

# Small Industry Performance Through Innovation As Implication of Spiritual Intelligence and Competence of Crafts Entrepreneurship in West Java Province

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**Abstract.** This research is a case study that aims at discovering the performance of small industrial craftsmen through innovation as an implication of spiritual intelligence and entrepreneurial competence in handicraft products in West Java by involving 386 entrepreneurs as samples. The sample size was determined using a simple random technique. The data was analyzed using correlation analysis and determination methods and processed by employing SPSS 24.00 program. It was found that spiritual intelligence and entrepreneurial competence had significant influence on the performance of small handicraft industry through innovation. This research is expected to determine the right strategy for local governments in an effort to improve the performance of small handicraft industry entrepreneurs in West Java.

## 1. Introduction

Entrepreneurs are the main capital of economic development in a certain area. Based on the data from West Java Central Bureau of Statistics (BPS, *Badan Pusat Statistik*) (2015), the majority of entrepreneurs in West Java were craftsmen (as much as 84.8%). Traditional crafts, specially woven products, are the main products, are the spearhead and the drivers of West Java microeconomics. Based on the calculation of the production value of these commodities, it was found that it can exceed the value of agricultural products and can absorb enough labour. It also has special characteristics that are not owned by other regions. Thus, woven products have considerable opportunities to continue to be developed.

The production activity of making traditional craft is an activity passed down from generation to generation. The products produced in the small handicraft industry centres in West Java generally have similarities in terms of manufacturing techniques, namely basic weaving techniques with different raw materials. In this case, the role of raw materials is very important because each raw material has different characteristics that can lead to the creation of products that have different aesthetic values. The uniqueness of natural raw materials, such as pandanus, bamboo, mendong, water hyacinth, and others, as well as the peculiarities of its manufacturing techniques, namely the traditional manual weaving techniques, make West Java craftsmen successfully produce various types of handicraft products that have high use and aesthetic value. However, the problem is that entrepreneurial competence is a fundamental factor that is owned by an entrepreneur who has more abilities, which makes an entrepreneur different from others who have average abilities. As with most other business activities, the problem is that the lack of innovation of handicraft medium, small, and micro enterprises (MSME) owners is that they are unable to produce brilliant ideas and taking advantage of opportunities, so that the level of sales has not experienced a significant rise and has not been able to compete at the global level. The lack of entrepreneurial competencies of MSMEs owners is characterized by the low willingness to learn entrepreneurship, lack of ability in business management, lack of ability to access information, technology, and business opportunities, as well as not understanding the mechanisms and systems of trade-import and exports. The lack of spiritual intelligence of the artisans is also characterized by low motivation for business progress, honesty, and understanding of work as a form of worship, less confident of being able to become a successful entrepreneur, as well as low awareness of the owners of the importance of paying attention to the situation of social life with the surrounding community.

According to observations in the field, the majority of entrepreneurs could not move on from the past glories that have been felt from generation to generation for running the same business rules when the Handicraft Centre in West Java was still triumphant. However, in reality, these conditions are no longer in accordance with current market conditions. The use of technology is increasingly important considering that until now, the production process of handicraft in West Java is still conducted simply and manually, and its management is still family-friendly. This indicates that the mastery of science and spiritual intelligence, entrepreneurial competence, innovation, and performance of small handicraft business owners in West Java are still very limited. In this case, this condition can reduce the performance of entrepreneurs themselves.

Business performance is the results of the work or activity function of a person or group in a business organization that is influenced by various factors to achieve the goals of the business organization within a certain period of time. Measuring the performance of a business is very useful to compare a business with other businesses so that a necessary action to improve it could be taken. Without comparison, it would not be known whether the performance has improved or not.

## 2. Theoretical Framework

Several understandings about performance are presented. According to Gomes (2003: 39), performance is a record of production at a specific job function or activity over a certain period of time. Thus, it can be described that performance is the level of success achieved by employees in doing work related activities by referring to the tasks that have to be done.

Furthermore, [1] states that performance is the result of work in quality and quantity achieved by an employee in carrying out their duties in accordance with the responsibilities given to the employee. Individual performance is the relationship between three factors, which are ability, effort, and support.

Thus, it can be concluded that performance is the result of ability, motivation, and opportunities shown by an individual in doing work related activities during a certain period.

Innovation is a new element that is introduced in a network that can change, even if only for a moment, both the price, the culprit, the elements, or the nodes in the network [2]. [3] explain that innovation is the ability to apply creative solutions towards a problem along with the opportunity to improve or to enrich an individual's life.

Based on several explanations above, it can be concluded that innovation is a change that is made by a company in order to adapt to the environment by involving the use of resources, namely human, time, and money, in creating or developing new products, new services, or new methods in order to benefit work process, work teams, and organizations.

According to Khavari [4], spiritual intelligence is also a faculty of nonmaterial dimension of human beings or human spirits. Similarly, Zuhri (in Yosef, 2005) explains that spiritual intelligence is human intelligence used to connect with God. The assumption is that if a person has a good relationship with God, it can be ascertained that the person relationships with other human beings will be good too.

Similar view was also expressed by [5] who states that spiritual intelligence is a perspective that direct our way of thinking towards the deepest essence of human life, namely self-servitude to the Most Holy and the All-encompassing. The highest spiritual intelligence can only be seen if individuals have been able to realize it and reflected in their daily lives.

From several explanations above, it can be concluded that a spiritual intelligence is a form of human intelligence that shows the ability to give meaning of worship to all behaviours and activities through steps and thoughts that are natural, have a goal to be a whole person, and have an integralistic thought pattern based on God.

Entrepreneurial competence is the ability to identify and acquire or create market based on entrepreneurial opportunities and resource requirements (Dariaswin et al., 2008). In addition, according to [6], entrepreneurial competence is the unity of knowledge, skills, and ability, which is dynamic, that is demonstrated by an entrepreneur/organization so that they show behaviour to achieve success in their business continuously.

Thus, it can be concluded that entrepreneurship competence is knowledge, attitudes, and skills that are connected to one another, which is required by entrepreneurs to be trained and developed in order to be able to produce the best performance in managing their business.

**3. Methods**

This research employed a survey method. Primary data was used and it was collected by distributing questionnaires to 383 small handicraft business owners in West Java. In this case, random sampling method was employed. There are several objects of this study, which are Spiritual Intelligence X1 (independent variable), Entrepreneurship Competency (X2), Innovation as Y variable (dependent variable), and small handicraft business owners' performance (Z).

**4. Discussion**

*4.1 The effect of spiritual intelligence on performance*

**Table 1.** First Regression Weight Hypothesis

Relationship			Estimation	SE	CR	P	Conclusion
KIN	<---	KS	0.105	0.1	-1.053	0.293	Not significant (Ho accepted)

Table.1 shows the regression values of the spiritual intelligence variable on performance. Hypothesis testing can be obtained by directly observing the Sig. value or the column where the data shows P = 0.293. It suggests that the probability is higher than 0.05, which means that there was no significant effect between spiritual intelligence on performance, or in other words, H0 was accepted. It was also found that the direct effect of spiritual intelligence on performance was 10.5%.

The results show that, partially, spiritual intelligence had a positive but not significant effect on performance. These results suggest that an increase in spiritual intelligence, which is characterized by the ability to be flexible, having integrity, quality of life, sincere, reliance on God, holistic thinking, and humility, does not have a significant influence on improving the performance of small handicraft business owners in West Java. It is caused by the low contribution of spiritual intelligence influence on performance, which was only 10.5% in which there was still a gap of 89.5%. Thus, it can be concluded that spiritual intelligence has not been optimal to improve the performance of small handicraft business owners in West Java.

Based on the previous explanation, spiritual intelligence strongly supports the success of entrepreneurs in developing a business. However, the results show that spiritual intelligence influence was not significant in improving the performance of small handicraft business owners in West Java. This was due to the lack of implementation of spiritual values, attitudes, and mentality on business managerial practices managed by the craftsmen. They were not able to connect their spiritual intelligence with knowledge and practical skills such as production skills, design, marketing, and customer service. Consequently, their spiritual intelligence was poorly implemented into their daily business practices, so that although they have excellent spiritual intelligence, it did not have any impact on improving their entrepreneurial performance.

Through intervening variable, it is shown that spiritual intelligence would have a significance on performance through innovation. These results indicated that innovation was a perfect mediation between spiritual intelligence and entrepreneurial performance. It was found that after innovation variable was added, the significance value increased. Thus, spiritual intelligence has to be followed by innovation ability.

*4.2 The effect of entrepreneurship competencies on performance*

**Table 2.** Second Regression Weight Hypothesis

Relationship			Estimation	SE	CR	P	Conclusion
KIN	<---	KK	0.419	0.153	3.767	0.000	Significant (Ho rejected)

Table 2 shows the regression values for entrepreneurial competence variable on performance. Hypothesis testing can be obtained by directly observing at the Sig. value or the probability column where the data shows  $P = 0.000$ . It means that the probability was lower than 0.05, which suggests that entrepreneurial competence had significant influence on performance in which, in other words,  $H_0$  was rejected. It was also found that the direct influence of entrepreneurial competence on performance was 41.9%.

The hypothesis results show that, partially, entrepreneurial competence variable had a positive and significant effect on business performance. The results suggest that entrepreneurial competence, which is characterized by science, personality, skills and motivation, could have a significant influence on business performance, which is characterized by quality, quantity, timeliness, effectiveness, independence, and commitment in developing a business. The positive influence shows that the higher the entrepreneurial competency, the higher the business performance of the craftsmen is going to be.

The test through innovation variable showed a decrease of significance value and even makes the influence of entrepreneurial competence on performance to be insignificant. These results indicated that innovation was a perfect mediation for entrepreneurial competence influence on performance. Therefore, innovation could lead to increases or decreases in the performance of an entrepreneur from its competence.

The hypothesis results proved that entrepreneurial competence has a positive and significant effect on the performance of MSMEs. This result is consistent with previous research that shows the important role of entrepreneurial competence in driving business progress. Hormiga et al. (2010) proved that human capital (entrepreneurial team interaction, commitment, business knowledge, and problem-solving) had a significant relationship with business success. Similarly, Man and Lau's (2008) showed that the competence of 153 owners/managers of SMEs service sector in Hong Kong directly and indirectly influenced the long-term performance of the SMEs through competitive scope and organizational capabilities.

Entrepreneurial competence is required to face local and global competitions (Ng & Kee, 2013). Entrepreneurial competence becomes more important in order to take proactive steps towards the challenges of the business environment. This is because small business owners generally act as managers and leaders who lead businesses and lead humans (Zimmerer & Scarborough, 2004). In this case, the competence as a manager that includes planners, organizers, administrators, and communicators is needed in order to improve their business performance (Cyhe et al., 2010). It is also stated that the nature of entrepreneurial competence indicates an important concept for increasing entrepreneurship (Wickramaratne et al., 2014). In other words, the managerial competence of entrepreneurial craftsmen plays an increasingly significant role in the success of MSMEs.

It was found that the influence of entrepreneurial competence on performance contributed 41.9%. This result means that there is still a gap of 58.1%. Thus, efforts are needed to increase entrepreneurial competence in improving performance.

#### 4.3 Effect of innovation on performance

Table 3. Third Regression Weight Hypothesis

Relationship			Estimation	SE	CR	P	Conclusion
KIN	<---	INO	0637	0164	5271	0000	Significant ( $H_0$ rejected)

Table 3 shows the regression values of innovation variable on performance. The hypothesis testing can be obtained by directly observing the Sig. value or the probability column where the data shows  $P = 0.0000$ . It means that the probability is lower than 0.05, which means there was a significant influence of innovation on performance or in other words  $H_0$  was rejected. It was also found that the direct effect of innovation on performance was 63.7%.

The hypothesis testing shows that, partially, innovation variable had a positive and significant effect on business performance. These results explain that innovation in the process, structural,

cultural, and resource dimensions could have a significant influence on business performance, which is characterized by quality, quantity, timeliness, effectiveness, independence, and commitment in developing a business. The positive influence shows that the better the innovation, the higher the performance of the small handicraft business in West Java. It was found that innovation contributed to business performance by 63.7%. It suggests that there was a gap of 36.3%, indicating that innovation is still required to be improved to increase the business performance of small industrial craftsmen.

## 5. Conclusion

It was found that the craftsmen already had good spiritual intelligence in which they have ability to be flexible, good level of integrity and quality of life, having sincerity and reliance on God attitude, holistic thinking, and humility, and good entrepreneurial competence. It can be observed from their knowledge and creativity, good entrepreneurial personality that is optimistic, committed, diligent, and tenacious were important in running a business. It was also found that their technical skills were also good in which they had good idea producing unique products and also have high initiative in taking advantage of opportunities. The craftsmen were also motivated to become successful entrepreneurs in their current and in other fields. It was also found that small industry innovation was sufficient in which that small industries could improve their ability to innovate in their process, organizational structure, culture, and organizational resources. The results of this study indicated that the craftsmen had good spiritual intelligence, sufficient entrepreneurial competence, and sufficient innovation capabilities so that this condition had an impact on the performance of craftsmen who were also in good condition.

It was also found that, partially, influence of spiritual intelligence, entrepreneurial competence, and innovation on the performance of the craftsmen can be found. The results of this study proved that improving the performance of small industrial craftsmen in West Java could take place if the craftsmen can improve their spiritual intelligence abilities, technical competencies, and knowledge in entrepreneurship and innovation. These results mean that performance improvements can occur if spiritual intelligence, entrepreneurial competence, and innovation are able to encourage the ability of craftsmen to innovate in their process, structure, culture, and resources.

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