

The Role of Coaching, Capability, and Innovation on the Performance of SMEs in the Kenjeran Tourism Area in Surabaya

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Abstract: The research objective is to analyze the role of business development, capability, and innovation on the performance of small and medium-sized businesses in the Kenjeran tourism area in Surabaya. Coaching variables and capabilities as external and internal environmental conditions of the company as antecedents of innovations that affect performance. Survey design used a questionnaire for 77 respondents from four types of businesses as small and medium-sized businesses with an analysis technique of structural equation modeling – partial least squares. The results show that innovation intervening the effect of capability on performance. Coaching as antecedents a capability has a central role in improving the performance of SMEs. The implication is that the role of the government in formulating coaching policies is very necessary to improve the performance of SMEs in the economic development of tourism areas.

Key words: Coaching, Capability, Innovation, Performance

1. INTRODUCTION

Tourism has an impact on income inequality among developing countries, so tourism issues and income inequality have important implications for tourism development policies in developing countries (Alam and Paramati, 2016). Tourism development is realized in several tourist areas that are of concern to the government in various developing countries.

Kenjeran tourism area as a manifestation of government attention has a tourist attraction second place after pilgrimage religious tourism to the tomb on Sunan Ampel Surabaya. The average annual visit is almost 1.3 million tourists or constitutes 25% of the total tourist visited on Surabaya which reaches 5.3 million annually (Soebandi et al. 20118).

The potential of tourism areas is expected to have an optimal economic impact of the community, with the increasing performance of the small and medium-sized business industry that carry out sustainable economic activities.

In developing the performance of small and medium enterprises (SMEs), there are two approaches that are often used in performance strategies. The first is the resource-based approach and the second is a market-based approach as a competitive advantage strategy. The resource-based approach is that companies must be oriented to the capabilities and resources that are intangible to obtain superior performance, while the market-based approach is a strategy to create market-oriented products.

Both approaches have an outward-looking perspective and are inward-looking as the external and internal environment of the company. A dynamic external environment and internal capabilities can affect company performance. In some literature found that capabilities and the external environment do not directly affect performance, but internal capabilities and openness of knowledge sharing are very important to improve innovative performance (Caloghirou et al., 2004), and innovation influences performance (Caloghirou et al., 2004) and a dynamic environment reinforces the effects of product innovation on business performance (Prajogo, 2015).

Thus, this research question is how SMEs in the *Kenjeran* tourism area innovate to improve performance, with internal resources and the external environment faced. With the aim of obtaining empirical answers to the development of SMEs in the *Kenjeran* tourism area in Surabaya.

2. THEORETICAL FRAMEWORK

The theoretical framework in research includes a review of theories, research models and the development of hypotheses.

2.1 Theoretical Review

Review of theories that underlie the relationships between variables in the management of small and medium enterprises (SMEs) using strategic management. In strategic management, there are at least two important factors, namely process, and strategy. Management of SMEs pays attention to the process by maximizing resources, and minimizing risks,

and using strategies to increase the competitive advantage to optimize business profits. By considering, external and internal environmental factors to formulate a strategy as an effort to improve the performance of SMEs.

External factors that are perceived as guidance by the government for SME development. Internal factors as ability or capability possessed in maximizing resources.

Coaching activities as a learning process within the organization increase product innovation through the ability or capability of design to adapt to environmental changes in SMEs (Fernández-Mesa et al., 2013). The involvement of SMEs in coaching with motivation to learn positively influences innovation (Sheehan et al., 2014).

So coaching activities, capability and innovation have theoretical linkages in an effort to improve the performance of SMEs. The innovative ability has a partial mediator effect on the dimensions of market orientation and performance (Zehir et al., 2015). Therefore, the relationship between coaching as an external factor, capability as an internal factor, innovation and performance are arranged in the research model in Figure 1.

2.2 Research Model

This research model that describes the relationship between variables is presented in Figure 1.

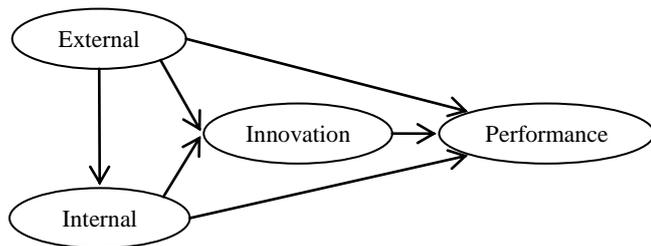


Figure 1: Research Model

2.3 Hypothesis Development

The development of the hypothesis in this study includes eight hypotheses developed from the theoretical framework and the results of previous research, which include: (1) the influence of coaching on capability, (2) the influence of coaching on innovation, (3) the influence of coaching on performance, (4) influence capability to innovation, (5) the influence of capability on performance, (6) the influence of innovation on performance, and (7) innovation mediates the influence of capability on performance, and (8) innovation mediates the influence of coaching on performance.

2.3.1 Coaching (COA) has Influenced on Organizational Capability (CAP)

Capability with limited resources for small and medium enterprises often hinders effective responses to external environmental stresses (Lee and Klassen, 2008). The external environment as a business environment such as business certainty, a legal system, and government interaction influences the activities of small and medium enterprises. The business environment affects internal

factors such as entrepreneurial characteristics, management capacity, marketing skills, and technological capacity (Bouazza et al., 2015).

SMEs have complex interrelated external and internal environments as barriers to practice, with holders of owners or managers in control. Guiding and training owners are the key to the success of managing small and medium businesses in a dynamic environment and are very important is the involvement of government institutions (Peel, 2008).

Financial assistance and training improve SME performance indicators, including increased sales, assets, employment, and significant fulfillment of household expenses (Haider et al., 2017). The involvement of the government as a policymaker is very important in the implementation of mentoring and training (Haider et al., 2017). Coaching and mentoring are positively related to talent development (Subramaniam et al., 2015) as an antecedent of organizational capabilities. Then the hypothesis is built as follows:

H₁: Coaching (COA) has a positive effect on organizational capability (CAP)

2.3.2 Coaching (COA) Influence on Innovation (INO)

Innovation is widely studied in business and economics because of the positive impact that is generated on the organization as a competitive advantage. Innovation as the implementation of new products (services) has increased significantly and is related to the utilization of idea values (Dewangan and Godse, 2014).

Within the operational framework that affects the competitiveness of companies is the ability of companies related to innovation, and building relationships with government and non-government institutions are very important (Awuah and Amal, 2011). Therefore, coaching as a human resource development intervention positively contributes to organizational innovation activities. Coaching positively influences employee involvement, leadership, manager motivation for learning, promotion of learning a culture, and development of social capital that are all positively related to innovation. Informal coaching and access to mentors and coaches prove to be very important for SME innovation (Sheehan et al., 2013).

The role of direct grants and tax incentives from the government to SMEs as the main instrument to improve market failures and facilitate innovation through decreasing research and development costs (Radas et al., 2015). Therefore, hypotheses are compiled:

H₂: Coaching (COA) has a positive effect on innovation (INO)

2.3.3 Coaching (COA) Influence on Performance (PER)

Coaching as an external factor and a business environment influences the success of small and medium business enterprises, including customers and markets, ways of doing business, resources, and finance (Chittithaworn et al., 2011). SME growth is hampered by interrelated factors between business environment factors that are out of control with

internal factors of SMEs (Benzazoua et al., 2015). Therefore, the importance of various SME stakeholders and large companies is working with non-government organizations to help inform practical decision-makers about how to improve business performance (Harangozó and Zilahy, 2015).

Collaboration with non-governmental institutions and government agencies in developing SMEs requires social ability to improve company performance. Government support, associations and financial institutions in coaching have been proven to improve entrepreneurial performance. The support of the entrepreneur's family, knowledge of potential customers, and business experience, as well as personal characteristics of innovative business influence the performance of SMEs (Pinho and de Sá, 2014).

Therefore, hypotheses are compiled:

H₃: Coaching (COA) has a positive effect on performance (PER).

2.3.4 Organizational Capability (CAP) Affects Innovation (INO).

Organizational capability is the ability to use optimally owned internal resources to achieve company goals. In an effort to optimize internal resources, the company as a growing organ raises ideas and ideas that are innovations, so that organizational capabilities affect innovation.

Organizational learning ability influences innovation of small and medium enterprises (Gomes and Wojahn, 2017), and organizational capabilities with cultural control have a positive effect on creativity that facilitates the formation of innovation in small and medium enterprises (Ismail, 2016). The company's ability to accumulate from learning efforts can solve obstacles in the innovation process. The organizational ability can play an important role in innovating (Si et al., 2018).

Organizational learning ability enhances product innovation through mediating design management capabilities, as dynamic capabilities grow from learning that allows companies to adapt to changing environments (Fernández-Mesa et al., 2013). Therefore, hypotheses are compiled:

H₄: Organizational capability (INT) has a positive effect on innovation (INO).

2.3.5 Organizational Capability (CAP) Affects Performance (PER)

Organizational capability is the ability to optimize resources to achieve company goals. Organizational capability as a characteristic of entrepreneurs is an important factor in the success of SME businesses (Islam et al., 2011). The ability of different companies to design business models has a varying impact on company performance (Pucci et al., 2017). The combination of intellectual resources and high capability, growth can improve the performance of SMEs (O'Cass and Sok, 2014).

In a resource-based approach to market orientation, entrepreneurship and learning that strengthens

organizational capability positively improve SME performance (Lonial and Carter, 2015), and the influence of learning orientation on more intense organizational learning related to organizational capabilities influences the performance of SMEs. Therefore, the hypothesis is compiled: H₅: Organizational capability (INT) has a positive effect on performance (PER).

2.3.6 Influential Innovation (INO) Against Performance (PER)

Innovation as an idea or idea that is transformed in the value of the company. Innovations in products, processes, and management have a positive and significant effect on the business performance of SMEs (Maldonado-Guzmán et al., 2018). Innovation significantly influences organizational performance positively, and contributes more than fifty-one percent of the variation in the performance of SME organizations, so SME managers pay important attention to the implementation of innovation activities in the company (Acquah and Boachie-Mensah, 2015). SMEs can create innovations that are environmentally responsible (Halme and Korpela, 2014). Therefore, the hypothesis is compiled:

H₆: Innovation (INO) has a positive effect on performance (PER).

2.3.7 Innovation (INO) to Mediate the Effect of Coaching (COA) and Organizational Capability (CAP) on Performance (PER).

Professional service companies in developing countries tend to use high-wage labor in developing innovative services, with the resource-based view approach found that innovation moderates the influence of entrepreneurial orientation on foreign market performance (Bello et al., 2016). Innovation mediates the influence of organizational capabilities on superior corporate performance (Camisón and Villar-López, 2014). Innovation mediates the influence of organizational learning on performance in SMEs than in large companies (Real et al., 2014). The company's innovative climate mediates the relationship between leadership and manager behavior (Kang et al., 2015). Therefore, the hypothesis is compiled:

H₇: Innovation (INO) intervening the influence of coaching (COA) on performance (PER).

H₈: Innovation (INO) intervening the influence of Capability (CAP) on performance (PER).

3. RESEARCH METHODS

3.1 Objects and Samples

The object of the study was small and medium-sized businesses (UKM) in the Kenjeran beach tourism area of Surabaya, the sample was used by the survey using questionnaires from respondents in the location directly in March 2018.

3.2 Variable Measurement

Variable measurement using a questionnaire modified from previous research to adjust the research object and respondent characteristics. *Likert* point scale 1-7 to give respondent answer weight at score 1 = very low up to 7 = very high.

Table 1, the construct in the study is the perception of external support especially coaching (COA), the perception of the capabilities possessed by organizational capability (CAP), the perception of finding and realizing new ideas as innovation (INO), and the perception of company performance (PER).

3.3 Analysis Technique

The analysis technique uses Structural Equation Model-Partial Least Squares (SEM-PLS), by evaluating the outer model and inner model. Outer model is a measurement model to assess the validity and reliability of the model. The inner model is a structural model to evaluate the relationships between constructs that become hypotheses in the model (Hair et al., 2014).

Table 1. Variable Operational Definition

Construct (Ref.)	Definition	Instrument / Indicators	Code
COA – Business environmental and de Sá, 2014) modified	Perceptions of external support in the business environment	<ul style="list-style-type: none"> ▪ Support the development of the business area by the Regional government. ▪ Sea recreation vehicles are adequate for tourists. ▪ Association and Regional government provide training for business people ▪ Benefits of coaching by the Regional government with entrepreneurial material ▪ Competition among businesses in the Kenjeran tourism area 	COA1 COA2 COA3 COA4 COA5
CAP – Capability (Fernández-Mesa <i>et al.</i> , 2013)	Perception of capabilities possessed by HR	<ul style="list-style-type: none"> ▪ Design low costs in products ▪ Ability to change the traditional way of doing business ▪ Policies are influenced by employee views ▪ Managers in my company often involve employees to make decisions 	CAP1 CAP2 CAP3 CAP4
INO – Innovation (Fernández-Mesa <i>et al.</i> , 2013)	Perception finds and embodies new ideas	<ul style="list-style-type: none"> ▪ Development of environmentally friendly products ▪ The ease of finding new ideas is not imitation ▪ Quickly aware of competitors' innovations ▪ Evolution of market share 	INO1 INO2 INO3 INO4
PER – Performance (Soto-Acosta <i>et al.</i> , 2016)	Perception of Financial Performance & customers	<ul style="list-style-type: none"> ▪ Earnings growth above competitors ▪ Product quality perceived by customers above competitors ▪ Investment returns above competitors 	PER1 PER2 PER3

4. RESULT AND DISCUSSION

4.1 Results

The results of the study presented population and sample, respondent demographics, descriptive statistics and test models and structural model test measurements.

4.1.1 Population and Sample

The population is 164 small and medium enterprises from four types of service businesses which include 30% marine services, 13% culinary services, 51% souvenir and souvenir services, and 6% entertainment services). The sample was chosen randomly as many as 77 respondents of small and medium business actors in the Kenjeran beach tourism Surabaya.

4.1.1 Respondent Demographics

Demographics of respondents in Table 2, type of business is dominated by culinary services and souvenir centers as much as 59% which means that beach tourism focuses on culinary and souvenirs. Length of business over 15 years reaches 23% as a sustainable business, and the age of the majority of business actors is older than 41 years so it lacks business motivation, while gender is dominated by women reaching 69% of gender, whereas the nature of its business is a major business which means a daily livelihood day by woman.

Table 2. Respondent Demographics (n=77)

		Description	Total	Percent
Type of Business	:	Marine / Sea Services	9	12%
		Culinary Services	34	44%
		Souvenir Center services	25	32%
		Entertainment Services	9	12%
Business Duration	:	< 5 years	7	9%
		6 – 10 years	16	21%
		11 – 15 years	43	56%
		> 15 years	18	23%
Age	:	< 21 – 30 years	8	11%
		31 – 40 years	18	23%
		> 41 yeras	51	66%
Gender	:	Male	24	31%
		Female	53	69%
Nature of Business	:	Main business	43	56%
		Not the main business	25	
		Not owned	9	12%

4.1.3 Descriptive Statistics

Descriptive statistics in Table three show that coaching variables have a mean of 4.40 from theoretical range 1-7 indicating that the respondent has a perception of coaching above the average, but has not reached optimal, while the capability with a mean of 4.30 under coaching means that

the perception of capability under coaching, and innovation has a mean of 4.00 or the lowest which means that SME's innovation perception is still limited, and the performance has a mean of 4.40 in accordance with guidance but has not reached optimal.

Table 3. Constructs Descriptive Statistics

Constructs	Initial Code	Ques tions	Range	Actual Range	Mean	Std dev.
Coaching	COA	5	1 – 7	2.00 – 6.60	4.40	1.20
Capabilities	CAP	4	1 – 7	2.25 – 7.00	4.30	1.30
Innovation	INO	4	1 – 7	2.25 – 6.50	4.00	1.30
Performance	PER	4	1 – 7	2.67 – 7.00	4.40	1.30

4.1.4 Measurement Model

The measurement model in Figure 1, shows that loading the factor of all indicators in the model meets the criteria above

0.7 which means that all indicators in the model construct fulfill reliability.

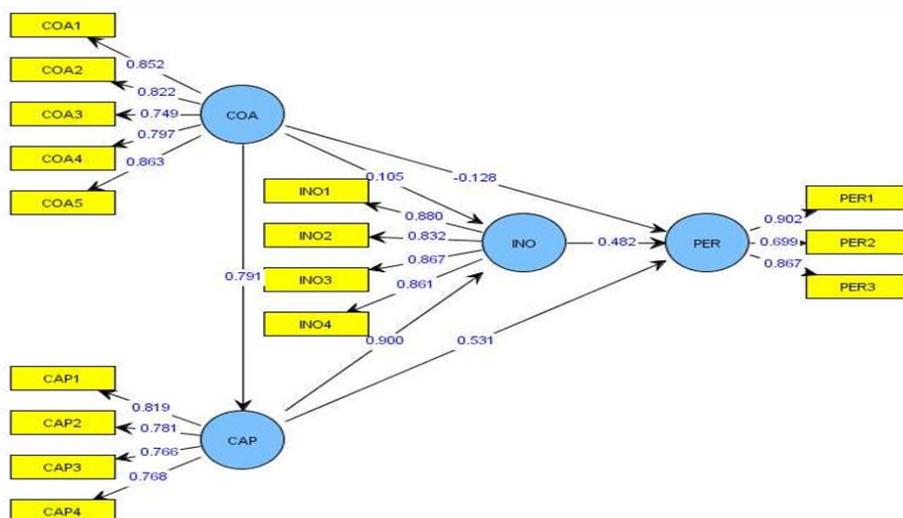


Figure 2. Structural Model

“The Role of Coaching, Capability, and Innovation on the Performance of SMEs in the Kenjeran Tourism Area in Surabaya”

Evaluation of the reliability and validity of the model in Table 4, average variance extracted (AVE) and composite reliability showed values above 0.70 which means reliable measurement models. While discriminant validity shows

that the root (square root of AVE) in bold each construct is above the correlation value between constructs, which means that the measurement in the model is valid.

Table 4. Reliability and Validity Evaluation

Constructs	AVE	Comp Reliability	R ²	Square root of AVE & Intercorrelations			
				COA	CAP	INO	PER
Coaching – COA	0.67	0.91		0.82			
Capabilities – CAP	0.85	0.86	0.63	0.79	0.92		
Innovation – INO	0.74	0.92	0.97	0.33	0.78	0.86	
Performance – PER	0.69	0.87	0.83	0.70	0.70	0.48	0.83

4.1.5 Structural Model

The structural model as a hypothesis test is presented in Table 5, there are six hypotheses as direct effects and two hypotheses mediating the construct's role of innovation.

H₁: Coaching (COA) has a positive effect on capability (CAP) showing a statistic t-value of 16.504 which means that it is significantly accepted.

H₂: Coaching (COA) has a positive effect on innovation (INO) showing a statistic t-value of 1.295 or <1.965 which means it is rejected.

H₃: Coaching (COA) has a positive effect on performance

(PER) showing a statistic t-value of 1.667 or <1.965 which means rejected.

H₄: Capability (CAP) has a positive effect on innovation (INO) showing a statistic t-value of 23.486 which means that it is significantly accepted.

H₅: Capability (CAP) has a positive effect on performance (PER) showing a statistic t-value of 1.451 which means it is rejected.

H₆: Innovation (INO) has a positive effect on performance (PER) showing a statistic t-value of 2.544 which means it is significantly accepted.

Table 5. Inner Model Evaluation

Hyptho & step	β – Coef.	t-Statistics	Level sign	R ²	Test hyptho
Overall test:					
H ₁ COA -> CAP	0.791	16.504	0.005	0.625	Accept
H ₂ III COA -> INO	0.105	1.295	Notsign		Reject
H ₃ III COA -> PER	-0.128	1.667	Notsign		Reject
H ₄ VI CAP -> INO	0.900	23.486	0.005	0.971	Accept
H ₅ VI CAP -> PER	0.531	1.451	Notsign		Reject
H ₆ VII INO -> PER	0.482	2.254	0.009	0.826	Accept
Partial test for intervening:					
H ₇ I COA -> PER	0.697	14.825	0.005	0.486	Rejected
H ₇ II COA -> INO	0.325	1.606	Notsign	0.381	
H ₈ IV CAP -> PER	0.705	38.309	0.005	0.719	Accepted
H ₈ V CAP -> INO	0.784	43.704	0.005	0.668	

Source : Output PLS (2018). *bootstrapping.inner_weights*.

H₇: Innovation (INO) intervening the coaching effect (COA) on performance (PER), indicating that in phase one partial COA -> PER test is significantly accepted, then the second stage of COA -> INO is rejected, and in the third stage of COA -> INO and COA -> PER overall in H₂ and H₃ tests are rejected, meaning that H₇ is rejected.

H₈: Innovation (INO) intervening the effect of capability (CAP) on performance (PER), indicating that in the fourth stage partial CAP test -> PER is significantly accepted, then the fifth stage of COA -> INO is significantly accepted, and in the sixth stage CAP -> INO and INO -> PER overall H₄ and H₆ tests are significantly accepted, while CAP -> PER is directly rejected, meaning that H₈ is accepted.

4.2 Discussion

SME development that has been carried out by external parties dominated by local governments positively influences capability. SMEs are very important to get assistance to improve business capabilities and business development information. Empirically the results of the study support (Peel, 2008) that the key to the success of SME management in a dynamic environment is the involvement of government institutions (Peel, 2008), and government involvement is very important as a policy-maker (Haider et al., 2017), as well as related guidance and assistance with the development of SME talent (Subramaniam et al., 2015).

Coaching has no effect on innovation. Innovation is not

directly influenced by coaching because innovation is the output of the ability of SME human resources in realizing ideas or ideas into values. This research is in line with the findings (Malik and Jasińska-biliczak, 2018) that entrepreneurs are aware of the fact that innovation is also a process in themselves, and the company's support in the form of knowledge transfer from experts to SMEs.

Coaching does not affect performance. Performance is not directly influenced by coaching. Coaching impacts more on personal attributes, and in a competitive business environment coaching as building competencies. This research is in accordance with the findings (Gray et al., 2011) that in a competitive SME business environment, coaching as a therapeutic intervention and the impact of business orientation is very weak.

Capability positively influences SME innovation. The meaning is that internal capabilities can foster ideas or ideas that are realized in the value of SME management. The results of the study support (Gomes and Wojahn, 2017) that organizational learning abilities affect the innovation of SMEs. Organizational ability and creativity facilitate the formation of innovation (Ismail, 2016) and play an important role in innovating (Si et al., 2018). Organizational learning skills enhance innovation to adapt to changing environments (Fernández-Mesa et al., 2013).

Capability does not affect performance. Capability does not directly affect performance because the capability is an antecedent of innovation to turn ideas into values that produce a performance. This research supports (Gomes and Wojahn, 2017) that organizational learning abilities affect the innovative performance of small and medium enterprises, however, the influence of learning abilities in organizational performance is insignificant.

Innovations positively affect the performance of SMEs. Innovation as an idea or idea that is realized in value, as an intangible asset so as to improve performance. In many ways, SMEs must be created to provide economic value in their business. The results of this study support (Maldonado-Guzmán et al., 2018) that innovation as an idea or idea that is transformed in the value of the company. Innovation contributes more than fifty-one percent to the performance of SME organizations (Acquah and Boachie-Mensah, 2015), and creating innovation can increase environmental responsibility (Halme and Korpela, 2014).

Innovation does not play a role as a mediating effect of coaching on performance. Coaching does not directly affect innovation so it does not act as a mediation. These results indicate that the indirect mediating effects of innovation are related to organizational performance (Prange and Pinho, 2017).

Innovation mediates the influence of capability on SME performance. Organizational capability does not directly affect performance, but through the realization of innovation in company value. Therefore, ideas or ideas developed from capability will improve the performance of SMEs. This

research supports (Bello et al., 2016) that innovative services strengthen the influence of entrepreneurial orientation on market performance. Innovation mediates the influence of organizational capabilities on superior corporate performance (Camisón and Villar-López, 2014), and innovation mediates the relationship of the effect of organizational learning on performance in SMEs than in large companies (Real et al., 2014), and innovative climate mediating relationships leadership with manager behavior (Kang et al., 2015). Therefore, strengthening innovation with guidance antecedents through the organizational capabilities of SMEs is a common thread in this research.

5. CONCLUSIONS AND IMPLICATIONS

5.1 Conclusion

The results of this study found that innovation is a mediation of the influence of internal capabilities on the performance of SMEs. Coaching as an antecedent of capability, so that coaching is a central factor in research. Thus, starting with optimal coaching will improve internal capabilities and then encourage innovation which ultimately improves the performance of SMEs. Guidance as a beginner variable that is mostly carried out by the government will result in improved performance as an indicator of SME growth. The results of this study are very important for the government as the formulation of policies in order to formulate coaching to improve the performance of SMEs in tourist areas.

5.2 Implications

Small and medium businesses in the Kenjeran Surabaya tourism area with four different types of businesses certainly need guidance with different strategies. The role of the government in formulating development based on the business sector with related agencies is very necessary because government policy support can affect the performance of SMEs (Hoque, 2018).

ACKNOWLEDGMENTS

This publication is realized in the 2018 Research Grant funds from the Republic of Indonesia Ministry of Research, Technology and Higher Education.

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