



EFFECT OF ENTREPRENEURIAL ORIENTATION ON BUSINESS PERFORMANCE

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ABSTRACT

The study seeks to make contribution to literature on a conceptual model of effect of entrepreneurial orientation on business performance and provide empirical evidence of the importance of entrepreneurial orientation in achieving superior business performance. The study was conducted with respondents of embroidery SMEs in Kudus Regency. Sample of the study was 153 respondents. Sample was taken by using purposive sampling. Results of statistical analysis of the research model on each hypothesis found that first, innovative entrepreneurial orientation had a significant effect on business performance; second, a proactive entrepreneurial orientation had no significant effect on business performance and; third, risk-taking entrepreneurial orientation significantly affected business performance.

Key words: innovative entrepreneurial orientation, proactive entrepreneurial orientation, entrepreneurial orientation, business performance.

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1. INTRODUCTION

1.1. Background of the Research

The era of globalization has been a concern for companies in various industries. Globalization has resulted in foreign goods to flow easily into domestic industries. Further, not only goods,

but also human resources and other capitals flow to the domestic industries. Globalization makes very tight competitions unavoidable for companies, especially Small and Medium Enterprises (SMEs). SMEs of Indonesia are not only competing with SMEs owned by Indonesian entrepreneurs but also foreign-owned companies located in Indonesia.

SMEs are also required to have competitive advantage. Many studies have explained what competitive advantages should be possessed by companies (Nuryakin et al. 2017). The competitive advantage can be having a strong market share compared to competitors. The competitive advantage can be achieved also through innovative products or services, price, cost, image, or transportation (Morgan 2012). If a company has a competitive advantage, it will affect both market performance and financial performance (Nuryakin and Retnawati 2016).

An entrepreneur should have a strong spirit to face the intense competition. Some studies have suggested that a company with entrepreneurial orientations will win competition and result in an improved performance of the company (Li et al. 2009; Soininen et al. 2012; Arif et al. 2013; Roxas and Chadee 2013; Anderson and Eshima 2013).

Competition can be an opportunity or a threat to a company and make it becomes more alert and stay focused to achieve its performance. Businesses competitions are also able to result in various creativities in process or product. Competition makes companies to be able to see clearly what is needed by consumers and strive to meet customer satisfaction (Nuryakin and Farida 2016). However, competition can be a threat if the company does not prepare as well as possible with various strategies to anticipate it.

Wiklund and Shepherd (2003) in their study examined the effect of entrepreneurial orientation and knowledge-based resources on performances of small and medium enterprises. The study used tiered regression analysis and the results showed that entrepreneurial orientation had a positive and significant effect on business performance. Other results indicated that knowledge-based resource was expected to find opportunities and improve business performance.

A research by Zhang and Zhang (2012) focused on corporate entrepreneurship in the developing economy of China. Purpose of the study was to explore impact of network capability on entrepreneurial orientation and business performance. Based on a survey of small and medium enterprises (SMEs) in Northeast China, it was found that entrepreneurial orientation (EO) had a positive effect on business performance and networking ability (NC) can be moderating a significant relationship between entrepreneurial orientation and business performance. The research, theoretically, fills the gap by understanding how networking capability impacts on relationship between entrepreneurial orientation and business performance in the developing economy of China and enriched Chinese entrepreneurship theories, and, practically, it paid attention to the development of networking capability in running SMEs daily in order to explore further their competitive advantages in a sustainable entrepreneurial process.

Purpose of the present study is to contribute to literature on a conceptual model of effect of entrepreneurial orientation on business performance and to provide empirical evidence of the importance of entrepreneurial orientation in achieving a superior business performance.

2. RELATIONSHIP OF ENTREPRENEURIAL ORIENTATION AND BUSINESS PERFORMANCE

Companies with Entrepreneurial Orientation (EO) are defined as those engaged in technological innovation, risk-taking works, and proactively pursuit opportunities (Miller and Friesen 1982). EO refers to processes, practices, and decision-making activities leading to new entries (Lumpkin and Dess 1996). EO is a level of corporate phenomenon demonstrating processes, practices and decision-making activities that will lead the company to become a leader in new entry business. From a behavioral perspective, Covin and Slevin (1989) showed the conceptual model of EO based on entrepreneurial activity including innovative, proactive and risk-taking. Business-oriented organizations will enhance EO behavior in innovative forms, to be available in risk-taking work and always striving to produce new products through proactive behavior to capture market opportunities (Covin and Slevin 1989; Wiklund and Shepherd 2005). Based on the above explanation, we can illustrate that firms must be consistently innovative, proactive and risk-taking to be labeled as "entrepreneurial".

Innovative is an attitude reflecting a tendency to provide support and involvement in generating new ideas, creative processes, and changes of existing practices and technologies (Lumpkin and Dess 1996). Innovation resources concern scope of a company supporting new ideas, experiments, and creative processes in creating new products or new technologies (Knight 2000). Business owners must have a tendency to create new ideas and dare to do experiments that will produce new products, services, techniques, or technology.

Combination of new resources will result in a process of becoming an entrepreneur (Schumpeter 1934; Shane and Venkataraman 2000). An entrepreneur must be the primary link between organization and economic growth (Lee and Tsai 2005). Many studies explained that percentage of entrepreneurship of a nation affects prosperity level of the nation. This is because entrepreneurs are individuals with strong needs to build what he wants in innovative and constructive ways. Such innovative and constructive ways will lead to the growth of new technologies and techniques of a country. If they can be maximized, the growth and new techniques will be an effective lever in building a country.

Jaskyte and Dressler (2005) affirmed that an organization with innovative culture can influence creativity, behavior and commitment of its members, and ability enhancement of the organization to achieve innovative goals is appreciated because a clear understanding of employees on organizational goals and their commitment to achieve those goals. The developed a measure of four factors on how culture affects innovation of work group, a culture that is benefiting to innovative employee behavior.

Proactive means a tendency of a person or a company to be active in seeking opportunities, showing initiative, taking action, and trying to make changes happen. An individual who is looking for an opportunity will exhibit a behavioral pattern that includes an effort of reviewing a problem, superiority of thinking and determination of a strategic pathway as well as to have ability of directing a target. Miller and Friesen (1982) argued that attitude of looking for opportunities means that a company is aggressive in pursuing priorities and goals to exceed their competitors. Lumpkin and Dess (1996) considered the opportunity attitude is performed to anticipate future needs and demands of a market and to create first mover advantage.

Courage of taking a risk reflects a tendency to spend resources for activities or projects with substantial prospect of failures, but they will yield great profit if successful (Lumpkin

and Dess 1996). The tendencies can be a new product launching, creating and using a new structure and entering new segment.

Performance is a measure of success level of a company in achieving its goal. The success level can be seen from financial, marketing, operational and human resource performances. Good performance will be able to increase stakeholders' prosperity. Business performance is also relating to performances of various functional units that are operating well in a company.

A growth approach is recommended to use in measuring business performance, because small enterprises are usually not transparent and difficult to interpret (Miles et al. 1978). Appropriate measurements of business performance have been not agreed. Various studies explained different dimensions in measuring business performance. For example, Wiklund and Shepherd (2003); (Wiklund 1999) described that indicator of business performance is sales growth, while Beal (2000) suggested that performance can be seen from ability of profit gain. Performance capability should not be measured only from single indicator (for example, financial indicator), but indicators of growth, profit efficiency and market share have been included in it.

Agarwal et al. (2003) measured performance of companies by using two constructs, namely subjective performance and objective performance. A subjective performance is measured according to viewpoint of customers and employees. Examples of the performance are satisfaction level of customers, service quality and working satisfaction of employees. Measurement of an objective performance is generally based on financial performance and marketing such as profitability, level of use and market share.

Lee and Tsai (2005), business performance is measured by total performance (sales growth, market share growth, profitability, market share, ROI) and new product success (success rate of new product, turnover of new product). Tajeddini et al. (2006) calculated business performance by market share, sales percentage of new products on total sales, and ROI. Martin-Consuegra and Esteban (2007) estimated business performance based on profit, market size, market share, growth rate. Cambra-Fierro et al. (2011) measured business performance according to customer satisfaction, consumer loyalty, popularity of a brand, market share, and economic profit. Business performance can also be seen from sales performance, customer growth, and market coverage (Nuryakin and Retnawati 2016).

Based on the description mentioned above, hypotheses can be developed.

H1: innovative entrepreneurial orientation has a positive effect on business performance.

H2: proactive entrepreneurial orientation has a positive effect on business performance.

H3: risk-taking entrepreneurial orientation affects positively business performance.

3. METHOD OF THE STUDY

3.1. Sampling

The present study was conducted with respondents of embroidery SMEs in Kudus Regency. Analysis unit of the study was owners of Batik SMEs in Kudus Regency, namely: Kudus City, Kecamatan Bae, Kecamatan Gebog, Kecamatan Jati, Kecamatan Dawe, Kecamatan Kaliwungu, Kecamatan Jekulo, and Kecamatan Mejobo. Sample of the study was 153 respondents. The sample was taken by using purposive sampling.

3.2. Tests of Validity and Reliability

Validity and reliability of instrument (item questionnaire) of the study are examined by using confirmatory factor analysis to test relationship of constructs and the indicator (questionnaire validity). While reliability is examined by using *cronbach alpha* (Cronbach's α). Below is examination results of confirmatory factor analysis and cronbach alpha (Cronbach's α).

Table 1 Scale Items of Measurement

Reflective scale (measured on 1 – 10 point of Likert Scale)	Standardized factor loading
Innovative Entrepreneurial Orientation	
I have a SME with a focus on product design innovation	0.629
I have a SME with an edge on motifs innovation	0.748
I am a person who likes risks	0.638
Proactive Entrepreneurial Orientation	
I am able to manage risk well	0.782
I am a proactive person	0.832
I am happy with the challenges of managing this business	0.642
Risk-taking Entrepreneurial Orientation	
I have the ability to win competition	0.700
I enjoy competition	0.707
I always take initiative in business decisions	0.598
Business Performance	
Sales growth	0.580
Increased profit.	0.692
Growing number of customers	0.537

Based on statistical tests of all four constructs, namely innovative market orientation, proactive market orientation, risk-taking market orientation and business performance resulted in value of a loading factor > 0.05 . So it can be concluded that the instruments are valid in measuring the variables.

4. ANALYSIS AND RESULTS

The research uses statistical test with Structural Equation Modeling (SEM) approach to examine the full model and hypothesis testing (Andriyansah and Aryanto 2017). The Structural Equation Modeling (SEM) can be explained in figure 1. Value of statistical test on initial assumption examination gives a goodness of fit complying with Chi-Square of 58.788. Probability value of 0.118, TLI value of 0.943, GFI value of 0.918, AGFI value of 0.867 and RMSEA value of 0.049 explained that the values meet the specified cut-off value. This indicates that the research model is accepted and meets the specified criteria (standards).

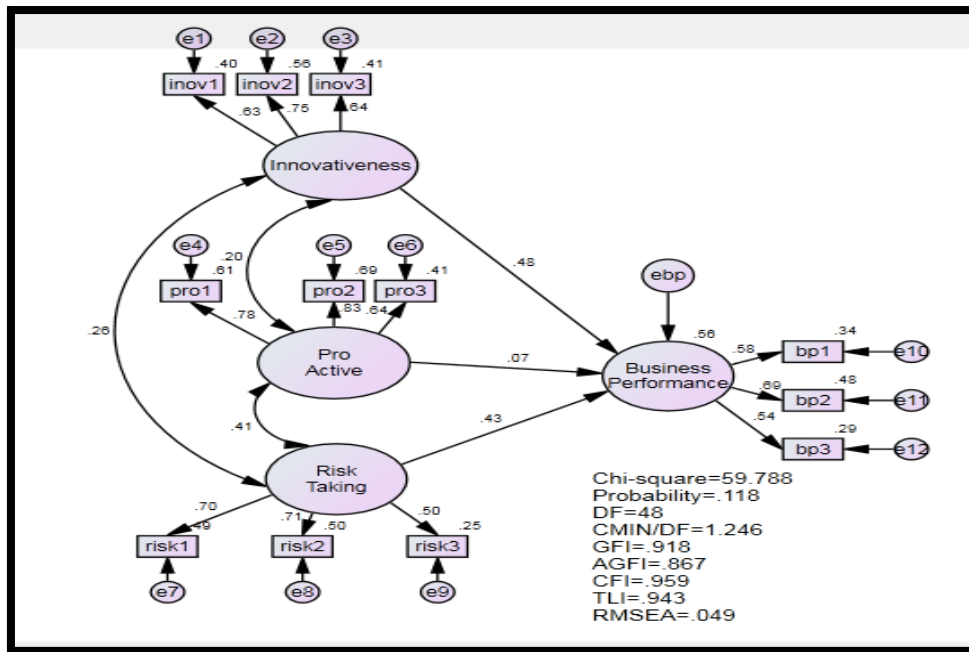


Figure 1 Full Model of Relationship of entrepreneurial Orientation of and Business Performance

Table 1 shows the standardized path coefficients of relationship of innovative entrepreneurial orientation, proactive entrepreneurial orientation, risk-taking entrepreneurial orientation, and business performance. Then, results of the study are also shown in Table 1 that is forming the 3 hypotheses.

Table 2 Results of standardized path coefficients of relationship of entrepreneurial orientations and Business Performance

Hypotheses		Standardized path coefficients	t value	Prob.	Result
H1	innovative entrepreneurial orientation → Business performance	0.408	2.885	0.004	Significant
H2	proactive entrepreneurial orientation → Business performance	0.050	0.519	0.604	insignificant
H3	risk-taking entrepreneurial orientation → Business performance	0.404	2.462	0.014	Significant

Note: *Significant at $p \leq 0.05$; if $(t) \geq 1.96$

Innovative entrepreneurial orientation has a significant effect on business performance. Table 3 shows results of the structural model of the relationship between innovative entrepreneurial orientation and business performance as indicated by value ($t = 2.885 > 1.96$) with significance value ($0.004 < 0.05$). So the hypothesis proposing a positive effect of the innovative entrepreneurial orientation on business performance is proved. Thus, hypothesis 1 is accepted.

Proactive entrepreneurial orientation has no significant effect on business performance. Table 3 shows results of the structural model of the relationship between proactive entrepreneurial orientation and business performance shown by value ($t = 0.519 < 1.96$) with significance value ($0.604 > 0.05$). So the hypothesis proposing that proactive entrepreneurial orientation has a positive effect on business performance is not confirmed. Thus, hypothesis 2 is rejected.

The risk-taking entrepreneurial orientation affects significantly on business performance. Table 3 shows results of the structural model of the relationship between risk-taking entrepreneurial orientation and business performance indicated by value ($t = 2.462 > 1.96$) with significance value ($0.004 < 0.05$). So the hypothesis proposing that the risk-taking entrepreneurial orientation affects positively business performance is confirmed. Thus, hypothesis 3 is accepted.

5. DISCUSSION AND CONCLUSION

The hypotheses developed in the present study seek to prove empirically about:

- Effect of proactive entrepreneurial orientation on business performance.
- Effect of innovative entrepreneurial orientation on business performance.
- Effect of risk-taking entrepreneurship on business performance.

Results of the study prove that firstly, innovative entrepreneurial orientation has significant effect on business performance; second, proactive entrepreneurial orientation has insignificant effect on business performance, and third, risk-taking entrepreneurial orientation has significant effect on business performance. Findings of the present study do not support previous studies developed by Wiklund (1999) with findings that entrepreneurial orientation is defined as an entrepreneurial process whereby a company's proactive attitude, innovation and courage in risk-taking can improve business performance. Furthermore, it has been also said that entrepreneurial orientation often related to organizational performance, the result of the study is also based on assumption that business organizations with entrepreneurial attitude orientations have an advantage as first mover and tendency in taking advantage of an emerging market opportunity. Findings of the study also do not support research conducted by Madsen (2007) with finding that entrepreneurial orientation has a positive effect on long-term relationship of organization and business performance improvement as measured by marketing performance (sales growth) and financial performance (profitability). Study conducted by Chandrakumara et al (2011) found different findings that a positive effect of entrepreneurial orientation is found at the growth rate of business which is characterized by the increase of sales revenue.

6. LIMITATION AND FUTURE RESEARCH

Results of statistical test obtained in the research model for each hypothesis found that not all hypotheses of the present study have a significant positive effect. Some limitations of the present study include:

- Considering very limited number of population of embroidery SMEs sampled in the present study, the researcher recommends further researches take samples with different characteristics such as food and beverage industry, handicraft industry, metal processing industry.
- The present study cannot be generalized in other studies because of the limited number of samples studied.

- Number of samples used in the present study has been relatively small, thus allowing results of model examination with problematic data in normality data and outliers examinations.
- Results of the present study recommend that a continuous effort needs to be made by Indonesian batik SMEs players in responding to customers, movements of their competitors and also, to perform intensive cross-functional coordination. One of the efforts they need to do is to respond actively to what customers demand, while still paying attention to the distinctive value of their products.

For future research, a more comprehensive model of internal characteristics of SMEs needs to be developed such as market orientation, learning capability and relational flexibility so as to improve business performance on an ongoing basis.

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