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- **HYPOTHESES**
- **RESEARCH METHODOLOGY**
- **RESULTS & DISCUSSION**
- **FINDINGS**
- **RECOMMENDATIONS/SUGGESTIONS**
- **CONCLUSIONS**
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- **REFERENCES**
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THE EFFECTS OF ENTREPRENEURSHIP AND WORK ENVIRONMENT TO PERFORMANCE WITH INDIVIDUAL INNOVATION CAPABILITY AS INTERVENING VARIABLE AT PT. PAKERIN GROUP, INDONESIA

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SURABAYA

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SURABAYA

ABSTRACT

The use of wood from tropical rain forest is no longer permitted since it can cause environmental pollution and destruction. The Limited Liability Paper Company PT Pakerin Group in Indonesia does not use the wood from tropical rain forest, instead it uses raw material deriving from cane pulp and used paper. If the entrepreneurship and work environment are good, the individual innovation capability can be improved. Improvement of individual innovation capability is required in order to improve the Company Performance. This research is intended to analyze the influence of entrepreneurship and work environment to the individual innovation capability and performance. This research applies AMOS – the program of Analysis of Moment Structure as the analytical instrument. The data are taken from the Heads / Vice Heads of Representative of 65 Business Units of PT Pakerin Group in Indonesia. Outputs of this research indicate that the Work Environment has significant influence to Individual Innovation Capability. Entrepreneurship, Work Environment and individual Innovation Capability have significant influence to the Performance. The finding of this study indicates that the Performance is influenced by two exogenous variables, namely Entrepreneurship and Work Environment, whereas the positive dominant influence is given by the Work Environment.

KEYWORDS

1. INTRODUCTION

In this twenty first century, the era declared as being the actual globalization, the role of innovation certainly becomes more important and determinant. Innovation in development of products or processes constitutes one of the strategic key prerequisites, because companies must be able to improve technology, knowledge, capacity exploitation and able to grab the market from such ideas (Miller and Friesen, 1982; Aldridge and Swaminadas, 1996: 29).

Companies at the global era are required to have high individual innovation capability in order to be able to compete with others. Individual innovation capability shall be supported by good work environment. The work environment is an important factor determining the survival of a company or an organization.

Individual innovation capability becomes the focus in this study, since in reality the innovative individuals are capable in producing new things, so that they become the business pioneers. The company can survive if each individual inside has the innovative spirit.

There are two contradictory discussions concerning with the relation between entrepreneurship and performance. In one hand, there is a positive significant relation between entrepreneurship and performance, since there is a mediator of market orientation as indicated by a research conducted at the US Manufacturing Companies (Matsumo et al., 2002); a research carried out in Spain (Garcia et al., 2006; Gonzales et al., 2009); a research in Istanbul Small Firms (Ahmad and Hoffmann, 2008); a research conducted at the Cooperatives in East Kalimantan (Amins, 2010). On the other hand, there is an empirical study proving that there is no relation between entrepreneurship and performance, as shown by a research conducted at small firms in hostile and benign environment (Covin and Slevin, 1989).

There is also a contradictory discussion concerning with relation between work environment and performance. One side declares that there is a positive significant relation between work environment and performance as indicated by a research conducted at PT Pertamina in Cirebon (Eka and Subowo, 2005); a research done on highway traffic controllers in Medan (Herman, 2009). On the other side, an empirical research proves that there is no relation between work environment and performance as indicated by a research performed on the employees of the limited liability company PT Sumber Djatint in West Kalimantan (Shalahuddin, 2012).

The supporting and profitable environment are important for employees to establish innovative solutions (Charbonnier-Volrin and Akremi, 2011; and Wang et al., 20110). Entrepreneurship directly influences the respective marketing ability, innovation capability as well as the sustained competitive advantage; but indirectly it influences the sustained competitive advantage through the respective marketing ability and innovation capability (Jia-Sheng and Chia-Jung, 2010). Aulawi et al, (2009) states that knowledge sharing takes the important role in improvement of Individual Innovation Capability.

Akbar and Geoffrey (2005) state that innovative capabilities of a company and good network structure can improve the performance: Ming and Chung (2010) declare that innovation capabilities have positive influence to performance. This study tries to develop a theory concerning with the Relation between Entrepreneurship and Work Environment to the Individual Innovation Capability and Performance.

This research is carried out at a Limited Liability Paper Company PT Pakerin Group in Indonesia. Though this company is still traditional in its nature, it tries to be able to compete with other paper companies by improving its innovation capability. This is required after realizing that its production cost increases due to high raise in employees’ minimum wages specified by the government.

2. LITERATURE REVIEW

2.1 INDIVIDUAL INNOVATION CAPABILITY

Adler and Shenbar (1990) define Innovation Capability as a capability to develop, to respond and to identify the four dimensions, namely: (1) Capability to develop new products meeting the market demands; (2) Capability to apply the suitable processing technology in order to produce new products; (3) Capability
to develop and adopt new products and the processing technology to fulfill the future needs, and (4) Capability to respond to the related technological activities and to the unexpected activities created by competitors.

Angerhm et al. (2001); Raava (2007) state that innovation capability can be measured either at the individual or at company level. Ussahanatichakit (2007) defines innovation capability as the ability to develop new products able to satisfy the market needs, to apply the more suitable processing technology to produce such new products, to develop and adopt new products and the processing technology for the future needs, and also to respond to activities of the unexpected technological changes as well as the unexpected opportunities conducted by the competitors.

Tidd and Bessant (2009: 27) declares that a company with high innovation capability at the average is able to obtain the profit twice as much compared to that if the company has no innovation.

Aulawi et al. (2009) states that knowledge sharing takes the role in improving individual capability, because it can facilitate individuals to perform the knowledge re-use and knowledge regeneration available at the company, so that in the end the innovation capability of individuals in the said company will increase.

Ru-Jen et al. (2010) states that there are five aspects of Innovation Capability, namely: product, process, administration, marketing and service innovation.

2.2 ENTREPRENEURSHIP

Kristanto (2005:29) declares that entrepreneurship is so much needed to improve: the competitive ability, the change, innovation, growth and sustainability of the company business. Entrepreneurship can be used as business strategy either for short term or in the long run as life strategy in general.

Tengtarto (2006); Thomas et al. (2008:74) state that there are eight entrepreneurship indicators, namely: vision, planning, motivation, innovation, opportunity, self confidence, risk and adaptation.

Schumpeter (1910) in Jia-Sheng and Chia-Jung (2010) declare that entrepreneurship is a new motivating factor of production. There are three entrepreneurship dimensions, namely: innovation, initiative, and risk taking.

2.3 WORK ENVIRONMENT

Nitschmann (1998:9) states that the work environment is anything available around an employee able to influence him in performing the tasks assigned to him. Ahyari (1999-97) states that the work condition is actually one of the elements of work environment.

Timpe (2002:6) declares that the work environment is determined based on six dimensions, namely: responsibility, coordination, group spirit, reward, standard and organizational clarity.

Eka and Subowo (2005) state that that a work environment can be designed in such a way in order to establish a work relation binding the employees into their environment.

2.3 PERFORMANCE

Venkatraman and Ramanujam (1986) state that there are two things to be put into our attention in evaluating the performance, namely: the sources of data and the objectiveness of evaluation.

In term of data sources, our attention needs to be focused on whether the evaluation is based on primary or secondary data. Whereas on objectiveness of evaluation, our attention needs to be focused on whether it is an absolute evaluation (such as: accounting internal system, or from external agencies) or a perception evaluation (such as perception of manager and vice manager of the company).

Sink and Tuttle (1989: 39) declare that performance is a kind of complex interrelation among effectiveness, efficiency, quality, productivity, quality of work life / work condition, innovation and profitability.

Zahra and David (1993) prove that the evaluation of performance is subjective and has high level of reliability and validity.

Bredrup (1994:24) states that the dimensions of performance are effectiveness, efficiency and changeability.

Keegan and Green in Waterhouse (1997:65) declare that performance measurement is required In order to be able to know what things have been done and achieved in a certain period of time, the problems being encountered, as well as the preparation in concrete steps for future improvement.

Makelainem (1998:49) states that measurement and size of performance have several means, bases and standards, whose applications are adjusted to their needs.

Beal (2000) states that the performance measurement can use either the subjective or objective concept. The subjective concept is the evaluation of Manager upon the relative performance of his competitor or of the pre-determined targets. Whereas the objective concept is the absolute performance evaluation. The subjective measurement is based on the perception of manager to anticipate the unavailability of the objective performance data in a research.

Gonzales et al. (2009) states that the four performance dimensions are as follows: profitability, market response, position of market value, and the success of new products.

3. RESEARCH METHODOLOGY

This research analyses 4 latent variables, namely: Entrepreneurship, Work Environment, Individual Innovation Capability, and Performance. Data are taken from Heads / Vice Heads of Representative of 65 Business Units of the Limited Liability Paper Company PT Pakerin Group in Indonesia. There are 142 respondents filling-up the questionnaires that have already got their validation tested.

Entrepreneurship is measured by using nine (9) observed indicators consisting of: innovation, initiative, risk taking, vision, planning, motivation, opportunity, self confidence, and adaptation.

Work Environment is measured by using seven (7) observed indicators comprising of: responsibility, coordination, group spirit, reward, standard, organizational clarity, and work condition.

Individual Innovation Capability is measured by using five (5) observed indicators consisting of: product innovation, process innovation, administration innovation, marketing innovation and service innovation.

Performance is measured by using six (6) observed indicators consisting of: efficiency, effectiveness, changeability, profitability, market response and position of market value.

Variable Measurement applies the Likert Scale with the gradation commencing from 'Absolutely Agree' (5) until 'Absolutely Disagree' (1). Respondents answer the questionnaires, and collection of data obtained from the Respondents’ answers are analyzed by using SEM – the Structural Equation Modeling with the program of AMOS – the Analysis of Moment Structure.

4. RESULTS AND DISCUSSION

Having put the data into the Statistical Product and Service Solutions (SPSS) program, the validity test is then performed. In this research, the validity test is viewed from the score of its Critical Ratio (CR).

Anderson and Gerbing (1998) in Ferdinand (2002: 187) state that the indicator validly measures the subjects that should be evaluated at the presented model, if the coefficient of indicator variables is twice as much bigger than its error standard (Score of CR>2.5.E.). All indicators produce the estimation score with the Critical Error (CR) twice as much bigger than its Standard Error (SE).

Validity Test is intended to know whether the statements at the questionnaires are sufficiently representative. This test is executed by using the confirmatory factor analysis at the respective latent variables, namely: entrepreneurship (X1), work environment (X2), individual innovation capability (Y1) and performance (Y2) by applying the program of AMOS.

Not all the loading scores are bigger than 0.5 although statistically significant. There are three indicators unable to be used to measure the entrepreneurship (X1), namely: motivation, self confidence, and adaptation, while others are able to. Therefore, the factor confirmatory analysis is performed without involving the aforesaid three indicators.

Data are then analyzed using the AMOS program with the results as shown on Table-1.
**Table-1: Outputs of Testing on Entrepreneurship and Work Environment Models Upon Individual Innovation Capability & Performance**

<table>
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<tr>
<th>No.</th>
<th>Goodness of Fit Index</th>
<th>Value</th>
<th>Cut-Off*</th>
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<tr>
<td>1.</td>
<td>Chi Square</td>
<td>409.463 (p=0.000)</td>
<td>Probability of Chi Square &gt; 0.05</td>
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<td>Fit</td>
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<td>4.</td>
<td>TLI</td>
<td>0.917</td>
<td>&gt; 0.90</td>
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<td>CFI</td>
<td>0.926</td>
<td>&gt; 0.90</td>
<td>Fit</td>
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</table>

*) Quoted from Ferdinand, 2002:61.

Table-1 indicates that the chi square value is 409.463 (p=0.000) resulting the Marginal Status. Four other indexes, namely RMSEA, CMIN/DF, TLI and CFI indicate the Fit Status. This shows that the Entrepreneurship and Work Environment Models are acceptable on Individual Innovation Capability and Performance. Based on this fit model, the respective linear coefficient can be interpreted (Hair et al., 2006: 777) as shown in Drawing-1.

**4.3 Influence of Entrepreneurship to Individual Innovation Capability**

Entrepreneurship (X1) has positive but not significant influence to Individual Innovation Capability (Y1). This is indicated by the linear coefficient with positive sign (+) at the amount of 0.164 and the CR value of 1.748 and the probability of significance (p) is at the sum of 0.080 bigger than the standard of significance (α) determined at the amount of 0.05. Therefore, Entrepreneurship has no significant influence to Individual Innovation Capability (Y1).

**4.4 Influence of Work Environment to Individual Innovation Capability**

Work Environment (X2) has positive and significant influence to Individual Innovation Capability (Y1). This is shown by the linear coefficient with positive sign (+) at the amount of 0.449 and the CR value of 4.392 and the probability of significance (p) is at the sum of 0.000 smaller than the significance standard (α) determined at the amount of 0.05. Therefore, the Work Environment (X2) has a direct influence to Individual Innovation Capability (Y1) at the sum of 0.449.

**5. Conclusions**

1. Entrepreneurship has no significant influence to Individual Innovation Capability. Output of this research weakens the theory of Drucker (1985), (2002: 25), suggesting that in social services, in economic activities, in public institution or in private companies, all entrepreneurship need to be innovated and...
2. **Work Environment has significant influence to the Individual Innovation Capability.** Result of this research is in the same opinion with the theory of Kelly and Kranzburg (1978: 36) stating that the organization gives a response to the opportunity available at the internal and external environments, utilizes its energy to introduce new ideas in the forms of process or products. Output of this research also has the same opinion with result of research done by Woodman et al. (1993) declaring that the work environment influences the individual's stages and frequency of creative ideas and innovative behavior.

3. **Entrepreneurship has significant influence to Performance.** Output of this research has different opinion from the output of research conducted by Covin and Slevin (1989) who performed the research at small firms with hostile and benign environment; declaring that there was no correlation between entrepreneurship to performance. Combination of opportunity, capability and resources do not always lead to the entrepreneurship, if the opportunity costs (for example sacrificing the salary and the loss of health insurance) and the start-up with bigger costs rather than its potential usages. This research has the same results with the research held at the US Manufacturing Companies (Matsuno et al., 2002) stating that the entrepreneurship has positive impact to the performance when there is a mediator in the form of market orientation; with the research conducted at the Istanbul Small Firms (Ahmad and Hoffman, 2008) declaring that the entrepreneurship occurs in the framework of regulation influencing the performance.

4. **Work Environment has significant influence to Performance.** Output of this research is in the same opinion with the result of research conducted by Median City Administration (Herman, 2009) stating that the Employees' Performance is indeed much influenced by the work environment and the organizational culture. The dominant influential variable is the organizational culture which gives a lot big influence to the work discipline of employees. Result of this study is also in line with the theory of Kusriyanto (1991: 122) declaring that the physical work environment constitutes on of the factors influencing performance of an employee. An employee working at the physical work environment supporting him to work optimally will produce good performance. On the contrary, if an employee working at an insufficient physical work environment and not supporting him to work optimally, such condition will make the said employee lazy, easily get tired so that his performance will be low. Output of this research does not support result of research conducted by Shalahuddin (2012) who carried out a research on the employees of a limited liability company 'PT Sumber Djan tin' in West Kalimantan, stating that Leadership has significant influence to the organizational commitment and work motivation. Leadership has no significant influence to the employee's performance. Work environment has significant influence to the organizational commitment and work motivation. Work environment has no influence to the employee performance. The organizational commitment has significant influence to the work motivation and has no significant influence to the employee performance. Work motivation has significant influence to the employee performance.

5. **Individual Innovation Capability has significant influence to Performance.** Result of this research is in difference of opinion from output of research conducted by loof and Lasenati (2002) declaring that the process of innovation activities will have negative effect to the organizational performance. Result of this research is in the same opinion with that of Angerhm et al. (2001) and Raava (2007) stating that the innovation capability can be evaluated either at the individual or at company level. Output of this research also has the same opinion with that of Hurley and Hult (1998) who carried out a research at the USFederal Government, declaring that the organization with bigger innovation will reach better response from the environment, easier to get the required capability to improve the organizational performance and to consolidate its sustainable competitive superiority.

6. **SUGGESTIONS**

1. The development program of paper business of the Limited Liability Paper Company PT Pakerin Group in Indonesia is to be more emphasized in creating Work Environment suitable with the condition of this company by improving responsibility, coordination, group spirit, reward, standard, organizational clarity, and work condition of the Heads /Vice Heads of Representative in PT Pakerin Group in Indonesia.

2. The efforts to gain the effective development of paper business of PT Pakerin Group in Indonesia are to be emphasized more on the change in work environment better company culture pursuant to the awareness of the Heads /Vice Heads of Representative and the company owner. This is intended to get the Individual Innovation Capability improved and being in linear proportion the work environment which is getter better and better at PT Pakerin Group in Indonesia.

3. The efforts to improve the Performance at PT Pakerin Group in Indonesia emphasize more on the improvement of Individual Innovation Capability by means of improving the Product Innovation, Process Innovation, Administration Innovation, Marketing innovation and Service Innovation given by Heads / Vice Heads of Representative at PT Pakerin Group in Indonesia.

4. The efforts to improve the Individual Innovation Capability can be carried out through the improvement in quality of raw materials received, considering the fact that around 70% of production cost is allocated on the use of raw material. Types of raw material applied among others are 'afval' deriving either from domestic markets or from import.

5. Output of this study is expected to be able to be used as new information and new thought about paper business development in Indonesia and also able to be used as material for further study.

6. Paper businessmen need to perform the sustainable innovation in order to be able to compete in global markets.

7. **REFERENCES**


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