Relationship Between Entrepreneurial Orientation And Business Performance

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Abstract: The purpose of this study is to investigate the impact of the practice of entrepreneurial orientation (EO) on the performance of SMEs in the Republic of Indonesia. Data was collected through semi-structured discussions. In total 293 SME owners were interviewed and data were analyzed using a causality framework. Three EO practices namely Innovativeness, proactiveness and risk-taking together have an impact on the business performance of SMEs in developing countries. This study uses a type of quantitative research that has the potential to generalize the findings, using exploratory factor analysis (EFA) and multiple regression to obtain optimal results. This study explores the gaps identified in the literature about the impact of EO on business performance to face global competition in the future.

Keyword: Entrepreneurial Orientation, SMEs, Business Performance

1. INTRODUCTION

Entrepreneurial behavior has attracted significant attention in the academic literature, nowadays it is being pushed by the government because it is considered a key driver in the economic well-being of the country (Ghani et al., 2014). Literature confirms the many benefits of entrepreneurial tendencies towards risk-taking, proactive and innovative and its impact on business performance. Today the term entrepreneurship is widely accepted to achieve business performance, technological progress and value creation (Lumpkin and Dess, 1996). However, there is a phenomenon that needs to be taken into account that some companies that have succeeded in growing entrepreneurship both from internal and external but mostly experience losses in their business trips. The basic question, whether growing an entrepreneurial orientation (EO) has a linear function with achieving business performance as its ultimate goal. Some of the studies that preceded the previous EO study (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Lumpkin et al, 2009) have tried to look empirically and extended to practical practices in companies to small and medium enterprises by several management experts. Some literature shows that entrepreneurial orientation can be associated with achieving business performance (Keh et al., 2007; Wiklund and Shepherd, 2005). EO refers to the company's strategic orientation and its ability to capture aspects of entrepreneurship specifically such as the style, method, and practice of decision making. EO is usually associated with three dimensions of innovation, proactivity, and risk taking. Wiklund and Shepherd (2003) argue that organizations or businesses that have an EO are more likely to focus attention and effort on creating opportunities. Resource Base View (RBV) sees that organizational competitive advantage is influenced by internal resources (Barney, 1991). Organizational strategies such as EO are considered to create a competitive advantage. But the main question is how this strategy is expected to improve business performance and create a competitive advantage? In other words, what are the mechanisms that explain the impact of strategy implementation on business performance?

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The answer to this question is the main driving factor of this study. In entrepreneurship, scholars have emphasized the need for a more in-depth study of EO correlation and performance variables (Lumpkin and Dess, 1996). This aims to reduce bias between entrepreneurial-business performance relationships (Walter et al, 2006). Therefore, the purpose of this paper is to develop this "scenario" in the context of SMEs in Indonesia as a developing country that is developing economically and clarifying its application. Empirically analysis uses 293 valid questionnaires from 15 provinces with 6 types of SMEs in Indonesia. These findings indicate that EO has a significant effect on SME business performance.

2. THEORETICAL AND HYPOTHESES DEVELOPMENT

RBV has the perspective that a company is a resource package, where several resources have different interests to generate added value for the company (Barney, 1991). Barney (1991) argues that company resources are the knowledge and skills of employees, company reputation, equipment, and brands. Also, the RBV emphasizes the compatibility between the available opportunities and the potential of the organization. Therefore, the RBV mechanism is to consider the full use of available resources to build organizational core competencies that aim to achieve and maintain competitive advantage (Wernerfelt, 1984; Makadok, 2001). Competitive advantage is one of the impacts obtained after the business performance is achieved (Sutrisno, 2019). Business performance in the scope of SMEs is more measured using measurements in one combination consisting of: financial, non-financial and document (Rauch et al. 2009). This is made clear by Wiklund (1999) arguing that the scale of measurement for SMEs business performance must have indicators for business growth and financial performance. Performance measures based on Wiklund and Shepherd (2005) have been widely used by several authors. This measurement was chosen because of its reliability and general use in the literature. The authors use five indicators to capture business performance including the rate of sales growth, employee growth, gross margin, profitability, and financial cash flow. About business performance, some research on entrepreneurship in the literature is quite popular and overall suggests a positive relationship between business performance and entrepreneurship (Covin and Slevin,

1986; Wiklund and Shepherd, 2003; Lumpkin and Dess, 2001). Lumpkin and Dess (1996) recognize the difference between entrepreneurial and entrepreneurial orientation that the entrepreneurial orientation process answers the question of how the project is done, whereas entrepreneurship refers to the content of entrepreneurial decisions by answering what is done. There are different definitions of EO aspects. For example, Zahra and Covin (1995) define entrepreneurial orientation as a potential tool that inspires organizations, which can be obtained through innovation, proactivity, and risk taking. Three dimensions of EO have been suggested by Miller (1983) and the other two dimensions, namely, aggressiveness and autonomy, have been added later by Lumpkin and Dess (1996). However, most of the research conducted on entrepreneurial orientation has used three dimensions: Innovativeness, proactivity, and risk-taking to measure entrepreneurial orientation (Wiklund, 1999). Innovativeness is related to providing support for renewal, the creative process, and the development and growth of new ideas through experiments (Lumpkin and Dess, 1996). This is more related to the increase in the probability that an organization will benefit from first movers or innovators (Wiklund, 1999). Therefore, innovation has become the most significant factor used to characterize entrepreneurship, and contribute to the profitability and growth of entrepreneurial organizations (Covin and Milles, 1999; Covin and Wales, 2010). To look further in the context of SMEs, how much the impact of innovativeness has on business performance, it is hypothesized as follows:

Ha: Innovativeness has a positive and significant influence on Business Performance.

Proactiveness is related to the willingness of the organization and its ability to expect new developments as soon as possible to have the first driving advantage of other competitors (Wiklund, 1999). According to Lumpkin and Dess (2001) proactive is an approach to finding new service and product opportunities and responding quickly to customer requests. To see further in the SME context, how much impact proactiveness has on business performance, it is hypothesized as follows:

Hb: Proactiveness has a positive and significant influence on Business Performance.

Risk-taking is the level at which managers are willing to have resource commitments to opportunities that arise where there is a reasonable possibility of failure (Miller and Friesen, 1978). Also, this concept has been debated by Ayub.,et al (2013) that innovation cannot exist without taking risks. Therefore, risk-taking is considered to be the most important factor in an entrepreneurial orientation which is usually used to show entrepreneurship (Ismail. N., 2012). To look further in the context of MSMEs, how much impact risk-taking has on business performance, it is hypothesized as follows:

Hc: Risk-taking has a positive and significant influence on Business Performance.

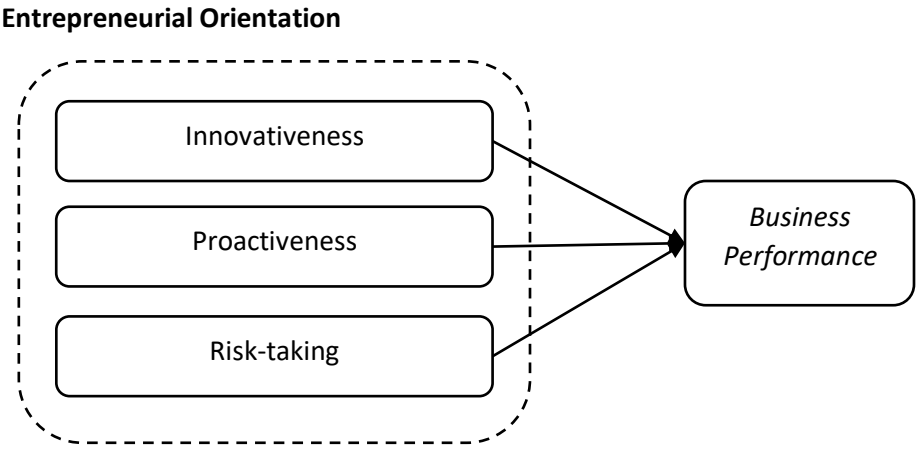
in entrepreneurship research, researchers seem to agree that EO contributes to company performance (Lumpkin and Dess, 1996, 2001; Miller, 1983; Rauch et al., 2009). Some studies find businesses that adopt EO have better performance (Brouthers et al., 2014; Wiklund, 1999; Zahra, 1991; Zahra and Covin, 1995; Osman et al, 2011). The research findings conducted by Keh et al. (2007) show that the level of EO has a direct and indirect effect on company performance. There is also the latest evidence about the relatively strong positive impact of EO on business performance from the service sector in general (Kraus, 2013). However, it has been debated that EO effects on performance may differ in different types of environments (Wiklund and Shepherd, 2005). Research on the performance of small companies has also recognized the importance of EO for positive performance. For example, Wiklund and Gembala (2005) have found that EO positively influences the performance of small businesses. Based on the above, we hypothesize that:

H: EO has a positive and significant influence on Business Performance.

Research Framework

Based on the literature review, a framework was developed to discuss the relationship between EO practices and business performance in the context of SMEs in the Indonesian Territory, as illustrated in figure 1.

Figure 1: *Theoretical model of research*



3. METHODOLOGY

Research Measures, Sample and Population

This research is deductive because this research was investigated through the construction of hypotheses applied

theoretically, which were then tested for the hypotheses that have been carried out. In this study, three constructions were used to measure EO practices. Meanwhile, three constructions are used to measure business performance. The research began by distributing online questionnaire forms via email. Twelve questions representing EO practices were adapted from Lumpkin and Dess (1996). While ten questions representing SME business performance were adapted from Keh et al., (2007). The questionnaire used included closed questions, where respondents were presented on a 5-point Likert scale. The scale dimensions are clarified as follows: (1 = Strongly disagree), (2 = Disagree), (3 = Neutral), (4 = Agree), (5 = Strongly agree).

Questionnaire Distribution

The questionnaire was distributed to SME business owners in the territory of Indonesia. In detail, it covers sixteen provincial regions with six types of SMEs including 145 food and beverage units, 17 plantations and commodities, 43 units of Services / Services, 59 Textile units, 29 Leather Craft units. 500 questionnaires were distributed through online e-mail questionnaires to SME owners. 293 questionnaires were filled in properly by SMEs registered with the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia. This condition shows a response rate of 58.6%.

Data Analysis

Data obtained from questionnaires were analyzed using SPSS version 21.0. Average and standard deviations are calculated for items left after EFA. Pearson Correlation Analysis was conducted to examine the relationship between dependent and independent variables. Statistical analysis using multiple linear regression is appropriate. Multiple regression methods and analysis of variance (ANOVA) were carried out to test the main hypothesis of the model. The decision criterion is to accept the main hypothesis if the significance level is less than 0.05, and when F is calculated> F is tabulated.

4. Result and Discussion

Because this study uses initial measurements based on a literature review, the steps in this study are mostly considered to have validity. They generally measure EO in the context of one type of SMES, different from this study, we use five SMEs as a representation of business security in a developing country. Field (2005) mentions that factor analysis is regularly used to develop questionnaires; This is because the questions asked are related to the construct that the researcher wants to measure. Therefore, Exploratory Factor Analysis (EFA) is carried out to validate the measurement instruments used. Factor analysis is to flow a large number of correlated actions into several representative constructs. Therefore, all elements are subject to the EFA to ensure that they have construct validity.

Table 1: *Reliability of the Variables (Cornbrash's Alpha)*

Variables	Number of Items	Cronbach's Alpha
EO Variables	A Total of 12 Items	
Innovativeness	4	0.825
Proactiveness	4	0.766
Risk-taking	4	0.817
Business Performance Variables	A Total of 10 Items	
Business Growth	4	0.735
Financial Performance	4	0.839

To ensure that the data collected is appropriate for EFA, the Kaiser-Mayer-Olin test (KMO) and the Barlett Test must be done first. The KMO test is used to prove that sampling is sufficient for analysis and must be higher than 0.70. The Barlett test was used to test whether the correlation between items was large enough for EFA and was accepted at a significance level of <0.05. Principal Component Analysis (PCA) is carried out for extraction methods and to summarize available information from some variables and reduce them to smaller amounts (Field, 2005). The initial analysis was carried out to obtain eigenvalues for each factor. Eigenvalues greater than 1 are chosen as the basis for extracting the appropriate number of constructs. Next, and to get more results that can be interpreted, so that the orthogonal rotation method or called the Varimax Rotation Method (VRM) is done. The loading factor is estimated to be above 0.70, and each factor is analyzed separately, and the number of contracts is determined by factors with identical items.

Table 2: *KMO and Bartlett's Testing*

Variables	KMO Values	Bartlett's Values
Innovativeness	0.734	0.000
Proactiveness	0.861	0.000
Risk-taking	0.913	0.000
Business Growth	0.760	0.000
Financial Performance	0.769	0.000

To assess the reliability of the measurement scale, an internal concentration test was carried out using the Cornbrash's Alpha reliability coefficient. Field (2005) also applies the Cornbrash Alpha criteria> 0.6. Most studies show that the Alpha Cornbrash value is between 0.7-0.8 is an acceptable value. Table 1 shows the value of Cornbrash's Alpha for the construct in this study. Values range between (0.6-0.9), which means that the construct in this study is acceptable, and our questionnaire has internal consistency. Exploratory Factor Analysis (EFA) was carried out on 12 EO factor items and 8 business performance items. All items have a KMO value greater than 0.7, and a

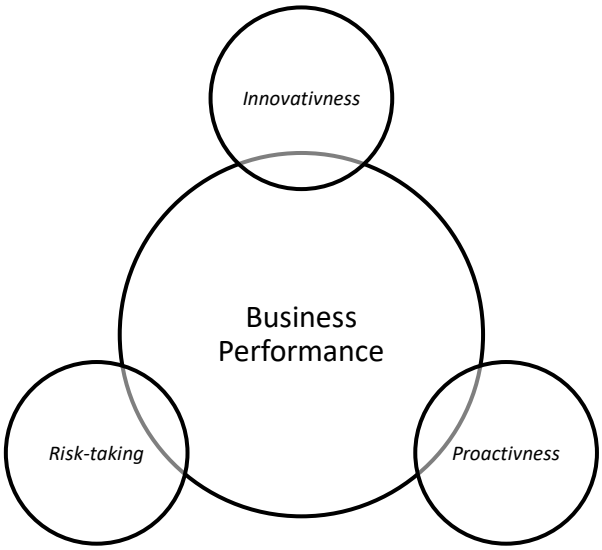
Barlett value is less than 0.05, as shown in table 2, which means that the data is sufficient to do an EFA. Thus, from the main component analysis, five new constructions: 3 are related to EO practices and two constructs related to business performance, all of which have eigenvalues greater than one. People correlation analysis is done to observe the level of relationship between business performance and EO practices. Innovativeness and risk-taking revealed values above 0.5, and Business Growth, Business Growth which meant a strong positive linear relationship with business performance.In this study, hypothesis testing uses multiple linear regression. Testing is carried out in two stages. In the first stage, testing was carried out to test EO practices on business performance. The test results show that the EO Practice has a positive and significant influence on organizational performance (β = 0.784; p-value = 0,000). So H1 is accepted. The second stage, testing, is done by examining the effects of each EO practice dimension on business performance. Table 3 shows that only H1a and H1c hypotheses are accepted. This shows that Innovativeness, proactiveness and risk-taking can significantly improve business performance.

Table 3: *Hypotheses Testing*

Hypotheses	β	p-value	Decision
H1 : Entrepreneurial Orientation → Business performance	0.784	0.000	Supported
H1a: Innovativeness → Business Performance	0.292	0.000	Supported
H1b: Proactiveness → Business Performance	0.243	0.000	Supported
H1c: Risk taking → Business Performance	0.250	0.000	Supported

Innovativeness has a significant influence on business performance. This is characterized by efforts to create new product ideas, implement new product designs that are ready to be marketed in response to consumer needs, this step is supported by seeking more efficient business process steps that can improve business competitive advantage. Furthermore, proactiveness has an impact on the achievement of business performance, we see every business can be responsible, find solutions, have control, and desire to answer new challenges such as the entry of imported products that will become competitors for local SME businesses. Risk taking is important in business development considering risk-taking in investing, trying new designs, the desire to outperform competitors, and efforts to find opportunities that bring business to have a competitive advantage in the future and can escalate to industrialization.

Figure 2: *Suggested EO practices in SMEs*



5.RESEARCH FINDINGS

This study also shows that Innovativeness, proactivity, and Risk-taking (P = 0,000) affect most of the performance of SME businesses in the Indonesian region. Based on the results of this test, it can be seen that SME owners in the Indonesian region consist of East Java (213 SMEs units), East Nusa Tenggara (5 SMEs units), Central Java (13 SMEs Units), North Kalimantan (3 SMES units), Nusa West Southeast (4 SMEs units), Gorontalo (1 SMEs unit), Bali (25 SMEs units), East Kalimantan (8 SMEs units), North Sulawesi (6 SMEs units), West Sulawesi (2 SMEs units), South Sulawesi (7 SMEs unit), West Java (5 SMEs units) have an entrepreneurial orientation which will have an impact on achieving business performance. Researchers see that entrepreneurial orientation efforts must be improved to welcome global competition so that SMEs have a competitive advantage in the future. Based on the results of this study, a framework can be used by SMEs in developing countries in Asia such as Indonesia to improve performance in support of the country's GDP. Policy makers and SME owners in developing countries can benefit from the conclusions of a framework that has been developed to improve business performance. Owners of SME units can

begin to develop integrated business development plans to meet business objectives and continue to improve the business's internal management system. SME owners must also encourage employees to meet customer needs optimally. New ideas, product design development, improved quality of production processes and good strategies can lead SME units to move better in the future (Zahra, 2011). This must also be supported by the ability of business owners to take risks when the business process takes place, this should be an escalation of achieving profit and disbursing new market opportunities. Increasingly dynamic market development must be able to be answered consistently by the owners of SMEs in the future.

6. Research Limitations and Future Studies.

The limitations presented are First, this study is based on perceptual data provided by SME owners within the scope of the Indonesian state who may not provide a clear picture related to the framework used. This result is expected to be suitable as a source of information gathering from several stakeholders, such as policy makers, government, association to SME owners in other developing countries. Both of these studies do not consider technological developments in SMEs which can change the perception of SME owners. The data framework is carefully selected that reflects the EO practices that can be found in Indonesia. Therefore, further research recommends further research by considering longitudinal studies, integration of SMEs with existing information systems and considering comparisons between two or more countries in the Asian.

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APPENDIX

TABLE 1 *DEMOGRAPHICS OF THE SAMPLE*

Industry Sector	Sample (%)	No. of employees	Sample (%)
Food and Beverage	49.4	<10	29.2
Plantations and Commodities	5.8	10-20	20.5
Services	14.6	20-30	22.8
Textile	20.1	30-40	11.0
Leather Craft	9.9	>40	16.5
Gender	Sampel %		
Man	63.8		
Woman	36.2		

TABLE 2 *ENTREPRENEURIAL ORIENTATION (EO) - FACTOR ANALYSIS*

Factor	Scale items	Factor Loading
Innovativeness	I1 - Our firm is creative in its method of operation.	0.793
	I2 - Our firm seeks out new ways to do things.	0.859
	I3 - Our firm has very many new lines of products/services marketed in the past 3 years.	0.813
	I4 - Changes in product or service lines have usually been quite dramatic.	0.785
Proactiveness	P1 - In dealing with competitors, our firm usually initiates actions which competitors then respond to.	0.697
	P2 - In dealing with competitors, our firm is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc.	0.820
	P3- Enterprises are able to be responsible for all decisions	0.751
	P4- Businesses have control over business success	0.800
Risk taking	R1 - The term "risk taker" is considered a positive attribute for people in our business.	0.824
	R2 - People in our business are encouraged to take calculated risks with new ideas.	0.804
	R3 - Our firm emphasizes both exploration and experimentation for opportunities.	0.810
	R4- Businesses dare to take risks to try new designs	0.775

TABLE 3 *BUSINESS PERFORMANCE - FACTOR ANALYSIS*

Factor	Scale items	Factor Loading
Financial performance	F1-An increase in revenue from business operations from the previous period	0.759
	F2-An increase in business capital from the previous period	0.736
	F3-The business can break even according to business planning	0.753
	F4-The business can invest in business support equipment as needed	0.738
Business growth	B1-An increase in product sales from the previous period	0.886
	B2-There is an increase in the number of customers	0.896
	B3-Additional product variants occur according to customer requirements	0.641
	B4-An increase in production volume from the previous period	0.861