. Based on the sig value of t-test which shows the value of 0.000 <0.05, it can be explained that H_0 is rejected and H_1 is accepted. So, company resources have a positive and significant effect on innovation capabilities.

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Based on the results of the analysis of the influence of innovation capabilities on business performance, it is obtained sig. t of 0.002 with a beta coefficient of 0.302. Based on the sig value. t which shows the value of 0.002 <0.05, it can be explained that H_0 is rejected and H_1 is accepted. So, innovation

Capability has a positive and significant effect on business performance. The results of the path coefficient on the research hypothesis can be illustrated in Figure 2.
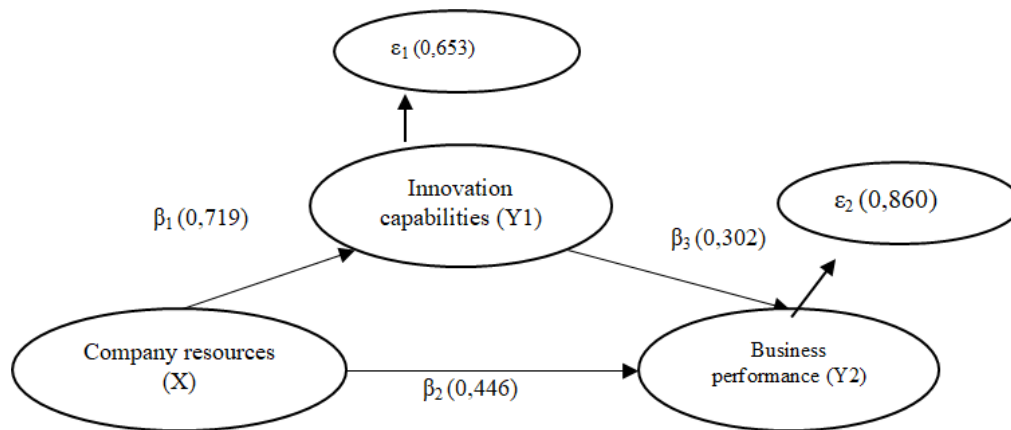

Figure 2. Validation of the Final Path Diagram Model

In Figure 2 it can be seen that the variable company resources have the greatest effect with a factor loading- value of 0.719 on the innovation capability variable and the resource availability variable also affects the business performance variable with a factor loading

value of 0.445 and there is an indirect effect through the innovation capability variable with a value factor loading 0.302 on business performance variables.

Table 6. Direct Influences, Indirect Effect and the Effect of Total Company Resources (X), Innovation Capability (Y_1) and Business Performance (Y_2)

Variable Influence	Direct Influence	Indirect Influence Through Innovation Capabilities (Y_1) = (β_1 x β_3)	Total Effect
Company resources → innovation capabilities	0,719	-	0,719
Company resources → business performance	0,446	0,217	0,663
innovation capabilities → business performance	0,302	-	0,302

In Table 6, the direct effect of X on Y1 is 0.719 and there is no indirect effect so that the total effect is 0.719. The direct effect of X on Y2 is 0.446. The indirect effect of X on Y2 through Y1 is obtained from 0.719 x 0.302 = 0.217. Therefore, the total effect of X on Y2 through Y1 is 0.446 + 0.217 = 0.663. This means that there is an indirect effect of company resource variables on business performance through innovation capabilities.

The Sobel test is an analytical tool to test the significance of the indirect relationship between the independent variable and the dependent variable which is mediated by the mediator variable. If the Z value is greater than 1.96 (with a confidence level of 95 percent), then the mediator

variable is assessed significantly. The following table presents the Sobel Test results, it shows that the Z value is 2.04> 1.96 with a significant level of 0.000 <0.05, which means that the innovation capability variable is considered to significantly mediate the firm's resource variables on business performance.

The Influence of Company Resources on Business Performance

Based on the analysis of the influence of company resources on business performance, the beta coefficient value is 0.446 with a significance level of 0.000 ($\leq$ 0.05), which means that H_0 is rejected and H_1 is accepted. This result means that

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the resource variables shown by capital resources, human resources, technology resources, knowledge resources, and marketing resources have a positive and significant effect on business performance. So, the higher the resources of the company, the more SMEs in the Handicraft sector in Bali will increase their business performance, such as increasing sales volume, controlling market share, and operating profits. This study is related with the results of research by [15]; [18].

Effect of Company Resources on Innovation Capabilities

Based on the results of the analysis of the effect of company resources on innovation capability, the beta coefficient value is 0.719 with a significance level of 0.000 ($\leq$ 0.05), which means that Ho is rejected and H1 is accepted. These results mean that the variable company resources have a positive and significant effect on innovation capabilities. This means that, as company resources increase, there will be an increase in innovation capabilities in the handicraft sector SMEs in Bali, such as increased product innovation such as new product models, process innovation capabilities, such as an increase in product manufacturing process time, marketing innovation, such as the use of new promotional media following the digital era, and management innovations, such as changes in management systems. The results of this study are related by the results of research from [15]; [38]; 36].

The Effect of Innovation Capabilities on Business Performance

Based on the results of the analysis of the effect of innovation capability on business performance, the Beta coefficient value is 0.302 with a significance level of 0.002 ($\leq$ 0.05), which means that Ho is rejected and H1 is accepted. These results mean, innovation capability has a positive and significant effect on business performance. This means, the better the innovation capabilities carried out by the handicraft sector SMEs in Bali which includes product innovation capabilities, process innovation, marketing innovation, and management innovation, the more business performance that can be achieved. This research is in line with the results of research from

[18]; [20]; [30].

The Role of Innovation Capabilities to Mediate Company Resources on Business Performance

The existence of company resources has been partially proven to have a positive and significant effect on business performance. Likewise, innovation capability partially has a positive and significant impact on business performance. Based on hypothesis testing, the role of innovation capability to mediate the effect of resource availability on business performance is accepted with a total effect value of 0.663. This result is reinforced by the results of the Sobel Test regarding the role of innovation capability to mediate the influence of company resources on the business performance of SMEs in the handicraft sector in Bali, which proves that the role of innovation capability significantly mediates the effect of company resources on business performance, with the result Z = 2.04> 1.96 with a significance level of 0.000 <0.05. Therefore, the influence of company resources on business performance by involving innovation capabilities has a value of 0.217> 0, so the innovation capability in this study partially mediates. The results of this study are related by the results of research from [32] ; [36]; [38].

CONCLUSIONS AND SUGGESTIONS

It is important for SMEs in the handicraft sector to continue to develop marketing innovations, especially following technological trends by utilizing social media as a medium to reach the market. Process efficiency in order to create a value supply chain Management that is able to influence Capital Management, both tangible and intangible, which is an asset which is anything that has economic value in realizing Sustainable Competitive Advantage. Further researchers are expected to develop this research by considering external environmental factors that determine business performance, such as economic factors, competitive factors, and socio-cultural factors, government regulatory factors. In addition, you can also consider other mediation variables according to the latest developments, such as digital innovation, digital marketing, and digital processes.

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