

Determinants of Culinary Business Performance

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ABSTRACT

Objective – Determination of the performance factors of the small culinary business sector is an important aim of this research. The research also aims to analyze the interconnectedness between the factors which generate competitive advantage and improve the performance of small and medium-sized enterprise businesses.

Methodology/Technique – Questionnaires were distributed to 115 such enterprises in the culinary field located in the city of Pekanbaru with the use of the cluster area a non-random sampling technique. In addition, a Likert scale was used to obtain responses from the participants, and the statistical analysis tool employed was PLS (Partial Least Squares).

Findings – The research reveals that business networking and human resource competencies are factors that influence the business performance of small entrepreneurs in the culinary sector. However, competitive advantage does not influence the effect of human resource competence and business networking on business performance.

Novelty – The variables studied in this culinary research field have not been comprehensively examined in previous studies.

Type of Paper: Empirical.

Keywords: Competitive Advantage; Business Networking; Culinary; Human Resources.

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JEL Classification: M10, M16, M19.

1. Introduction

Development is a process of the amendment that includes various fundamental changes in social structure, attitudes of citizens, national institutions, economic growth, and all aspects of state life (Todaro & Smith, 2017). Poverty is still the biggest obstacle to the development process because of the inability of the population to obtain sufficient income to meet their daily needs. One way the government can address this problem is to implement sustainable development (United Nations (UN) Sustainable Development Goals (SDGs) program, which has 17 goals and 169 targets (Suresh & Johnson, 2015)). At SDGs, all objectives were interconnected, so success at one goal will solve problems at another (UNDP, 2016).

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The growth of SMEs in Indonesia has experienced an encouraging increase, which also indicates that they are one of Indonesia's economic sectors which have the ability to survive and develop into ones that have the ability to move the economy of the community, especially small communities, such as the city of Pekanbaru, which is the capital of Riau province. Although growth is positive, SME entrepreneurs also face several problems that need solutions. According to Budi Satria (2017), the problems faced by business people in the SME sector include lack of knowledge, marketing, technology, legal and financial administration, and network issues. SMEs have problems in terms of business knowledge, entrepreneurial competence, low business and labor productivity and product innovation. They are also considered to experience shortcomings in mastering technology, management, information and markets. The problems surrounding SME certainly need to be minimized so that growth in the sector can be accelerated.

Many factors affect the achievement of organizational performance, both internally and externally. According to Dragnic (2014), internal factors include organizational size, technology, cycle stages, product innovation and organizational autonomy. Another factor that plays a role in achieving business success is social networks, which are part of business networks (Adler & Kwon, 2002).

2. Literature Review

2.1 Business Performance

The business generated by a firm is influenced by system analysis from two performance perspectives, namely qualitative and quantitative confidence, and accurate measurement of business results. It is also important to note that in some cases, SMEs are reluctant to publicly disclose actual financial performance, so the researchers have considered what is needed to subjectively measure and evaluate business performance. It is consequently very important to distinguish between measurement of subjective aspects (known as those based on perception) and objective measurements. Researchers have discussed the importance of using subjective performance measurement instead of objective measurement (Dess & Robinson, 1984). The opinion expressed in the Kjellman model (2004) states that many factors can affect organizational performance which can be related to the internal and external environment.

2.2 Competitive Advantage

To maximize business performance, management of competitive advantage is needed for a firm's products (Sriwan, Ramabut & Titikalaya, 2013). Kaplan and Norton (1993, 1996, 2000, 2001, 2004, 2006) also state that the competitive advantage managed by small businesses and the factors that are key to business success can be categorized on a balanced scorecard. Obtaining benefits from competitive advantage requires business operational activities that are related to marketing. In addition, market research, marketing strategies, new product development, technology and operational strategies are also indispensable in obtaining such advantage (Freel, 2000; Hart & Tzokas, 1999; Huang & Brown, 1999). However, the difficulties faced by small businesses are different from those faced by large companies, in terms of the understanding and implementing techniques and marketing concepts (O'Brien, 1998), particularly in the area of promotion and market research (Huang & Brown, 1999). Freel (2000) states that another problem and difficulty in managing small businesses are basic management skills, with the main problem being product innovation. The level of strategic awareness of owner managers appears to be strongly influenced by their personal competence and attitudes (Hannon & Atherton, 1989).

2.3 Innovation

Innovations made in an organization are claimed by Crossan and Apyadin (2010) and Lewrick (2010) to be an important factor in improvement and development, and are characterized as the expansion, application and utilization of value-added benefits in economic and social aspects. The innovation process is part of the improvement process of a company's operations and capacity (Otero-Neira, Tapio & Fernandez 2009). Innovation is also perceived as a strategy used by companies to increase their flexibility and competitiveness in the market and to improve performance (Jiménez-Jiménez & Sanz-Valle, 2005). In order to support business growth and development, small entrepreneurs must always innovate (Beaver & Prince, 2004). Entrepreneurship plays a major role in the product or technological innovation of small companies (Cannon, 1982). Lin and Chen (2007) state that administrative innovation is a vital factor in increasing sales, rather than technological innovation. These opinions are supported by Drucker (1998) and Gaynor (2002), while Hargadon and Sutton (1999) emphasize that innovation brings difficult things and focus (Leaven, 2015). Not surprisingly, innovation has an impact on SME business performance (Sakinah, 2014).

According to Halila and Rundquist (2011), innovation in business is categorized into three forms namely: product innovation, process innovation and organizational innovation. A study by Mirela concludes that an idea or activity is said to be an innovation if they have the following characteristics:

1. Are typical, interpreted as an idea that has characteristics that have never existed before, specific characteristics are important aspects that must exist if an idea is to be considered as an innovation;
2. Are new - every innovation must be an idea that has never been revealed or published before;
3. Are planned; an ordinary innovation is deliberately made and planned to develop certain objects. In other words, every innovation is an activity that was planned from the start; and have a purpose.

The last feature that must exist in innovation is to have a goal. As explained in the previous point, innovation is a planned activity to develop certain objectives.

2.4 Entrepreneurship Orientation

Entrepreneurial orientation is a term proposed by Hisrich (2005). Other experts refer to it as entrepreneurial characteristics, entrepreneurial personality or entrepreneurial spirit and attitude. Meredith (2002) suggests the importance of certain entrepreneurial values, namely self-efficacy, being task result-oriented, being a risk-taker, leadership, originality, and being creative, innovative and future-oriented. Entrepreneurship is a combination of one's attitude and beliefs in facing tasks and work, is internally relatively high and dynamic, and is greatly determined by the ability to start, influence and complete tasks. Self-confidence will affect ideas, attention, initiative, creativity, and enthusiasm and passion for work. The key to success is understanding yourself. Therefore, entrepreneurial success is related to freedom and self-confidence.

2.5 Business Networking

Business network strategy is defined as the relationship between entrepreneurs and parties related to them for business purposes. Informal parties that can be used as business networks are family, friends and contacts, which are characterized as strong interactions, while formal networks such as banks, government agencies, lawyers and accountants are characterized as weak contacts. Both groups are built through interpersonal relationships and are developed within the organization to become business network. In general, network-

based research conducted by researchers has in common with studies that examine the effect of business network strategies on expected results (Birley, 1985; Surin & Wahab, 2013; Quan & Motoyama, 2010). Business network strategy is important for business performance, especially SME sector strategies.

3. Methodology

The respondents chosen for the study were taken from SMEs who already had a micro-small business permit (IUMK) in the city of Pekanbaru and operated in the food processing sector. Using cluster sampling, a sample of 115 people was obtained, spread over four subdistricts in the city. Questionnaires were used to obtain the primary data, comprising of six parts related to the variables studied, namely: 1: opinion of business performance, consisting of seven questions; 2. five questions related to competitive advantage; 3. business networking, with five questions; 4. entrepreneur orientation, comprising six questions; 5. innovation, with four questions; and 6. human resources, consisting of five questions. The measurement scale employed scores in a range of 1-5. The study sample included culinary SMEs in various districts in Pekanbaru, comprising of 115 culinary business owners, gathered using stratified sampling in the proportion cluster sampling method. The data was analyzed using quantitative analysis methods with PLS analysis tools.

4. Results and Discussion

4.1 Respondent Characteristics

The 115 respondents displayed the following characteristics. Among the respondents, 51% (59 people) were women and 49% (56 people) men. This illustrates that men and women have the same opportunities in running a business. In relation to the age of the respondents, 102 (89%) were aged between 20 and 40 years old, and 13 (11%) between 41 and 60. The majority of respondents consisted of young people, which shows that the culinary sector is popular among them; this age business people tend to have high innovation and creativity. In terms of background, the majority were high school educated (74%).

4.2 Inferential Analysis

From the results of the data processing, there are several indicators that have a loading of less than 0.3. Therefore, several indicators were dropped, namely: INOV1, INOV2 and PER_3. The reason for dropping these was because they had a "cross loading value below 0.350". "Cross loading between indicators must be <0.30. However, a resulting cross loading value of <0.5 is still acceptable, and if the value of cross loading is >0.5, this indicates that there is a multicollinearity problem between the latent variables (Latan, 2014: 91). What is dropped is an indicator of the construct of innovation; that is, producing new products and different ways to grow a business. On the other hand, the performance construct that is dropped is an indicator of providing fast service to customers. Therefore, the results meet the convergent validity, because all loadings are above 0.50. Below are the values of the discriminant validity.

Table 1. Indicator Loading and Cross Loading After Modification

	<u>Innovation</u>	<u>HR Competence</u>	<u>Entrepreneur Orientation</u>	<u>Business Networking</u>	<u>Competitive Advantage</u>	<u>Business Performance</u>
I3	0,811	0,092	0,067	-0,032	-0,09	0,034
I4	0,811	-0,092	-0,067	0,032	0,09	-0,034
HC3	-0,16	0,762	0,226	-0,036	-0,293	-0,044
HC4	0,146	0,671	-0,201	-0,11	0,048	-0,137

HC1	0.032	0,746	-0,049	0,136	0,256	0,168
EO4	-0,021	0,075	0,696	-0,175	0,059	-0,007
EO5	-0,095	0,166	0,778	0,082	-0,029	-0,159
EO6	0,117	-0,239	0,759	0,076	-0,024	0,17
BN2	-0,047	-0,062	-0,01	0,857	0,128	0,087
BN4	0,047	0,062	0,01	0,857	-0,128	-0,087
CA1	-0,134	-0,182	0,273	-0,177	0,845	0,166
CA2	0,034	0,182	-0,273	0,177	0,845	-0,166

As mentioned by Hair (2010), reliability measurement can be made by measuring two aspects, namely composite reliability and Cronbach's alpha. The reliability and Cronbach's alpha values for each variable are as the following:

Table 2. Composite Reliability and Cronbach Alpha Construct Values Research

Composite reliability					
INOV	Comp HR	Entrep	Buss Net	Com.Adv	Buss Perf
0.794	0,771	0.789	0,847	0,833	0,828
Cronbach alpha					
0,48	0,553	0,598	0,638	0, 599	0,586

Table 2 shows that innovation has a positive effect, but that it is not reliable, because its Cronbach's alpha value is below 0.5. A structural model test was conducted by looking at the R-squared value, which is a goodness of fit test. The influence innovation, human resource competence, entrepreneurship orientation and business networking on competitive advantage obtained an R-squared value of 0.464, which means that the value of competitive advantage is influenced by these four variables at a level of 46.4%, and that the remaining 53.6% is influenced by variables not examined. On the other hand, the value of business performance is influenced by innovation, human resource competence, business networking, entrepreneurial orientation and competitive advantage by 0.416 or 41.6%, and the remaining 0.584 or 58.4% is influenced by other factors.

Assessment of the significance of the influence of the four variables on their endogenous variable is made by observing the value of the parameter coefficient and its statistical significance value, which is illustrated in the following full model.

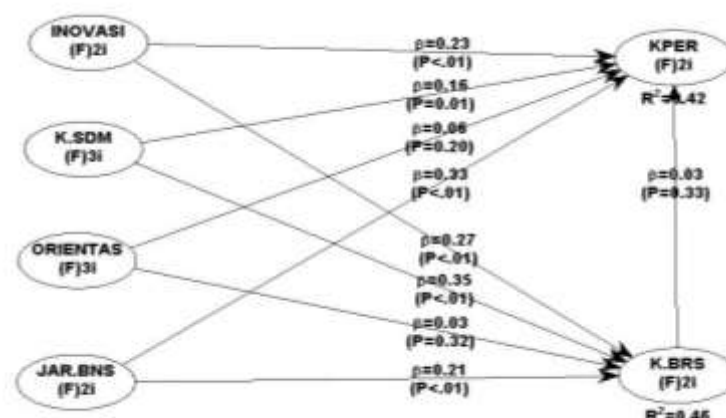


Figure 1. Result Full Model

From Figure 1 above, it can be concluded that the entrepreneurial orientation variable has a coefficient value of $0.20 > 0.01$, which means that it has no effect on business performance, while the innovation variable is not reliable because its Cronbach's alpha is lower than 0.50. In addition, on the basis of the influence of innovation, HR competence, entrepreneurial orientation and business networks on competitive advantage, entrepreneurial orientation has no effect on competitive advantage or business performance. Thus, the model produced from this research that can produce business performance of small and medium enterprises is human resources competence and business networking. To ascertain whether competitive advantage mediates the influence between human resource competence and business networking on business performance, it can be calculated using the VAF method as follows:

$$VAF = \frac{a \times b}{(a \times b) + c} \times 100\%$$

The criteria to determine whether the intervening variable is full, partial, or does not mediate can use the variance account for (VAF) value with the following criteria stated by Cohen (1988): If the VIF value is greater than 0.8, then the mediation is categorized as full mediation. If the VAF value is greater than 0.2 and smaller and equal to 0.8, it is categorized as partial mediation. The results of the calculation of VAF show that competitive advantage does not mediate the influence between human resource competence and business performance, while the value of VAF shows that the relate between human resources and competitive advantage, and business performance, produces a value of $0.062 < 0.2$. Likewise, the results of the VAF to examine the role of competitive advantage mediation in the influence of business networks on business performance show a value of $0.03 < 0.2$, which means that competitive advantage is not mediated between business networking and business performance. However, it is categorized as not mediating if the VAF value is smaller than 0.2.

Based on the calculations above, the model produced in this study is shown below.

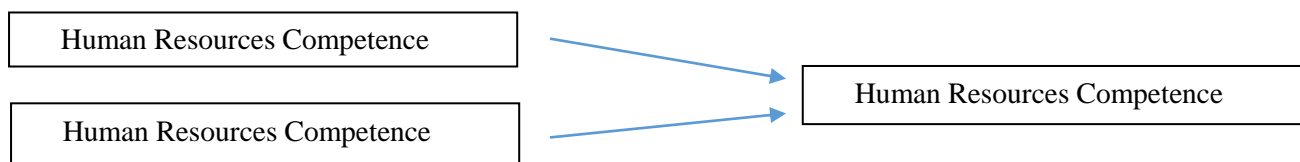


Figure 2: Research Result Model

Therefore, it can be concluded that to improve business performance in the culinary sector in Pekanbaru city, it is necessary to have the availability of human resource competencies owned by business actors, both business owners and employees who run daily operations, as well as business networks that have been formed by the businesses. In other words, in order to produce high business performance, business people must have competent human resources, and business networks that must always be maintained.

The results of the data processing using SmartPLS software show that culinary business people in Pekanbaru must encourage human resource competence through the improvement of disciplined behavior and by mastering people's respective fields of work. This can be done through increased knowledge, skills and good character. Knowledge of selecting food ingredients, and processing and distributing them to consumers must be in place in order to meet consumer satisfaction in consuming the food and cakes produced. Skills in food processing are a main determinant of business performance, especially in the

culinary field. It is also very important to have skills in producing good, clean, healthy food. These skills and the courage to take risks are paramount in achieving successful performance. This finding is consistent with the ideas of Miller (1983) and Covin and Slevin (1989), that human resource competence related to innovative and proactive behavior and the courage to take risks can improve business performance. Likewise, a positive and significant influence between entrepreneurial orientation and company performance is supported by previous research, namely research conducted by Bacherer and Maurer (1997) and Suci (2008), who found a positive and significant influence of entrepreneurial orientation on company performance. In addition, Lee and Tsang (2001) and Ferreira and Azevedo (2007) found that entrepreneurial ability reflected in managerial behavior is an important determinant in increasing business growth.

On the other hand, to produce a strong business network interaction needs to be maintained with family and friends. Collaboration with online transportation service in Pekanbaru needs to be strengthened, for example through collaboration with Gojek and Grab (online transportation service). Culinary business performance in Pekanbaru can be continuously improved through sales and net income every year. In addition to this, improvements in business performance can be made by strengthening employees' ability to think critically, conduct evaluations and propose improvements to the process and work environment. It can be seen that business network strategy can affect business performance, is due to the fact that business people feel that important resources are guaranteed through business network criteria (Surin & Wahab, 2013; Witt, 2004). Frazier (2000) argues that entrepreneurs must have a strong network depth to obtain resource access rights. This is supported by Ren's proposition (2009) that network depth is generated through faster resource acquisition.

5. Conclusion

The competency of the human resources owned by small-scale culinary entrepreneurs in Pekanbaru plays an important role in achieving determined business performance. The existence of human resources in the culinary business must continue to be strengthened through increased knowledge, skills and character. The improvement in these three aspects is related to the ability of businesses to understand and capture conditions of competition, marketing, operations, finance and human resources. The skills in producing tasty, hygienic, creative and innovative food and drink need to be continuously improved by creating new products. Strengthening business networks is achieved through the formation of communities of family and friends who can support the progress of the business. This is in line with research by Adler and Kwon (2002) who state that social networking can enhance business performance. Collaboration with financial institutions should be developed more broadly to obtain capital at low cost. In addition, utilization of online transportation service also needs to be developed to provide fast and easy services for customers.

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