

Improvement of Business Performance through Entrepreneurial Orientation

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ABSTRACT

Entrepreneurial orientation is important factors needed by small and medium enterprises (SMEs) to face environmental challenges in a dynamic and competitive business world achieve business performance. This study aims to examine the effect of entrepreneurial orientation on business performance. The research sample of 117 culinary SMEs. Data was collected through a survey by distributing questionnaires and documentation. Data analysis techniques using structural equation modeling with the Partial Least Square (PLS) approach. The results showed that of entrepreneurial orientation had a significant positive effect on business.

KEYWORDS: *Entrepreneurial Orientation, Business Performance*

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1. INTRODUCTION

The development of small and medium industries in Indonesia continues to experience developments, especially in the food processing sector. Small and medium industries contribute to development in various ways, create job opportunities, expand employment, urbanization, and provide flexibility for needs and innovation in the economy as a whole (Bengesi & Roux, 2014). Nowadays, small and medium enterprises are required to have dynamic capabilities and strategies that are able to seize opportunities and renew the market. Global business pressure and competition affect SMEs, such as globalization, technological improvements, demographic and social changes, the ability to innovate, financial support, and entrepreneurship (Cho & Lee, 2018; Lechner & Gudmundsson, 2014). But in reality, the demands of today's business environment are still difficult for SMEs to fulfill. (Tambunan, 2011) states that in terms of quality, SMEs in Indonesia are difficult to develop in the market because they face several internal problems, namely low quality of human resources such as lack of skilled human resources, lack of entrepreneurial orientation, low mastery of technology and management, lack of information.

Entrepreneurial orientation is a company orientation that has a principle of identifying and exploiting opportunities (Lumpkin & Dess, 1996). Companies that have a strong entrepreneurial orientation will have a stronger ability to innovate than other companies (Beck & Cull, 2014). (Lumpkin & Dess, 2001), states that companies that have a strong entrepreneurial orientation will be more willing to

take risks, and not only stick to past strategies. In a dynamic environment, entrepreneurial orientation is clearly very important for the survival of the company. The study conducted (Viana, Nóbrega, & Souza, 2018) states that the causes of low performance and productivity of SMEs are strongly suspected to be due to the weak entrepreneurial character and the inadequate managerial role in managing businesses in a rapidly changing business environment. To be able to develop high-performance businesses, companies rely on many capabilities. In this case there are two capabilities, namely market orientation and entrepreneurial orientation and how these capabilities are related to performance. (Linton & Kask, 2017) state that entrepreneurship orientation is a corporate benefit strategy to be able to compete more effectively in the same market place.

(Lee & Chu, 2017), that there is a significant relationship between established entrepreneurial orientation and company performance. Entrepreneurial orientation refers to processes, practices, and decision making that lead to new inputs and has three aspects of entrepreneurship, namely taking risks, acting proactively and always being innovative (Lumpkin & Dess, 1996). Daring to take risks is an entrepreneurial attitude that involves being willing to tie up resources and having the courage to face challenges by exploiting or engaging in business strategies where the possible results are full of uncertainty (Keh, Nguyen, & Ng, 2007). Proactivity reflects the willingness of entrepreneurs to dominate competitors through a combination and

aggressive and proactive movements, such as introducing new products or services on top of competition and activities to anticipate future demands to create change and shape the environment (Tolstoy, 2019). Innovative refers to an entrepreneurial attitude to engage creatively in the process of experimenting with new ideas that allow them to produce new production methods so as to produce new products or services, both for the current market and for new markets (Sudhir Kumar & Bala Subrahmanya, 2010).

High entrepreneurial orientation is closely related to the main driver of profit so that an entrepreneur has the opportunity to take advantage and the emergence of these opportunities, which in turn has a positive effect on business performance (Rauch, Wiklund, Lumpkin, & Frese, 2009). (Covin & Slevin, 1991; Wiklund, 1999), states that the higher the entrepreneurial orientation can increase the company's ability to market its products towards better business performance. Therefore, companies that are increasingly innovative, proactive, and dare to take risks tend to be able to perform better in business.

To realize good business performance, a good entrepreneurial orientation is also needed. (Chen, Yu, Li, & Fu, 2008; Makanyeza & Dzvuke, 2015) say that entrepreneurial orientation is a process in decision-making activities that leads to the development and creation of innovative new products that can differentiate from other organizations in the market. Entrepreneurial orientation as a method, practice, decision-making managers in entrepreneurship and as a strategic orientation for companies to compete. (Rauch et al., 2009) stated that businesses that adopt an entrepreneurial orientation have better performance than businesses that do not adopt an entrepreneurial orientation. Many studies regarding entrepreneurial orientation with business performance have been linked and have had positive results (Lumpkin & Dess, 1996; Covin & Slevin, 1991). Therefore it is important to analyze how the relationship between business performance and entrepreneurial orientation of culinary SMEs in Makassar city.

2. Literature Review

2.1. Business Performance

Business performance is essentially an achievement achieved by a business organization and the results can be seen. Researchers have agreed that measuring business performance is not sufficient to use a single measure (Jaworski & Kohli, 1993; Wageeh, 2016). In research conducted by (Gee-Jung, 2009; Jaworski & Kohli, 1993) company performance is measured by overall business performance compared to last year and overall performance compared to its main competitors, meanwhile (Hughes, Le Bon, & Rapp, 2013; Slater & Narver, 2000) said that business performance is measured by profitability compared to predetermined targets. The definition of performance refers to the level of achievement or achievement of the company in a certain period of time. The company's objectives, which consist of: to remain standing or exist, to make a profit and be able to grow, can be achieved if the company has good performance (Suci, 2009). Business performance can be seen from the level of sales, the level of profit, the return on capital, the turnover rate and the market share it has achieved. The company's strategy is always directed to produce good marketing performance (such as sales volume

and sales growth rate) as well as good financial performance. This has led to a variety of performance measures in business research to continue to develop on the basis of various indications.

2.2. Entrepreneurial Orientation

(Cho & Lee, 2018) entrepreneurship orientation as a company benefit strategy to be able to compete more effectively in the same market place. (Lechner & Gudmundsson, 2014; Mozumdar, Omta, van der Velde, & Hagelaar, 2016) states that there is a significant relationship between established entrepreneurial orientation and business performance. (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005) entrepreneurial orientation and organizational culture are closely related to the strategy formulation process that will provide the basis for decision making and business implementation of the organization. Entrepreneurial orientation plays an important role in improving business performance (Keh, Nguyen, & Ng, 2007). According (Miller & Friesen, 2008) stated that entrepreneurial orientation is an acceptable meaning to explain business performance.

Entrepreneurial orientation refers to processes, practices, and decision making that lead to new inputs and has three aspects of entrepreneurship, namely taking risks, acting proactively and always being innovative (Lumpkin & Dess, 2001). Daring to take risks is an entrepreneurial attitude that involves being willing to tie up resources and having the courage to face challenges by exploiting or engaging in business strategies where the possible results are full of uncertainty (Keh et al., 2007). Proactivity reflects the willingness of entrepreneurs to dominate competitors through a combination and aggressive and proactive movements, such as introducing new products or services on top of competition and activities to anticipate future demands to create change and shape the environment (Tolstoy, 2019). Innovative refers to an entrepreneurial attitude to engage creatively in the process of experimenting with new ideas that allow them to produce new production methods so as to produce new products or services, both for the current market and for new markets (Sudhir Kumar & Bala Subrahmanya, 2010). A high entrepreneurial orientation is closely related to the main driver of profit so that an entrepreneur has the opportunity to take advantage and the emergence of these opportunities, which in turn has a positive effect on business performance (Wiklund, 1999).

Studies conducted (Covin & Slevin, 1991; Wiklund, 1999), state that a higher entrepreneurial orientation can increase a company's ability to market its products towards better business performance. Therefore, companies that are increasingly innovative, proactive, and dare to take risks tend to be able to perform better in business. Apart from entrepreneurial orientation, that can influence strategy. (Lechner & Gudmundsson, 2014; Nathan & Scobell, 2012) states that entrepreneurial orientation is an effort to learn about a person's values, abilities and behavior in an effort to create and innovate. The study of entrepreneurship is closely related to one's personal values and abilities which are expressed in the form of behavior. This is in line with what has been stated by (Nathan & Scobell, 2012; Veidal & Flaten, 2014) in principle that entrepreneurial orientation is the nature, traits, and dispositions that have the ability to bring innovative ideas into the real world that are done creatively.

3. Methodology

This research uses quantitative methods, while data collection techniques are carried out by means of questionnaires and documentation. The population in this study were culinary SMEs in Makassar City, South Sulawesi. Sampling was done by purposive sampling as many as 117 culinary SMEs. The data collection method used in this research is to use a questionnaire distributed to UKM players, the questionnaire consists of closed and open questions, the measurement scale of the questions will be given an assessment score from 1 to 5. The data processing technique uses the SEM method based on Partial Least Square. (PLS) requires 2 stages, namely the outer model and the inner model.

4. Result and Discussion

The AVE and communality values obtained were more than 0.5 and the outer loading value was more than 0.7. This means that the variables used have good validity, it can be said that all the indicators used can truly be trusted to measure their constructs. The detailed AVE, communality and outer loading values can be seen in the table below.

Table 1 Model berdasarkan nilai AVE dan communality

Variable	AVE	Communality
Business Performance	0,779	0,779
Entrepreneurial Orientation	0,756	0,756

Table 2: Outer loading

	Business Performance	Entrepreneurial Orientation
E01		0,932
E02		0,742
E03		0,921
PB1	0,804	
PB2	0,877	
PB3	0,904	
PB4	0,899	
PB5	0,922	

The results are based on the evaluation of the measurement model as a whole, which consists of validity and reliability tests that have been satisfactory. The results of the final model obtained are considered good and can be used for hypothesis testing in the next structural model evaluation.

Evaluation of structural models at a later stage is carried out to explain the correlation and significance of the relationship between construct variables. Evaluation of the structural model can be done by looking at the value of R² on endogenous variables, and the estimated value of the path parameter coefficient (Ghozali 2012). Evaluation of the structural model, the first step was carried out to see the value of the R-square (R²) of the endogenous latent variable model in the study. Latan and Ghazali (2012) stated that the R-square value in the model can be categorized as strong or weak. The model is strong if it has an R-square value of 0.75, while the model is weak if the R-square is 0.25. Latan and Ghazali (2012), also categorized the model as moderate, that is, if the model has an R-square value of 0.25. The R-square value obtained in this study can be seen in table 3.

Table 3: Composite Reliability, R Square and Cronbach Alpha

	Composite Reliability	R Square	Cronbachs Alpha
Business Performance	0,946	0,557	0,929
	0,902		

This study aims to see the effect of entrepreneurial orientation on the performance of culinary SMEs. Based on Table 3, it can be seen that entrepreneurial orientation has a positive effect on performance, with a coefficient value of 0.929 which means that the effect of entrepreneurial characteristics on farm performance is 92.9%, while the rest is explained by other variables not used in this study.

The Influence of Entrepreneurial Orientation on Business Performance

This study aims to see the effect of entrepreneurial orientation on the performance of culinary SMEs in Makassar. Based on Table 4, it can be seen that business performance is positively and significantly influenced by entrepreneurial orientation with a coefficient value of 0.746. The value of 0.746 means that the influence of entrepreneurial orientation on business performance is 74.6%. The significance value of the effect of entrepreneurial orientation on business performance is analyzed based on the results of the t-test. The results obtained by t-value > t-table, namely 20.778 > 1.960, then Ho reject, which means that entrepreneurial orientation has a significant effect on business performance. The results of statistical tests of the effect of entrepreneurial orientation on business performance can be seen in Table 4.

Table 4 Total Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STERR)
Entrepreneurial Orientation -> Business Performance	0,746	0,752	0,035	20,778

The test results of the influence of entrepreneurial orientation on business performance have a significant effect with a positive coefficient. This means that an increase in entrepreneurial orientation causes business performance to increase. This shows the importance of building an entrepreneurial orientation because this entrepreneurial orientation determines business performance. Entrepreneurial orientation has a significant and significant positive effect on business performance because in its

application, entrepreneurial orientation is very helpful in the sustainability of culinary UKM businesses. (Chen et al., 2008; Makanyeza & Dzvuke, 2015) say that entrepreneurship orientation is a process in decision-making activities that leads to the development and creation of innovative new products that can differentiate from other organizations in the market. Dare to take risks, be proactive and innovate are entrepreneurial attitudes that involve their willingness to tie up resources and dare to face challenges by exploiting or

engaging in business strategies where the possible results are full of uncertainty (Keh et al., 2007; Tolstoy, 2019; Sudhir Kumar & Bala Subrahmanya, 2010).

Conclusion

From the measurement results it can be concluded that the indicators of innovative, proactive, and risk taking from each owner of culinary SMEs in Makassar agree that they run indicators in entrepreneurial orientation. The relationship between entrepreneurial orientation indicators has a close and significant relationship. So it can be said that entrepreneurial orientation is related to the performance of culinary SMEs. Especially in terms of evaluating business performance, and of course it is evident that every culinary business that is the object of this research has experienced business performance developments from year to year. Based on the results of the analysis between entrepreneurial orientation and business performance, it shows that the three indicators in entrepreneurial orientation, namely innovative, proactive, and risk taking have a positive effect on business performance.

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