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THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND PERFORMANCE OF SMEs in INDONESIA

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Abstract

The purpose of this research is to find out the relationship between entrepreneurial orientation and performance of small medium enterprises (SMEs) in East Java Indonesia. A total of 381 small medium enterprises in the East Java province of Indonesia are used as research respondents. These respondents were selected using proportional cluster random method to ensure that all of the predetermined areas in East Java were proportionally represented. Confirmatory Factor Analysis (CFA) is used to test the validity of the research variables, whereas Composite (Construct) Reliability is used to test the reliability of the variables. After all variables were declared as valid and reliable, the following step was to perform a multivariate analysis which involved normality, singularity, and outlier tests. After all the multivariate assumptions were fulfilled, a structural model testing was performed using the covarian-based structural model of AMOS. The model was tested using covarian-based Structural Equation Model. The result of this research suggests that entrepreneurial orientation has a positive and significant influence on performance of SMEs. This study provides new empirical evidence of entrepreneurial orientation and the influence on performance of small medium enterprises in Indonesia, which involve big amount of data (381) and use of AMOS. Therefore, some practical contributions are provided and several recommendation have been proposed for further researches.

Keywords: performance, entrepreneurial orientation, small medium enterprises.

1.0 Introduction

Small medium enterprises (SMEs) have been crucial features of the business landscape for centuries and remain important today in entire world. The growth of small medium companies has made some impacts for the country, specifically in Indonesia. The existing of SMEs contributes to the country economic development such as employment opening, foreign currencies earning from export sector, the potential to grow into large enterprises (Tambunan, 2005). Other contributions includes producing goods and service for customers, normally in low price, so that small medium companies also serve the group of low-income customers to produce the components to support the industries. Unfortunately, the increasingly competitive business environment has made things more difficult for small medium companies. One of the factors that caused this condition is Information Technology (IT) advancement. The development in IT brings the changing in the way of running business. As for example is the condition of marketplace. To be more flexible in dealing with the condition of marketplace, a different approach is needed, particularly in the way of managing the company and the manifestation of a superior company performance, especially in small medium companies as one of the nation's economic strengths (Matsuno, Mentzer, & Özsoy, 2002).

The business climate faced by companies nowadays is characterized by the increasing level of complexity, market diversity, and rapid change as the result of information technology development. This condition requires business owners to cope with product manufacturing and market uncertainty (Heinrichs & Lim, 2008). In such condition, where competition is high and

market is uncertain, every company needs a businessman with a strong entrepreneurial orientation and the ability to empower market information and knowledge as well to create a strategic decision making that is in line with the rapid change in the business environment. In an uncertain market condition and the highly competitive environment, small medium companies need businessmen with strong entrepreneurial orientation. These businessmen are supposed to no longer rely merely on factual market information, but rather an informal approach in marketing planning. The stronger risk-taking capacity a small medium company owner has, the more skeptical he/she becomes regarding the factual market data (Hill & Wright , 2000). Therefore, important factors such as innovativeness, proactive attitude, and risk taking behavior, which are seen as the dimensions of entrepreneurial orientation, become significantly important for owners and managers of companies to face market uncertainty and bring it into company's level (Schindehutte, Morris, & Kocak, 2008).

The result of this research will expand the boundary of knowledge, because the result add the empirical evidence on the relationship between entrepreneurial orientation and performance specifically in the context of SMEs in Indonesia. In addition, the usage of AMOS in analyzed data is the other contribution of this research. The selection of this analytical model is based on the fact that there is more than one variable in this research and that a structural equation consists of a variable formation (latent) and variables studied (observer). Therefore, it can be said that this research is a multi-level research which contains both endogenous and exogenous variables in the structural equation model. Summarizing the backgrounds of this study, the research question of this research is "What is the relationship of entrepreneurial orientation to performance of small enterprises?"

2.0 Literature Review

Various researches conducted with the focus on small medium companies in various countries such as: Singapore Keh, Nguyen and Ng (2007); Spain in Moreno and Casillas (2008); Sweden as conducted by Wiklund and Shepherd (2005), and other countries which performed tests on the relationship between entrepreneurial orientation and company performance. All of those studies found the positive and significance relationship between entrepreneurial orientation and performance. Also the research conducted by Rodríguez-Gutiérrez, Moreno and Tejada (2015) claims that there is a positive relationship between entrepreneurial orientation and Performance. Additionally, the meta-analysis testing of EO and Performance conducted by Rauch and Wiklund (2009) also discovers a positive relationship between EO and Performance.

Company performance refers to a company's achievement in a certain period of time (Matic, 2012). There are many ideas surrounding the most suitable type of performance measurement for a company. The most common approach is financial approach, which measures a company's performance using financial perspective. Although a finance-based performance measurement is good, it does not sufficiently describe the company's actual condition (Murphy, Trailer, & Hill, 1996). As a result, many studies with a focus on company performance encourage the use of multi-dimensional approach in performance measurement by combining financial and non-financial dimensions (Murphy, Trailer, & Hill, 1996); (Neely, Marr, Roos, & Pike, 2003).

Likewise, this research will also use both financial aspect and non-financial aspect in measuring company performance by adapting the performance measurement conducted by another research (Keh, Nguyen, & Ng, 2007). Financial aspect is represented by four indicators; profitability, sales growth, market share, and overall performance. Meanwhile, the indicators for non-financial aspect are the abilities to achieve start-up goal, provide secure job to employees, and ensure satisfaction in terms of company performance. Each dimension and indicator will be explained in the next part.

The dimension of entrepreneurial orientation was conceptually initiated by (Covin & Slevin, 1989) based on the research conducted by (Miller, 1983). Entrepreneurial orientation is defined as the activities of a company which focuses on product innovation and how the company

proactively tries to be the first to innovate and take risks. A study suggests several factor configurations which will encourage entrepreneurship in multiple companies (Miller, 1983). Entrepreneurial orientation refers to the process, practices and decision making activities that lead to a new entry. From the perspective of resource-based view (RBV), the existence of entrepreneurial orientation is the representation of the potential dimension which suggests that long-lasting companies need to engage in entrepreneurial activities to remain competitive in business, while at the same time, enriching their performance (Cruz & Nordqvist, 2012). Literature indicate that the three core dimensions of entrepreneurial orientation (EO); innovativeness, risk-taking attitude and proactive action, have a positive impact on company performance (Keh, Nguyen, & Ng, 2007); (Rauch & Wiklund , 2009).

3.0 Methodology

This research uses a quantitative approach to answer the research questions. Explanatory method is used as an approach to examine the causal relation between the variable in the study by means of hypothesis test. There is one hypothesis in this research it is Entrepreneurial orientation is positively related to performance. Following is the research framework:

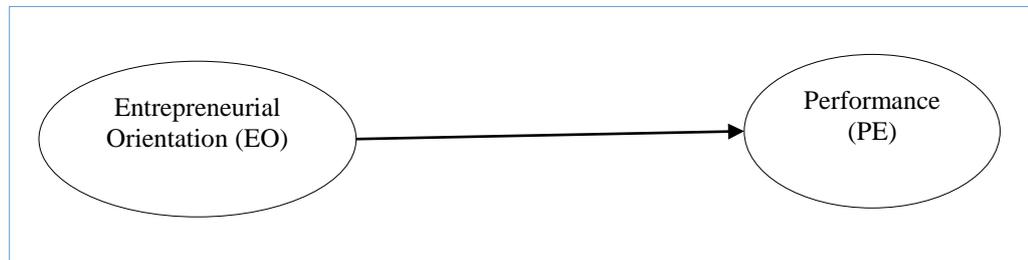


Figure 1: The Research Frame Work
 Source: Processed.

The scale of measurement used to measure the respondents' perceptions of indicator variables and arranged in a statement list format (questionnaire). The scale measurements used is 5-point Likert Scale marked with the numbers 1 to 5. The measurement of each variable is described in Table 1 below.

Table 1: Population of the World

Number	Variabel	Number of Item	References
1	Performance		
	• Financial	4	Keh, Nguyen, & Ng (2007).
	• Non-Financial	3	
	Total	7	
2	Entrepreneurial Orientation		
	• Innovativeness	3	Keh, Nguyen, & Ng (2007).
	• Proactiveness	2	
	• Risk-Taking	3	
	Total	8	
Total Item in Questionnaire is 15 Items			

Source: Keh, Nguyen, & Ng (2007)

The population of this research is small medium enterprises in East Java, Indonesia specifically from 6 areas which determined as economic back bone of East Java the number of population is 63,319 enterprises The sampling technique in the research uses proportional cluster random sampling. The reason for this selection is to facilitate the sampling and provide assurance that each area selected of population in East Java is represented proportionally. According to Krejcie and Morgan (1970), the amount of sample size from the population 63,319 is 381

respondents with 5% margin of error. The data in this research are primary data which contain the respondent's perception about the company's performance, the company's entrepreneurial orientation, information acquisition and utilization, and also entrepreneur knowledge. The data are compiled using questionnaire. The questionnaires were distributed to respondents by surveyors and the surveyors waited for respondents filled out the questionnaire.

Before the data analysis with AMOS, it is conducted content and construct validity. The content validity in this research is confirmed, because the measurement of the variables is done thoroughly. It means that the measurement indicator for each research variable is taken from the variable's concept by referring to the basic theory. In addition, the questionnaire used in this research is adapted from others previous researches, and had been tested for validity and reliability in different contexts many times. The product moment correlation coefficient tests the construct validity of the items. If the correlation coefficient between the score of an indicator with the total score of all indicators is greater than 0.250. The result of calculation confirms that each of the indicators in the performance variable is considered valid. Cronbach Alpha coefficients are used in Reliability testing to (Sekaran & Bougie, 2010). In addition, based on the calculation the Cronbach Alpha value is proven to be higher than 0.60 (0.779). It means that the research instrument is reliable. The hypothesis test uses covariance-based Structural Equation Model (SEM) with the help of AMOS (Analysis of Moment Structure) software. The selection of this analytical model is based on the fact that there is more than one variable in this research and that a structural equation consists of a variable formation (latent) and variables studied (observer). After testing all the data by using AMOS, it is also generated the result of validity and reliability test by applying the confirmatory factor analysis to the research variables, which include Performance and Entrepreneurial Orientation. Performance (PE) is considered as an endogenous latent variable. It is measured by two indicators; PE1 (0.915) and PE2 (0.513). It is also applied to entrepreneurial orientation, that entrepreneurial orientation (EO) is considered as an exogenous latent variable. It is measured by three indicators; EO1 (0.612), EO2 (0.615) and EO3 (0.738). Composite (construct) reliability with a minimum cutoff value of 0.6 is used to test the reliability. The CR value of performance is of 0.693 and it is considered reliable. CR value of EO is 0.720 and confirmed reliable.

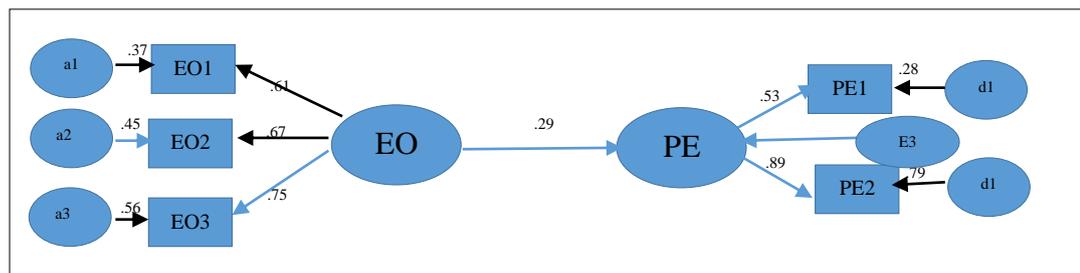


Figure 2: The Result of Data Analysis
 Source: Processed.

4.0 Results and Discussions

Entrepreneurial orientation is positively related to the performance of small medium enterprises. This hypothesis is CONFIRMED because test results suggest that entrepreneurial orientation gives positive and significant influence on performance. This can be seen from the path coefficient, which has a positive value of 0.295 and a C.R. value of 2.543, and also the probability significance (p) of 0.011, which is smaller than the predetermined significance standard (α) of 0.05. This means that entrepreneurial orientation has a positive and direct influence on performance by 0.295. In other words, for every increase in EO, there will be a 0.295 increase in PE. This finding is consistent with the meta-analysis study of Wiklund (1999), which believes that the relationship between entrepreneurial orientation and performance is positive from time to time. It is also consistent with other studies, including that of Keh, Nguyen, & Ng,

(2007), which claims that entrepreneurial orientation has a positive and significant influence on small medium enterprises in Singapore. The conclusion of this study is also supported by the studies of Hussain, Ismail, & Akht, (2015); Zhang & Zhang, (2012); Jalali, Jaafar, & Ramayah, (2014); and Gruber-Muecke & Hofer, (2015). Likewise, the study of McGrath & Mac Millan (2000) in Lumpkin, Cogliser, & Schneider, (2009) emphasizes the idea that many companies attribute their success to entrepreneurial orientation.

The relationship between entrepreneurial orientation and performance is also believed to be positive and significant in non-profit organizations, as suggested by the study findings of Hu & Pang, (2013). However, it is worth noting that the dimensions and indicators of entrepreneurial orientation in the study consist of four indicators, namely innovativeness, risk-taking, proactiveness, and reciprocity. Reciprocity represent the attitude taken by the organization to build partnership with other organizations before making a decision.

In the context of different unit analyses, it is also discovered that entrepreneurial orientation and performance have a positive and significant relationship. The study of Jalali, Jaafar, & Ramayah, (2014), which involves 150 owners of manufacturing SMEs, concludes that entrepreneurial orientation positively and significantly affects the performance of the SMEs on individual level. The advancement of information technology has resulted in open and limitless market and information. In such increasingly competitive market condition, companies need to systematically build entrepreneurial activities for their organizations. This is particularly essential for small and medium enterprises ,which receive the biggest pressure from modern globalization, as suggested by (Hussain, Ismail, & Akht, 2015). Increasing the amount of entrepreneurial activities also helps the organization achieve sustainability and competitive advantage (Wiklund & shepherd, 2005). Fabian, Kraus, Hughes, Laraway, & Snycerski, (2013) support this idea by claiming that entrepreneurial orientation is the most important factor in corporate growth.

5.0 Conclusions

The study found that the entrepreneurial orientation positively and significantly influence performance of small medium enterprises in East Java Indonesia. This finding confirmed and strengthen the existing and previous research that entrepreneurial orientation has a positive and significance influence toward performance specifically in the context of small medium enterprises. This findings add the empirical evidence to encourage small medium enterprises to have an orientation towards innovation by applying different strategies in serving their market in terms of product, service, payment system, or promotion. They also need to have the courage to take risks and project proactiveness in responding to the change in market condition. It is suggested to perform further research in the relationship of entrepreneurial orientation and performance and testing the role of mediating and or moderating variables.

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