Effects of Learning, Networking and Innovation Adoption on Successful Entrepreneurs in Central Java, Indonesia

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Abstract

This paper aims to test models of learning, networking, and innovation adoption on successful entrepreneurs in Central Java, Indonesia. The study was dependent on a survey conducted on 580 subjects using a random sampling technique. Structural Equation Model (SEM) was used to analyse the data. The results showed that learning and networking have a significant effect on innovation adoption. Consequently, innovation adoption significantly affects the success of the entrepreneurs. Based on the findings, implications to practice are offered.

Key words: Learning; networking; innovation adoption; successful entrepreneurs.

1. Introduction

The economic crisis happening in Indonesia gives worthy consideration for the government to reflect a more serious thought on the existence and the importance of Small-Medium Enterprises (SMEs). In the era of economic crisis there were many Large Enterprises (LEs) facing bankruptcy and some of them have to liquidate their firms. However, SMEs have resilience and able to protect themselves from the recession because of their innovativeness and dynamism to recover during the early years of the economic crisis. Furthermore, SMEs have a flexibility of using high value-added production technique to counter the problem of unemployment during the economic crisis (Yoon, 2002). The important role of the SMEs does not just occur in countries like Indonesia and the Philippines, but in Europe as well. Cassell, Nadin, Gray & Clegg (2002) stated that, the presence of the SMEs continuously increased significantly and had an important role in the European economy whether in local or national economy.

The success of an entrepreneurs and their ability in managing their SMEs to grow and sustain, depends on its market leading position, number of employees, and unique organizational culture (Choueke & Armstrong, 2000). Success is also determined by entrepreneur capability in doing innovation process through learning. However, Holt (1992) & Staw (1991) were in different opinion that the entrepreneur success was due to his or her inheritance since birth. Meanwhile, a study by Dana (2001) proved that an entrepreneur was not born to be successful, but successful through his/her presence in different education and training provided directly or indirectly in government or private institutions. Another factor affecting the success of an entrepreneur was networking. It implies networking as a creation and uses of personal friendship for certain aims that are beneficial to the group or to the organization. In addition, networking is a group of relationship built for promoting the work or institutional development or cluster (Berley, 1985; Aldrich & Zimmer, 1986). Networking may be conducted in different contexts as in job, social life, and many life situations.

In enterprise, networking is studied excessively for the role of supporting the entrepreneur success (Lechner, Dowling & Welpe, 2005). For them, maintaining networking is strongly needed to develop their enterprises. Besides learning, the entrepreneurs should also be able to open or to have internal networking within their enterprises or external networking with other parties. Networking with others is carried out because the entrepreneurs mostly depended on the information, raw materials, technology or knowledge, in order to make their enterprises continuously developed and be acceptable to societies. Numerous research done found that networking provided many benefits and encourages success to an enterprise. Hite & Hesterly (2001) stated in their research results, found that networking profit from resources and access to growth, particularly for new founded companies and made dynamic relationship to these companies.

Also networking could become a form of power control, information sharing, knowledge generation, and capital for companies to grow and develop (Berley,1985; Aldrich & Zimmer, 1986; and Johannisson, 1988). Success is not only determined by the result of learning and networking, but also determined by entrepreneurs' capability in conducting innovation in which the products are acceptable by consumers (Charles & Sawyer, 2004). The entrepreneurs having creativity and critical ability always owned specific ways and uniqueness to defend and to advance their companies (Littunen, 2000). Innovation means that the entrepreneur should have the ability to create new technique or strategy including innovative products in facing changing situations particularly dealing with consumer behavior. At the initial steps for the company operation, the important traits that should be owned by the entrepreneur are innovative character, desire and bravery to act. Tibbits, (1979), Bird, (1989), and Riyanti (2003) explained that innovation played a major role in the success of small enterprises. The entrepreneurs should continuously seek for new ways or changes in order to run their enterprises. Riyanti (2003) also stated that innovation behavior was obtained by joining in training and education through learning.

2.0 Literature Review

The major problem in research on SMEs was to define the meaning of 'success' and the various definitions and perception about the determinants of success (Beaver, 2002). Success is often seen from the perspective of growth and profit terminologies, but they will be more complex if looking for determinant factors on success. Research conducted by Greenbank (2001) on SMEs found that a definition on success comprised a number of criteria including levels of income, work satisfaction, work time, control and flexibility. Greenbank (2001) then explained that the differences between entrepreneurs and SME owners were that the former aimed to reach relative growth, while the latter was more focused on attainment of individual objectives. Several researchers have separately conducted analyses on entrepreneur's success and factors affecting growth, sustainability, and development of the enterprises or organizations. Competitive superiority is frequently looked as a key to reach sustainability. The general assumption stated that entrepreneurs will be capable to achieve unique position among competitors when they are consistently able to show good performance, so that they may maintain competitive sustainability and superiority. Choueke & Armstrong (2000) explained that the criteria for success on entrepreneurs were that they were able to manage their enterprises through growth, development, and sustainability.

The criteria stated by Choueke & Armstrong (2000) and Watson, Hogart-Scot & Wilson (1998) were that money was not a major motivation, but was a satisfaction to have on business and the desire to sustain. The criteria mentioned by Choueke & Armstrong (2000) and Watson et al. (1998) will be used for the definition of successful entrepreneurs. Knowledge, education, training, and experience have an important effect on the success and development of operated businesses performance (Bruder et al., 1992; Boswel, 1972; Bates, 1990; and Cooper, 1994). The good entrepreneur realized that he/she should always execute something better. The entrepreneur also realized that the skill acquired sometime outdated, so he/she should always try to improved and revised through the learning process (Wickham, 2006). Nevertheless, Holt (1992) indicated that the entrepreneur spirit was an inherited product and not by training. Another factor influencing the success of an entrepreneur was networking. Networking might be conducted in different contexts such as in employment environment, in social life, and in many life situations. For entrepreneurship, networking was numerously studied in its role to support entrepreneur's success (Lechner, Dowling & Welpe, 2005).

For the entrepreneurs, maintaining networking is absolutely needed to develop relationship. According to Garnsey (1998), in the initial phase of a business, the entrepreneur should be able to access, to mobilize, and to use resources existed in the environment and to use it for gaining benefits. A greater part of research on the importance of networking for beginners was focused on the dynamic relationship among networking, resources, and growth (Hite & Hesterly, 2001; Yli-Renko & Autio, 1998). They found that there were three benefits enterprises were able to achieve progress and profit that could be gained from doing networking, namely, competitive development, intellectual, and ideological. Networking became an important part when used to open access for opportunity and chance to collect many resources required, to build new business and legitimacy (Berley, 1985; Aldrich & Zimmer, 1986; Johannison, 1988; and Dubini & Aldrich, 1991). The form structure of networking varied depending on the orientation of value to the owner or the manager of the company. Baum (2009), stated that networking could increase profit while Granovetter (1973 & 1982) explained that there were four criteria differentiating networking from other enterprise, that is from 1) frequency in doing networking contact with others, 2) emotional approach in communicating, 3) degree of closeness in that relationship, and 4) degree of commitment among the factors that involved in the exchange process. Networking was very useful for the company because the entrepreneur could change the information, knowledge, and access to capital (Koka & Prescott, 2002).

Tukker & de Bruijn (2002) also stated that someone conducting networking and how the person involved in the networking process to get satisfaction. Different theoretical underpinning on networking mostly focused on three points, namely networking form, structure, and networking profit (Scot, 1992; Wasserman & Faust, 1994). Similar to the statement made by researchers, networking implied as a social capital asset that have not been felt by the enterprise (Adler & Kwon, 2002; Inkpen & Tsang, 2005; Koka & Prescott, 2002; Leana, 1999; and Nahapiet & Ghoashal, 1998). They stated that networking had an impact on the level of success survival of an organization (BarNir & Smith, 2002; Florin, Lubatkin & Schulze, 2003; Spence, Schmidpeter & Habisch, 2003; Walker et al., 1997). Based on the theories, it can be understood that networking gives a strong basis and a potential for competitive superiority of various forms of an enterprises or organizations. The term of innovation is first used by Schumpeter (1939). He applied it as a managed or tried innovation. Innovation is a process to change opportunity and becoming marketable idea. There is more than just a good idea. The original idea plays a crucial role to change a creative thinking to be a valuable idea.

With innovation, the entrepreneur creates a new resource or process by increasing the potential value to create capital. Machfoedz (2002), explained that innovation was used as a change in discovery that caused change. Innovative idea is likely to originate from the creativity of both internal and external products. Machfoedz (2002) divided innovation into four kinds namely: 1) discovery of product creation that is new services or processes that have not been made before, 2) product development- new services or processes that have been available, 3) product duplication-new services or processes that have been available, and 4) synthesis, as concept combination and the existing factor to be a new formula. Subsequently, Freeman, Clark & Soete (1982) stated that innovation in the field of enterprises occurred when there was development or progress in knowledge technology that could give opportunity for economic growth, so they stimulated quick dynamics growth of an enterprise. The study of innovative behavior is relevant to the study of creativity because the root of innovation is creativity. In the study of psychology, to change something becoming better is known as a creative behavior that is adoptive, whereas to create something new is named as a creative behavior that is innovative (Kirton, 1989). Riyanti (2003) explained that innovation played an important role in the success of small enterprises.

The entrepreneurs should continuously look for new ways or new changes, so that their enterprises run steadily. According to Kirton (1989), the way of adoption-innovation thinking was a personal construct formed from a number of characteristics. There was someone with adoptive basic type, but there was someone else with innovative basic one. The theory of innovation-adoption by Kirton (1989), came up with the thought that humans can solve problems and be creative. This theory explained about someone's tendency in thinking that will affect creativity, problem solving, and decision making. When facing problems, one has two options, he/she may do something with better way than the previous way (adaptor), or one may do something by different way when compared with the previous way (innovator). This tendency will influence one's thinking style. According to Lincoln & Denzin (2003), the innovative approach in creativity performed a tendency of someone to work with structure and regulation, to apply his creativity beyond the present procedure and pattern, to look for alternative manner or to make alteration by doing a different thing. The hypotheses in this research follow the innovation-adoption theory by Kirton (1989).

Insert figure (1) about here

There are five hypotheses in this study:

H_1: Learning has significant positive effect towards innovation-adoption behavior.
H_2: Networking has significant positive effect towards innovation-adoption behavior.
H_3: Learning has significant positive effect towards entrepreneur success.
H_4: Networking has significant positive effect towards entrepreneur success.
H5: The innovation-adoption has significant positive effect towards entrepreneur success.

3.0. *Methodology*

This research was designed as an ex-post facto and a correlation trying to see the relationship among construct variables as a determinant for entrepreneur success. The theoretical construct comprising variables as learning, networking, innovation-adoption behavior and entrepreneur success. The target population of this study was 12,637 SME entrepreneurs involved in the furniture enterprise sector in Jepara, Central Java, Indonesia. Samples taken were conducted by using a random sampling technique. A total of 800 questionnaires were distributed representing more than 6 percent of the estimated population size. Of these 580 questionnaires were returned, indicating a 72.5 percent response rate. Structural Equation Modeling (SEM) was used to analyze the data. A confirmatory factor analysis was performed to assess the reliability and validity of the measurement model before we tested the structural model.

4.0. *Analysis and Discussion*

Table 1 provides the subjects' demographic profile comprising gender, age, education, years of operating the business and number of employees. About 82 percent of the subjects were male and 18 percent were female. Their age range from 25 to 40 years representing 35 percent of the subjects and 64 percent were above 40 years old. The majority of them (52 percent) were Senior high school leavers. The majority of the businesses (61 percent) have more than 10 years in operation. The majority of the businesses have employees between 5 to 10 people.

Insert table (1) about here

A confirmatory factor analysis (CFA) was conducted to assess the reliability and validity of the measurement model. Following Hair, Anderson, Tatham, & Black's (2010) recommendation, we first assessed the measurement model in terms of its overall fit to the data. Results of CFA showed a factor loading on learning equal to 0.93, networking equal to 0.94, innovation-adoption equal to 0.94, and successful entrepreneur equal to 0.92. Those CFA values are greater than the standard value namely 0.70 and it can be concluded that the latent constructs used in this study are truly reliable. Results of Variance Extracted (VEs) indicated on learning equal to 0.66, networking equal to 0.67, innovation-adoption equal to 0.72, and successful entrepreneurs equal to 0.66. These VE values are greater than the standard value of 0.50, so it can be concluded that the latent constructs used in this study are truly reliable. According to Hair et al. (2010), when estimating the SEM by using maximum likelihood estimation, it should fulfill the normality assumption. The statistical value that can be used for testing normality is by comparing z-value, with the critical value (CR) ± 2.58 at the probability level of 0.01. All data in this research have fulfilled the normality assumption, because the CR value for skew and kurtotis are all < 2.58.

This means that all data fulfill the normality assumption at the α level = 0.01. By using foundation that observations having z-score ≥ 3.00 will be categorized as outliers, it is known that the data used are free from univariate outliers, for there is a variable having z-score ≥ 3.00. Evaluation on multivariate outliers can be seen from the mahalonobis distance for each variable on all variables in a space of multidimensional (Norusis, 1998; Tabacnick & Fidell, 2001). Calculation of the mahalanobis distance is based on the Chi-Square score in the table of χ^2 distributions at the degree of freedom: 27 (number of variables) at p level < 0.001 namely χ^2 (27; 0.001 = 55.475). Therefore, data having the mahalanobis distance > 55.475 are assumed to be multivariate outliers. In this study there are no multivariate outliers. To see whether multicollinearity and singularity are present in a variable combination, so it requires observing values of the determinant of sample covariance matrix. In this study, the determinant score is 0.002 and this number > 0, so that the data in this study is able to use. Therefore, it can be concluded that multicollinearity and singularity are absent and so the data is properly used. After analyzing the model through CFA, it can be seen that each indicator may confirm or explain the latent variables, so the model that has been built based on the SEM can be analyzed. The result of the analysis shown in Figure 2.

Insert figure (2) about here

Table 2 shows the overall fit for the measurement model. The χ^2 was 348.359. In addition, the NFI, TLI, CFI and RMSEA values indicated a good fit and exceed the common acceptance levels as suggested by Hair et al. (2010)

Insert table (2) about here

Table 3 shows the coefficient regression values for each of the Hypotheses 1 to 5.

The effect of learning on the innovation-adoption behavior gives $\beta = 0.38$ with $p < 0.05$. The hypothesis that stated that learning has a positive and significant effect on innovation adoption is supported. This study is consistent with prior research conducted by Riyanti (2003) which stated that the result of learning could push the entrepreneur to conduct innovation. As expected, the result of this study supported Hypothesis 2 that networking ($\beta = 0.44$, $p < 0.05$) has a significant positive effect on the innovation adoption. This study supported the prior findings by Barnir & Smith (2002) and Florin, Lubatkin & Schulze (2003) which stated that through networking, entrepreneurs adopted innovation to defend their enterprises from competitors. Hypothesis 3 was supported in this study. Learning ($\beta = 0.23$, $p < 0.05$) has a significant positive effect on the success of the entrepreneur. This study was consistent with other studies in the learning field (Dana, 2007; Cooper, 1994) but the result are in contrast to Holt (1992), who did not find support for learning. As expected, networking ($\beta = 0.23$, $p < 0.05$) was found to have a significant positive effect on successful entrepreneur. The effect of networking on the successful entrepreneur gives him/her open access for opportunity and chance to collect many resources required to build his/her enterprise.

This study is supported by Hite & Hesterly (2001), and Yli-Renko & Autio (1998) findings on the importance of networking for firms to generate resources growth. Finally, as expected, innovation adoption behavior ($\beta = 0.24$, $p < 0.05$) was found to have a significant positive effect on successful entrepreneur. This finding was consistent with other studies in innovation behavior field (Tibbits, 1979; Bird, 1989; Riyanti, 2003).

Insert table (3) about here

5.0. *Conclusion and Recommendations*

This study found the Goodness of fit for the structural equation modeling among learning, networking, innovation-adoption behavior and the successful entrepreneur. This study also found that networking has a strong effect on the innovation adoption. Networking of the entrepreneurs needs to be strengthened so that entrepreneurs will derive opportunity to do innovation. This study also found that the innovation adoption has a dominant influence on the success of the entrepreneur. The furniture SMEs of Jepara in Central Java required more enhancement to do networking in order for their innovation adoption to be increased. So, this will affect the development of their enterprises. The entrepreneurs could increases and widen their networking by increasing using the internal or external networking. Networking extension can be done to widen the market and increasing the frequency of connection with other stakeholders. These efforts will make the SMEs to get more alternative innovation that can quicken the success of their enterprises. To be more robust in the findings it is suggested that this study needs to be tested on different industries such as services.

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Figure 1: Research model

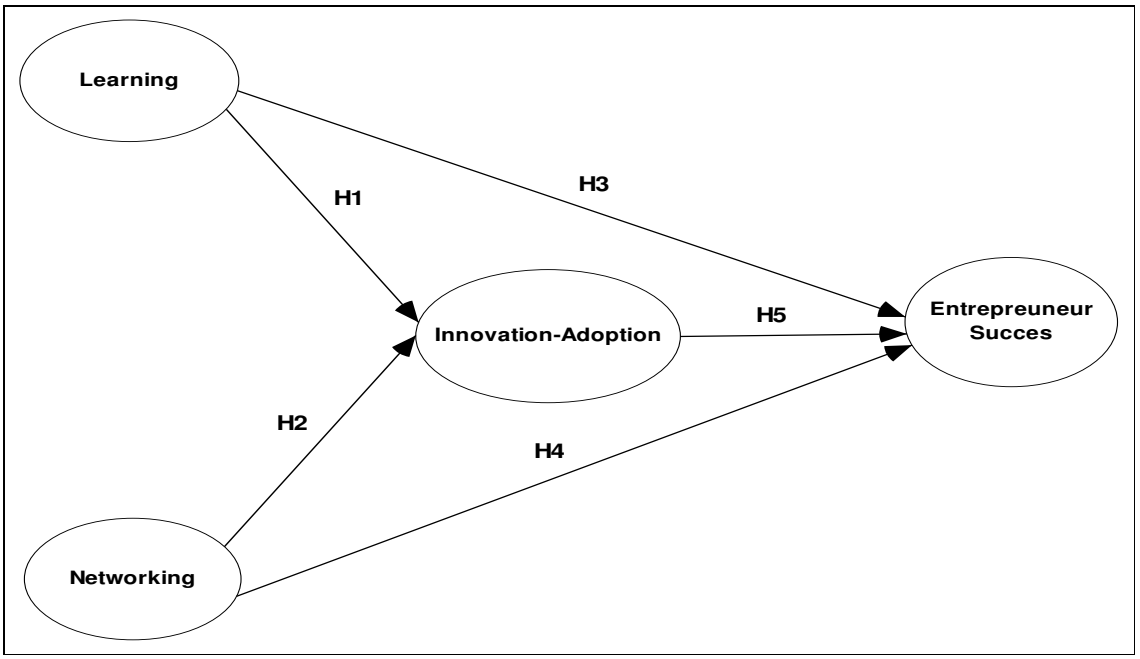

Table 1: Demographic profile

Respondents characteristics	Frequency	Percentage (%)
Gender :		
Male	478	82.4
Female	102	17.6
Total	580	100
Age (years) :		
<25	0	0.00
25 – 30	33	5.7
> 30 – 40	175	30.2
> 40	372	64.1
Total	580	100
Education :		
Junior High School (SLTP)	114	19.7
Senior High School (SLTA)	300	51.7
D3	108	18.6
S1	46	8.0
S2	12	2.0
Total	580	100
Years of operating the business		
< 1 year	0	0.00
1 year – 5 year	69	11.9
>5 – 10 years	158	27.2
>10 years	353	60.9
Total	580	100
Employees		
5-19 people	394	67.9
20-99 people	186	32.1
Total	580	100

Figure 2: Structural Equation Modeling

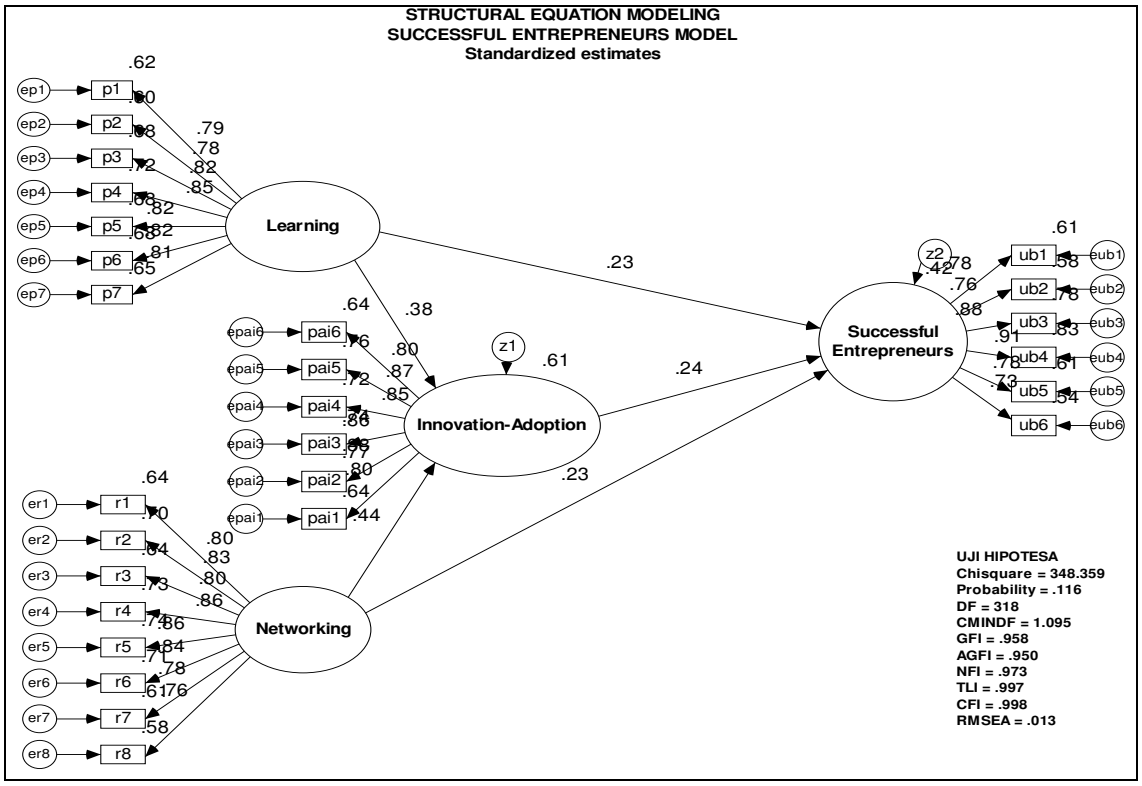

Table 2: Fit Indices for the measurement model.

Goodness of fit Index	*Cut-off Value*	Model result	Notes
χ^2- *Chi-Square*	Expected to be small	348.359	χ^2 value with the DF = 318 is 360.587, calculated χ^2 < table χ^2 (348.359<360.587) (Good category)
Probability	≥ 0.05	0.116	Good
CMIN/DF	≤ 2.00	1.095	Good
GFI	≥ 0.90	0.958	Good
AGFI	≥ 0.90	0.950	Good
NFI	≥ 0.80	0.973	Good
TLI	≥ 0.95	0.997	Good
CFI	≥ 0.95	0.998	Good
RMSEA	≤ 0.08	0.013	Good

Table 3: Coefficient regression values

Variable	**β**	***p***
Learning → Innovation-adoption	0.38	0.000
Networking→ Innovation-adoption	0.44	0.000
Learning → Entrepreneur Succes	0.23	0.000
Networking→ Entrepreneur Succes	0.23	0.000
Innovation-adoption → Entrepreneur Succes	0.24	0.000

p < 0.05