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## Article

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# The Effect of Entrepreneurial Orientation and Dynamic Capability on Business Performance in Creative Industry: Mediating Role of Innovativeness Product Advantage

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## ABSTRACT

**Purpose:** This study aims to analyze the effect of entrepreneurial orientation and dynamic capabilities on the innovativeness product advantage, the influence of entrepreneurial orientation and dynamic capabilities on the business performance of the creative industry, and the effect of innovativeness product advantage on the business performance of creative industries. This study also examines the mediating role of innovativeness product advantage in mediating entrepreneurial orientation and dynamic capabilities on creative industry business performance.

**Design/methodology/approach:** The population is creative industry entrepreneurs in the Semarang city. Sample selection was done by purposive sampling method, obtained 150 data were declared eligible for analysis. Data analysis using SEM with IBM SPSS Amos 26.0.0 software tools.

**Findings:** The research result showed that the entrepreneurial orientation and dynamic capability have a significant effect on the innovative product advantage and business performance. Another finding indicated that the innovativeness product advantage had an mediating role on the influence of entrepreneurial orientation and dynamic capability toward business performance.

**Research limitation/implications:** Despite following scientific principles, the sample limitation is a limitation of this research. Therefore, further research is expected to expand the scope of the research object to obtain more comprehensive results. To generalize the results, future research should include other antecedents, such as intellectual capital and networking.

**Originality/value:** This research contributes to the development of resource-based theory by providing a better understanding of creative business development models. Furthermore, this research proposes the innovativeness product advantage so that the creative industry can compete in the digital era.

*Keywords: Creative industry, Entrepreneurial orientation, Dynamic capability, Innovativeness product advantage, Business performance*

## I. Introduction

The creative economy is one of the development focuses as the implementation of the Indonesian

government's Sustainable Development Goals until 2030 because it contributes to Gross Domestic Product (Anjaningrum & Rudamaga, 2019). It is one sector in the subsystem creative economy industry have authenticity in creativity individual, skills and talent which have potency for bring income and field creation work through exploitation riches intellectual (Santoso & Fianto, 2022). This industry relies on talent, skills

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and creativity which are the basic elements of every individual. Creative industries include 16 sub-sectors, namely advertising, architecture, art market, crafts, design, fashion, video, film, photography, interactive games, music, performing arts, publishing and printing, computer and software services, television and radio, and research. and its development (Burhanudin et al., 2020).

For Indonesia, the creative industry has a significant role based on the four basic indicators used, namely: gross domestic product, employment, company activities and international trade (Widyastuti & Hermanto, 2022). The city of Semarang, as the capital city of Central Java Province, has strong potential and competitiveness through the best creative industry products, because it is supported by the quality of its innovative human resources as the main capital for community economic development. Nevertheless, the performance or contribution of the creative industry sector, including small industries, to gross domestic product and exports is still relatively small, as well as to the absorption of labor and the number of businesses. The sectoral contribution of the creative industry is also still relatively small to the overall sectoral contribution to the national economy (Septina, 2020).

Micro, small and medium enterprises in the creative industry face intense business competition, both domestically and abroad, so these companies must understand the forces of competition and be able to develop competitiveness. To be able to continue to survive in intense competition and achieve the expected goals, the creative industry must carry out the company's competitive advantage. To be able to create a competitive advantage in the field of business, companies are expected to be able to use the tools they have, both individuals and their products, so that they can be the key to success in winning the competition, including through the role of entrepreneurship orientation and increasing the dynamic capabilities of the company. Entrepreneurial orientation (innovativeness, risk taking, proactiveness) is an individual aspect as a strategic approach that can be applied in the creative industry (Parkman et al., 2012). Entrepreneurs who have a high entrepreneurial orientation will improve company performance, because

they have innovativeness, proactiveness, risk-taking and competitiveness, which allows them to sell more products and earn high profits (Magaji et al., 2017).

Entrepreneurial orientation (innovativeness, risk taking, proactiveness) is an individual aspect as a strategic approach that can be applied in the creative industry (Parkman et al., 2012). Entrepreneurs who have a high entrepreneurial orientation will improve company performance, because they have innovativeness, proactiveness, risk-taking and competitiveness, which allows them to sell more products and earn high profits (Magaji et al., 2017). Entrepreneurial orientation is an important factor for business success, because the awareness of the strategic position and its drivers could lead to a better assessment of potential performance (Bernoster et al., 2020). Dynamic capability is the company's ability to integrate, build and reconfigure internal and external competencies in the face of rapid environmental changes, so as to achieve new and innovative forms of competitive advantage (Teece, 2014). Dynamic capability is very important because it is a company process for integrating, reconfiguring, obtaining, and releasing resources in keeping of how markets emerge, collide, divide, evolve, and die (Ahmed et al., 2020).

However, in several previous studies there are still differences in research results between entrepreneurial orientation and dynamic capacity on business performance. The results of research conducted by Herlinawati et al. (2019) and Darmanto et al. (2021) proves that the entrepreneurial orientation has a significant effect on business performance, while the research conducted by Frank et al. (2010), and Killa et al. (2017) concluded that the entrepreneurial orientation has no positive and significant effect on business performance. Rehman & Saeed 's research results (Rehman & Saeed, 2015), (Nyachanchu et al., 2017), (Nasution et al., 2021) concluded that dynamic capabilities have a significant effect on company performance, while the results of research by Sijabat, et al (Sijabat, 2018) state that dynamic capabilities have no significant effect on company competitiveness. (Kareem & Alameer, 2019) also concluded that sensing capability has no significant effect on organizational performance.

To bridge the existing gap, the innovativeness product advantage can be expected to be a solution that bridges strategic aspects (entrepreneurship orientation) and organizational aspects (dynamic capabilities) to achieve creative business performance. The innovativeness product advantage will encourage the improvement of creative industry business performance. The concept is a synthesis of the concept of entrepreneurship orientation and the concept of product excellence. The previous study revealed that organizational knowledge-based dynamic capabilities is positively related to product and process innovation (Nieves et al., 2015). Furthermore, the findings of Hameed et al. (2021) revealed that firms' open innovation performance has a positive influence on service innovation and business performance. Previous research conducted by Killa et al. (2017), Khin and Ho (2020), and Mulyana and Hendar (2020) showed that product innovation has mediating ability on business performance.

Semarang is the capital city of Central Java Province, Indonesia which is the center of trade and services in Central Java, has many types of creative industries that are developing very quickly, but the creativity industry has not yet clearly mapped its potential, business environment and obstacles. The growth of the creative industry must get support from aspects of human resources, industry, technology, institutions, finance (Nurchayati et al., 2017). Given the reality of the gap phenomenon and the *research gap* on the factors that affect business performance, research is needed on the business performance of creative businesses in the city of Semarang. The lack of a database on the creative industry needs to be followed up with basic research on the creative industry based on demographic factors, motivations and types of business. To overcome the research gap problem, an innovative product advantage concept is proposed which is a synthesis of the entrepreneurial orientation concept, resource theory and relational capability concept, which underlies the creation of a creative industry that has high competitiveness. This study is expected to provide benefits for academic contributions to resource-based value theory, and practical contributions with recommendations for SMEs and government in the future.

## II. Literature Review and Hypotheses Development

### A. Entrepreneur Orientation

Resource-based view (RBV) is a theory that refers to the resources and capabilities within the organization to develop a sustainable competitive advantage (Madhani, 2010). RBV theory supports the use of knowledge-based resources, such as market orientation, to generate sustainable competitive advantage such as superior performance (Fakhreddin & Foroudi, 2022).

Entrepreneurship orientation can be seen as the process of creating entrepreneurial strategies used by key decision makers to set their company's organizational goals, maintain vision, and create competitive advantage (Alalawi, 2020). Thus an entrepreneur must have an entrepreneurial orientation to manage his business. Entrepreneurs who are independent, innovative, proactive, dare to take risks and prioritize cooperation in carrying out entrepreneurial activities will achieve high business performance. According to Miller (Miller, 1983) companies with an entrepreneurial orientation pursue innovation in products and markets, taking the necessary risks rather than avoiding and proactively reacting to opportunities and environmental changes will succeed in their business. Entrepreneurs with a high entrepreneurial orientation also can sell more products and earn high profits because of innovation, proactiveness, risk taking and competitiveness.

### B. Dynamic Capabilities

Companies need to be able to improve four aspects of Resource-based Value (RBV), namely process performance, fundamental resources, improvement capabilities, and dynamic capabilities, in order to adapt to the market (Purbawati & Budiatmo, 2020). As technology changes rapidly, the dynamic capabilities framework analyzes the sources and methods by which private enterprise firms create and capture wealth (Teece et al., 1997). With dynamic capabilities, businesses can deploy, protect, and create intangible assets that

support long-term success (Teece, 2007). Furthermore, dynamic capability refers to the company's capability to integrate, develop and rearrange internal and external competencies in a rapidly changing environment (Teece, 2014). To define how effectively dynamic capabilities affect competitive advantage, several researchers have examined operational mechanisms. For example, dynamic capabilities can be technical knowledge related to the existing knowledge base during the evolution of their business and technical operating models that dynamically enhance existing activities Zollo et al., 2021) (Helfat & Peteraf, 2003) (Zollo & Winter, 2002). This researcher demonstrates the updated and flexible features of innovation and reduces repetition in the definition of dynamic capabilities. As mentioned above, dynamic capabilities consist of four components: (1) environmental sensing capabilities (2) change and renewal capabilities (3) technological flexibility capabilities and (4) organizational flexibility capabilities (Jiao et al., 2010). Successively, these capabilities demonstrate the ability to respond sensitively and identify changes in the industry, competence to innovate and change and flexibility in technology and organizational structures.

### C. Innovativeness Product Advantage

West and Noel (2009) stated that resource-based theory emphasizes knowledge as a type of resource that confers competitive advantages and the potential for sustainability. In resource-based view theory, the foundation for researching factors that have an effect on competitive advantage (Ofori & Appiah-Nimo, 2022). Resource-based view theory provides a holistic understanding of SME performance issues (Safari & Saleh, 2020).

Innovativeness product advantage is the process of producing highly competitive creative industry products as an effort to achieve sustainable competitive advantage (Hana, 2013). Danneels (2002) explain that new products are created by linking competencies related to technology and customers. The competitive advantage that has been achieved by a company must

be maintained, to make this competitive advantage a sustainable competitive advantage. Innovativeness product advantage will encourage the improvement of creative industry business performance (Anjaningrum & Rudamaga, 2019). The concept is a synthesis of the concept of entrepreneurship orientation and the concept of product excellence. As a source of sustainable competitive advantage, product innovation capabilities greatly influence the architectural match between organizational design and product design (Mafimisebi et al., 2020).

### D. The Effect of Entrepreneurial Orientation on the Innovativeness Product Advantage

According to Miller (1983) companies with an entrepreneurial orientation pursue innovation in products and markets, taking the necessary risks rather than avoiding and proactively reacting to opportunities and environmental changes will succeed in their business. Innovativeness is the capacity and desire of entrepreneurs to promote innovation, innovative concepts and developments that can result in new products or services, while proactive is the pursuit of competitive opportunities and competition to anticipate potential demands to improve and change the market climate (Lumpkin & Dess, 1996).

Entrepreneurial orientation helps companies to continue to create value chains by transforming knowledge to be innovative and more competitive (Budiantmo et al., 2021). Many studies show a positive entrepreneurial orientation towards product innovation excellence and the impact on company performance (Makhloufi et al., 2021; Shaher & Ali, 2020; Zhao et al., 2021). The research findings of Al-Shami et al. (2022) revealed a positive relationship between entrepreneurial orientation and innovation performance.

**H1:** Entrepreneurial orientation has a significant effect on the innovativeness product advantage

## E. The Effect of Dynamic Capabilities on the Innovativeness Product Advantage

Dynamic capabilities are part of the competencies that enable companies to create new products and respond to changing market conditions (Ferreira et al., 2021). The dynamic capability contains innovation capability, namely the company's ability to innovate in creating new products through technology that is expected as a result of the creation of all parties within the company in an effort to take advantage of opportunities in the external environment. According to (Cabral, 2010), a company that has a high level of dynamic capability, innovation development focuses not only on the orientation of high profit levels but also on the environment and social equity. In this case, the company directs its innovation strategy focuses on sustainable results, where dynamic capabilities are central to the company's capability development, resulting in higher levels of quality and continuity of new product creation. The previous study confirms that implementing an innovation strategy, the configuration of core innovation capabilities, combining the exploration of opportunities, and exploiting the company's advantages as part of dynamic capabilities, will improve innovation performance (Utoyo et al., 2020). Another study by Al-Shami et al. (2022) show empirically that dynamic capabilities are able to dynamically improve innovation performance in companies.

**H2:** dynamic capability has a significant effect on the innovativeness product advantage

## F. The Effect of Entrepreneurship Orientation on Business Performance

Entrepreneurial orientation can be seen as the process of creating an entrepreneurial strategy that is used by key decision makers to set their company's organizational goals, maintain its vision, and create a competitive advantage (Mason et al., 2015). Thus an entrepreneur must have an entrepreneurial orientation to manage his business. Entrepreneurs who

are independent, innovative, proactive, dare to take risks and prioritize cooperation in carrying out entrepreneurial activities will achieve high business performance. According to Miller (1983) companies with an entrepreneurial orientation pursue innovation in products and markets, taking the necessary risks rather than avoiding and proactively reacting to opportunities and environmental changes will succeed in their business. This is in accordance with the opinion of Magaji et al. (2017) which states that entrepreneurs with a high entrepreneurial orientation can sell more products and earn high profits due to innovation, proactiveness, risk taking, and competitiveness. Entrepreneurs who have a high entrepreneurial orientation will improve company performance. Other previous studies, among others, were conducted by Grande et al. (2011) and Lisboa et al. (2016) have proven that entrepreneurial orientation has a positive effect on company performance. Research by Wang et al. (2020) revealed that entrepreneurial orientation and company resources have a significant positive effect on company performance. Previous research by Khan et al. (2021) revealed the important role of entrepreneurial orientation in determining the performance of small companies.

Based on this explanation, the following hypothesis is formulated:

**H3:** Entrepreneurial orientation has a significant effect on business performance

## G. The Effect of Dynamic Capabilities on Business Performance

Dynamic capability is defined as the company's ability to use its resources (particularly in the process of integrating, reconfiguring, acquiring and releasing resources) that allows the company to respond quickly to new opportunities and even if possible capable (Tejumade & Kevin, 2012). The main implication of the dynamic capability concept is that firms compete not only in terms of their ability to activate and exploit existing resources and organizational capabilities, but also in terms of their ability to renew and develop the

organization (Teece, 2014). Companies that have high dynamic capabilities will encourage their resources to achieve company success by improving their business performance. Bitencourt et al. (2020) state that dynamic capabilities play a role between resources, knowledge and learning, alliances, and firm performance. The results of Al-Shami et al. (2022) show that dynamic capabilities are able to dynamically improve innovation performance in companies.

**H4:** Dynamic capabilities have a significant effect on business performance

#### H. The Effect of Innovativeness Product Advantage on Business Performance

Innovation refers to a firm's capacity to engage in activities of creating new products or services, new technologies, new organizations, or improving existing products or services using existing technological processes and organizations (Ramadani et al., 2019). Innovation is identified in several different dimensions, namely product innovation (providing new or better goods or services); process innovation (providing new ways to organize and incorporate inputs into the production process); and organizational innovation (providing new or improved firm resources) (Ramadani et al., 2019). Lee stated that product innovation is an alternative marketing strategy to support company performance (Lee, 2010). By offering innovative products, companies can differentiate themselves from competitors, thereby increasing market demand which in turn will improve business performance. Innovation has an important role in increasing the informal industry to enter the formal industry in Zimbabwe (Makate et al., 2019). Christa and Kristinae (2021) argue that product innovation is a good marketing strategy to survive when purchasing power declines due to environmental changes. Furthermore, through a meta-analysis of 62 studies for 20 years stated that product innovation can improve company performance (Rousseau et al., 2016). The findings of Anjaningrum and Rudamaga (2019) conclude that there

is an influence of product innovation on industrial performance. The results of other studies indicate a positive effect of product innovation on company performance (Akgün et al., 2007; Lestari et al., 2020) (Ramadani et al., 2019). Based on this description, the following hypotheses can be formulated:

**H5:** The innovativeness product advantage have a positive effect on business performance.

#### I. The Mediating Role of Innovativeness Product Advantage

Khodaei et al. (2021) states that entrepreneurial orientation is an important factor for business to enter new markets and new business foundations. Research by Tuan (2022) reveals a positive relationship between organizational entrepreneurial orientation and product innovation. Furthermore, product advantage is positively related to new product performance, which itself is positively related to superior business performance (Fakhreddin & Foroudi, 2022; Langerak et al., 2004; McNally et al., 2010). The findings of Aftab et al. (2022) show that entrepreneurial orientation and innovation are positively correlated with financial, social, and environmental performance, and confirm the mediating role of innovation. Based on the description, the following hypotheses can be argued:

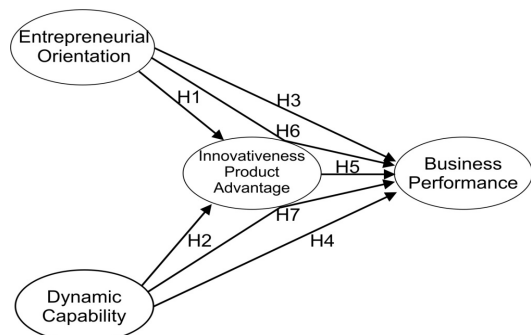
**H6:** The innovativeness product advantage has a mediation role on the effect of entrepreneurial orientation toward business performance.

Dynamic capabilities refers to a enterprise achievement-level capacities to integrate, build, and reconfigure internal and external competencies to respond to rapidly changing environments (Yang & Gan, 2019). According to Wang et al. (2007), the concept of dynamic capabilities is used to model an organization's ability to respond effectively to environmental changes and improve business performance. Dynamic capabilities reconfigure existing operational capabilities into new ones in response to disruptive technological shifts

and innovations (Haki et al., 2022). The study by Kashan et al. (2021) reveals that the process of dynamic capabilities and knowledge development plays a role in product innovation. Research evidence from Oliveira-Dias et al. (2022) pointed to different types of innovations in sustainable business models and distinct activities inherent to the dynamic capabilities. Furthermore, Hua and Wemmerlöv (2006) confirmed that product advantage is positively related to its market share and growth performance. Based on the description, the following hypotheses can be declared:

**H7:** The innovativeness product advantage has a mediation role on the effect of dynamic capability toward business performance.

The following Figure 1 shows a conceptual model of this study. The model analyzes the relationship between two predictors name entrepreneurial orientation and dynamic capability, and two criterion as name innovativeness product advantage, and business performance.



**Figure 1.** The Conceptual Model

### III. Methods

This study chose a quantitative method with data for research collected through surveys. This method was chosen because it has advantages in generalizing

research results.

#### A. Population and Sample

This study takes the population of creative industry entrepreneurs in Semarang, Central Java, Indonesia. Referring to data from Regional Planning Agency, in Semarang, there are around 6,946 SMEs in the creative industry with 17 business fields producing goods and services (Prajanti et al., 2021). The number of samples in this study was calculated using the Yamane approach, using the formula " $n = N / Nd^2 + 1$ " where  $n$  = the number of samples,  $N$  = the number of known populations,  $d$  = set precision = 10% (Yamane, 1973). Based on the calculation  $n = 6,946 / (6,946 * 10\%^2 + 1) = 98$ , the required sample size is 98 respondents. The sample selection was carried out by purposive sampling method. Data collection was carried out by visiting business locations to observe and fill out questionnaires. Based on the screening results of respondents' answers, 175 answers were obtained, and from these answers, 150 data were declared feasible for analysis.

#### B. Measurement

As described in Figure 1, the conceptual model was built with details of two exogenous constructs and two endogenous constructs. The measurement scale was built by referring to previous studies. The six scales of entrepreneurial orientation refer to Lumkin and Dess (1996), Zhu et al. (2018), Darmanto et al. (2021), and Vrontis et al. (2022). Six dynamic capability scales adapted from Kevill et al. (2021), Efrata et al. (2021), Nasution et al. (2021), Widiyanto et al. (2021), and Wang et al. (2022). Five Innovation Business Product Advantage scales adapted from Aminah et al. (2022). Business performance measurement with six scales adapted from Killa et al. (2017), Nuryakin and Ardyan (2018), Seles et al. (2019), and Chege et al. (2020). The five-point Likert measurement scale (Likert, 1932) ranges from 1 for "strongly disagree"



to 5 for "strongly agree".

### C. Analysis Techniques

This study selected the Structural Equation Model (SEM) to test the hypothesis, with the aim of enabling the simultaneous testing of a series of relatively complex relationships (Hair et al., 2014). Covarian - based SEM was chosen because it is more suitable for theory testing (Hulland et al., 2010). In the first stage of SEM, confirmatory factor analysis (CFA) was carried out to verify the validity and reliability of the data obtained. CFA testing includes factor loading, reliability indicators include Cronbach's Alpha, composite reliability, average variance extracted. Discriminant validity testing through Fornell and Larcker criteria (Fornell & Larcker, 1981) by comparing the correlation between variables with the AVE squared. The second stage is full model testing to test the hypothesis (Hair et al., 2017). Tests required for SEM include normality (Bayır et al., 2022; Cangur & Ercan, 2015), goodness of fit model (Cangur & Ercan, 2015; Hooper et al., 2008; Leyton-Román et al., 2021), and structural relationships (Hair et al., 2014). SEM calculations using IBM SPSS Amos 26.0 software which allows testing of larger models to gain new insights from the data (Byrne, 2016). Calculation of the indirect effect used the Sobel Test calculator (Preacher & Leonardelli, 2010), carried out using an online calculator.

## IV. Results

### A. Respondent Demographics

Based on the results of distributing questionnaires to 220 creative industry players, as many as 165 respondents gave responses. From the answers that were returned, it was found that 15 incomplete answers were found, so that the data that deserved to be used as calculations were set at 150 pieces.

The description of the demographic profile of the respondents is described in Table 1, where it can be seen that the dominant gender is female by 57%, the latest education is bachelor degree by 44%, the age balance between 31-40 years is 35% and 41-50 years is 34%, the dominant type of business industrial digital by 28%, and the duration of trying is mostly 16-20 years by 26%.

### B. Common Method Bias Analysis

Non-response bias refers to the mistake one expects to make in estimating a population characteristic based on a sample of survey data in which, due to nonresponse, certain types of survey respondents are under-represented (Berg, 2005). In this study, we used two approaches to minimize response bias, namely procedural

**Table 1.** Respondents' profile (N-150)

Characteristics	Frequency	Percentage
<i>Gender</i>		
Man	65	43.0
Woman	86	57.0
<i>Education</i>		
Junior High School	3	2.0
High School	36	24.0
Diploma	27	18.0
Bachelor	66	44.0
Postgraduate	18	12.0
<i>Age</i>		
- 30 years	26	17.0
31-40 years old	53	35.0
41-50 years old	51	34.0
51+ years	21	14.0
<i>Type of business</i>		
Fashion	27	18.0
Culinary	33	22.0
Digital	42	28.0
Art	11	7.0
Architecture	14	9.0
Publishing	15	10.0
Advertising	9	6.0
<i>Business Length</i>		
1-5 years	24	14
6-10 years	36	22
11-15 years old	33	20
16-20 years old	39	22
21+ years old	18	10

improvements in measurement (Viswanathan & Kayande, 2012) and statistical testing (Kock et al., 2021). The procedural improvements undertaken included providing in-depth discussions to respondents with a focus on research questions, both independent and dependent. In statistical, current research uses a non-response test to analyze there are differences in the answers of respondents who participated in research with did not participate (Clotey & Benton Jr, 2020; Podsakoff et al., 2011). This non-response test was carried out by comparing respondents who returned the questionnaire early with not on time. The calculation of the independent sample T-test test finds an insignificant result (sig.  $P > 0.05$ ), thus it can be stated that research data is free of nonresponse bias.

### C. Confirmatory Factor Analysis

Confirmatory factor analysis (CFA) in this study was performed to assess the unidimensionality of all multi-item scales for each construct. The results of the calculations in Table 2 are known that there are four indicators that have a loading factor smaller than 0.7, namely DC2, IB1, IB5 and PB1, therefore they are excluded from the model in the next analysis. The evaluation of the next measurement model includes the concept of construct reliability. Table 3 shows Cronbach's Alpha of all constructs greater than 0.70, construct reliability (CR) above 0.7, and average variance extracted (AVE) greater than 0.5. These results indicate that the measurement model has complied with the relevant criteria.

Fornell-Larcker criteria in this study were chosen to assess discriminant validity (Franke & Sarstedt, 2019; Roemer et al., 2021). The results in Table 4

**Table 2.** Indicator validity test

Items	Statement	Loading
EO1	We have the freedom to develop new ideas	0.716
EO2	We have a strong tendency to develop new products	0.900
EO3	We are active in anticipating changing consumer needs	0.882
EO4	We have a tendency to dare to implement new strategies	0.816
EO5	We maintain cooperation with partners	0.869
DC1	We quickly identify changes in information and knowledge to businesses	0.936
DC2	<i>We quickly develop products or services using new technology</i>	<i>0.686</i>
DC3	We quickly integrate and share new information and knowledge	0.939
DC4	We managed to adjust their strategy as the situation changed	0.902
DC5	The company has a culture that encourages innovation and management systems	0.866
DC6	Companies quickly incorporate market changes into new products	0.918
IB1	<i>The company develops a higher quantity and variety of products</i>	<i>0.687</i>
IB2	The company develops new technology in production methods	0.823
IB3	Companies develop new ways to organize	0.927
IB4	The company increases market share with better products	0.870
IB5	<i>The company increases market share with new products</i>	<i>0.605</i>
BP1	<i>We have sales growth</i>	<i>0.370</i>
BP2	We have increasing of profitability	0.951
BP3	We have new customers' growth	0.904
BP4	We have increasing market coverage	0.713
BP5	We have increasing of products offering	0.756
BP6	We have increasing of products values	0.751

show that the square root of AVE in the diagonal and thick elements is greater than the element under the diagonal which is the correlation between the constructs. These results explain the fulfillment of discriminant validity for the correlation between the four construct measures.

#### D. Structural Model

Based on the results of the assessment at the confirmatory factor analysis stage, the analysis can be continued in stage 2, namely estimating the structural model. The value of the coefficient of determination ( $R^2$ ) in Figure 2 is 0.64, entered into the high category ratio (Chin, 1998). This explains that the predicted model generated by 64% is good for the endogenous constructs of business performance by the constructs of entrepreneurial orientation, dynamic capabilities, and the innovativeness product advantage.

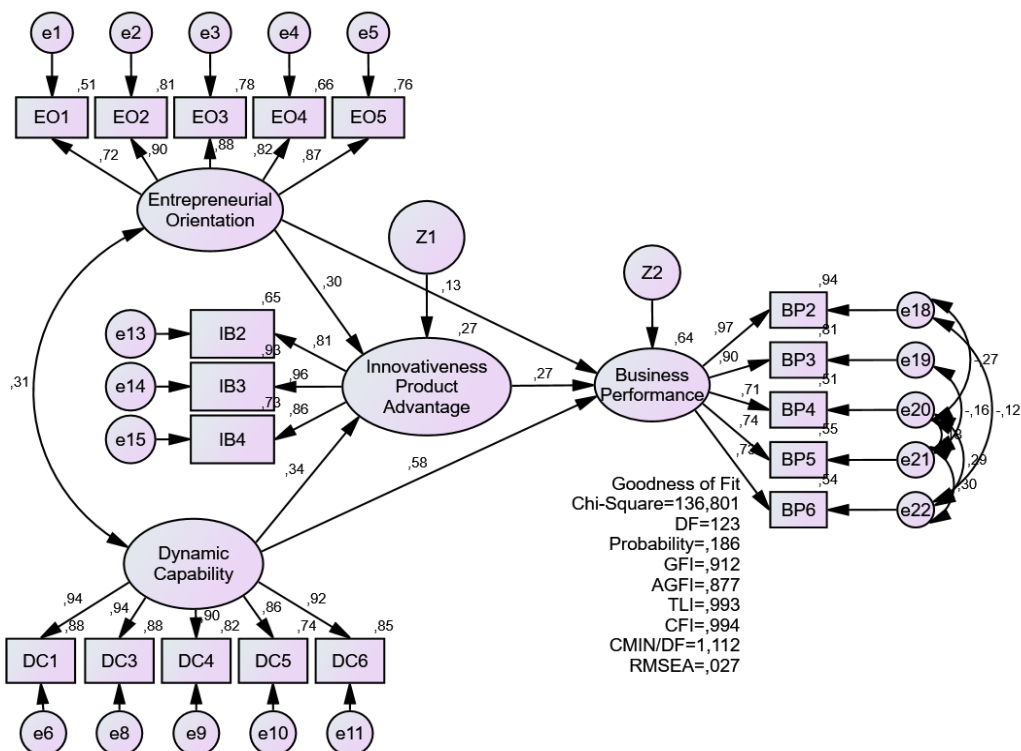
The final model assessment through the fit indices model criteria is shown in Table 5. The results of

**Table 3.** Reliability indicator valid test

Construct	Cronbach's $\alpha$	CR	AVE
Entrepreneurial Orientation	0.920	0.922	0.704
Dynamic Capability	0.960	0.961	0.833
Innovativeness Product Advantage	0.902	0.910	0.771
Business Performance	0.911	0.911	0.675

**Table 4.** Fornell-Larcker criterion

	EO	DC	IBPA	BP
EO	<b>0.839</b>			
DC	0.313	<b>0.913</b>		
IBPA	0.410	0.434	<b>0.878</b>	
BP	0.423	0.744	0.569	<b>0.822</b>



**Figure 2.** The Full Model Result from Amos 26

the model goodness test are known for  $p=0.186$ ;  $GFI=0.912$ ,  $TLI=0.993$ ,  $CFI=0.994$ ,  $CMIN/DF=1.112$ , and  $RMSEA=0.027$ , thus these values indicate a good model fit (Arbuckle, 2017; Hair et al., 2014).

Covariance-based SEM using the Maximum Likelihood Estimation estimation technique requires the fulfillment of normality assumptions. The results of multivariate normality in Table 6 show that the kurtosis value is 9.067 with a critical ratio ( $cr=2.069<2.58$ ). This value indicates that the multivariate distribution of the data is normal.

The results of testing the seven hypotheses are summarized in Tables 7 and 8, showing the critical

ratio values for  $CR-H1 = 3.354$ ,  $CR-H2 = 4.051$ ,  $CR-H3 = 2.044$ ,  $CR-H4 = 8.946$ ,  $CR-H5 = 3.946$ ,  $CR-H6 = 2.635$ , and  $CR-H7 = 2.815$  greater than the cut-off value off 1.96, with a significance probability lower than 5%. The conclusion of this finding is that the seven hypotheses are well accepted. The calculation for the Sobel test was used as an interactive calculation tool for the mediation test to test whether the mediator had an effect on the exogenous to endogenous relationship (Preacher & Hayes, 2008). Based on the comparison between Tables 7 and 8, it is known that the direct or indirect relationship is significant, so it can be concluded that IBPA is a quasi mediator.

**Table 5.** Model fit indices

GoF Index	Cut of Value	Results	Evaluation
Probability	> 0.05	0.186	Well
GFI	> 0.90	0.912	Well
TLI	> 0.95	0.993	Well
CFI	> 0.95	0.994	Well
CMIN/DF	< 2.00	1.112	Well
RMSEA	< 0.08	0.027	Well

**Table 6.** Assessment of normality

Criteria	Kurtosis	Critical Ratio
Multivariate Normality	9.067	2,069

## V. Discussion

This study proposes seven hypotheses, namely the influence of entrepreneurial orientation and dynamic capability on product innovation excellence, the effect of entrepreneurial orientation and dynamic capability on business performance, and the effect of product innovation excellence on business performance. The five hypotheses proposed were all proven to have a significant effect. The results of this study also

**Table 7.** Hypothesis testing

H#	Relationship	B	Std Dev	CR	p-Value	Decision
H1	EO → IBPA	0.348	0.098	3.554	0.000	Supported**
H2	DC → IBPA	0.242	0.060	4.051	0.000	Supported**
H3	EO → BP	0.178	0.087	2,044	0.041	Supported*
H4	DC → BP	0.502	0.056	8.946	0.000	Supported**
H5	IBPA → BP	0.334	0.085	3.946	0.000	Supported**

Note: \*\*  $p < 0.01$ ; \*  $p < 0.05$ .

**Table 8.** Indirect Effect testing

Relationship	B	Std Dev	CR	p-Value	Decision
EO → IBPA → BP	0.083	0.044	2.635	0.008	H6 Supported as Quasi-mediation
DC → IBPA → BP	0.093	0.029	2.815	0.005	H7 Supported as Quasi-mediation

Note : Sobel Test Calculator by quantpsy.org

supported two indirect hypotheses. It proves the mediating role of product innovation excellence in mediating entrepreneurial orientation and dynamic capabilities on business performance.

This study proves that the entrepreneurial orientation has a significant effect on the innovativeness product advantage. The results of this study are supported by studies conducted by Parkman et al. (2012), Wang et al. (2015) which also proves the significant influence of entrepreneurial orientation on product innovation. Entrepreneurial orientation is also proven to have a direct influence on business performance. Thus an entrepreneur must have an entrepreneurial orientation to manage his business. Entrepreneurs who are independent, innovative, proactive, dare to take risks and prioritize cooperation in carrying out entrepreneurial activities will achieve high business performance (Mason et al., 2015). The results of this study support previous research, among others, conducted by Grande et al. (2011) and Lisboa et al. (2016) have proven that entrepreneurial orientation has a positive effect on company performance.

This study proves that dynamic capabilities have a significant influence on the superiority of product innovation. The dynamic capability contains innovation capability, namely the company's ability to innovate in creating new products through technology that is expected as a result of the creation of all parties within the company in an effort to take advantage of opportunities in the external environment. The results of this study also show a significant effect of dynamic capability on business performance. Companies that have high dynamic capabilities will encourage their resources to achieve company success by improving their business performance. The better dynamic capabilities will increase the innovativeness product advantage and business performance.

The innovativeness product advantage is proven to have a significant effect on business performance. By offering innovative products, companies can differentiate themselves from competitors, thereby increasing market demand which in turn will improve business performance. The results of this study support the previous research conducted by Akgün et al. (2007),

Lestari et al. (2020), and Ramadani et al. (2019) which shows a positive effect of product innovation on company performance. The innovativeness product advantage is also proven to have the ability to mediate the role of entrepreneurial orientation and dynamic capabilities to business performance. Previous research conducted by Killa et al. (2017), Mulyana and Hendar (2020) also shows that product innovation has a mediating ability on business performance.

In this study, the theoretical contribution support resource-based value (RBV) theory, as tangible and intangible resources of the company can be the company's unique capabilities (Teece et al., 1997). Following the RBV theory by Wernerfelt (1995) companies can be defined either in terms of products/services or in terms of resources. This study strengthens the research on RBV theory that explains the relationship between entrepreneurial orientation and the financial performance of firms is stronger (Jalali et al., 2014). Entrepreneurial orientation makes business owners willing to innovate, take risks, take independent actions, and be more proactive and aggressive than competitors to seize new markets (Wang et al., 2020).

For practical contribution, this study provides entrepreneur of creative industry should continue to increase the risks taking by offering new products. Through the creation of unique products, SMEs will be able to win market share. For this reason, SMEs need to utilize the internet to conduct product research, so that they have high dynamic capabilities. The integration of entrepreneurial orientation and dynamic capability to create innovative product advantages is expected to drive business performance. Support from the government, community, media, academics, and banking is needed to create a sustainable creative industry.

## VI. Conclusions and Recommendations

### A. Conclusion

Industry Creative is one of the sectors in the subsystems of the creative economy industry that

have authenticity in creativity individual, Skills and talent which have potency for bring income and field creation work through exploitation riches intellectual. Micro, small and medium enterprises in the creative industry face intense business competition, both domestically and abroad, so these companies must understand the forces of competition and be able to develop competitiveness in order to create a competitive advantage.

The innovativeness product advantage is solution offered to bridge the research gap between strategic aspects (entrepreneurial orientation) and organizational aspects (dynamic capabilities) of human capital on the performance of creative businesses in the city of Semarang. Overall, there are hypotheses proposed, namely: the effect of entrepreneurship orientation on the innovativeness product advantage, the effect of dynamic capabilities on the Innovativeness product advantage, the effect of entrepreneurship orientation on business performance, the effect of dynamic capabilities on business performance, and the effect of innovativeness product advantage on business performance. The results of the study concluded that all hypotheses were stated to be significant. Likewise, the mediating role of innovativeness product advantage is stated to be significant.

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