The Influence of Entrepreneurial Orientation to Firm Performance

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Abstract: - The purpose of this study was to test and analyze the influence of entrepreneurial orientation to firm performance. The method that used in this research is explanatory research method, using a questionnaire as a data collection tool that is distributed to 163 SME in West Java, Indonesia. Analysis of data in this research used descriptive analysis and Structural Equation Modeling (SEM) analysis. The results showed that entrepreneurial orientation has significant influence to firm performance in West Java.

Key-Words: - entrepreneurial orientation, firm performance, Structural Equation Modeling

1 Introduction

Economic reliability of the people was able to survive during the economic crisis of 1997, with the Micro, Small and Medium Enterprises (SMEs) as a driving force. SMEs prove themselves able to face the economic crisis not only undermine the economy of Indonesia, but also large parts of the world, especially in the region of ASEAN countries. At the time the company's giant conglomerates are not able to perform the production, SMEs still survive, although running in difficult times.

an large enterprises, but SMEs still be affected by this global crisis. During the peak of the crisis in 1998, economic growth was negative 13.40% have resulted in a reduction in the number of units SMEs as much as 2.95 million units (07,42%). When in 1997 SMEs reached 39.77 million units, and then in 1998 shrank to 36.82 million units (CBS, 1999). It became evident that the economic crisis has hit all sectors of the national economy, including SMEs, albeit with better durability than on large businesses.

SMEs durability against a crisis, as happened in the year 1997 - 1998 showed the fact the importance of SME development for the improvement of public welfare and national economic development. The amount is more than 45 million units, SMEs not only able to stimulate the national economy, but also is able to absorb a very large job. Assuming each business unit to absorb three workers alone, the SME sector has been able to absorb 135 million workers.

Labor absorption of SMEs of the manufacturing industry in West Java approaching 11 people per one existing SMEs, of which 192 140 SMEs unit is able to absorb 2,032,956 workers in situations.

Although they are able to survive better http://disperindag-jabar.go.id/

Further research to redefined measurements, exploring the underlying processes related with entrepreneurial activity and recognizing multidimensional nature of entrepreneurial orientation (EO) will contribute to the greater understandings of entrepreneurial orientation (EO) and its relationship towards firms’ performances. Family firms play a significant role in a country’s economic growth through new business venture creation and expansion of existing firm. Some
statistics show that these types of businesses contribute up to 64% of the U.S. gross domestic products (GDP) and occupy 62% of its workforce [1]. Globally, half of the world’s workforce and over half the world’s GDP are contributed by family businesses [2]. For instance, family businesses construe 84.4% of all manufacturing companies in Germany in 2002 [3].

The issue in the development of SMEs is not only based on the significant increase in the number of business opportunities to provide the broadest to the public, but also improve the competitiveness not only at local, national and regional, but rather on global competitiveness, so as to enjoy the benefits from trade and investment liberalization. It has also become part of the debate in the forum of SMEs in the Asia Pacific Economic Council co-operation (APEC) about the need for a new business unit to ensure broad participation for community members of APEC members, as well as view the need for economic and technical cooperation (ECOTECH) proposed developing countries to improve industrial competitiveness in the global competition APEC members.

The new round of economic development of the countries of Southeast Asia will soon begin, thus requiring careful preparation and strategic consideration of the facts in economic conditions, economic growth and economic development in some ASEAN countries are very diverse. ASEAN Economic Community or AEC which will be enacted in 2015 gives hope for the prospects and opportunities for inter-regional economic cooperation on a broad scale, especially for countries in South East Asia. MEA implementation, the countries which are members of ASEAN will be a great country. Residents in ASEAN countries will be able to freely go in and out of a country in the ASEAN region without any obstacles. For Indonesia, the establishment of AEC 2015 will provide some challenges that are not only internally in the country but even more competition with other ASEAN countries and other countries outside of ASEAN such as China and India. The intense competition is likely to impact on the competitive price as well, not just commodities / products / services featured big industry (UB), but also the SME sector because of the similarity of product characteristics. Recognizing the role of SMEs as a business group that has the greatest number and quite dominant in the economy, the achievement of success MEA 2015 will also be influenced by the readiness of SMEs, [4].

2 Literature Review, Hypotheses and Conceptual Framework
Entrepreneurial orientation (EO) refers to the strategy making processes that provide organizations with a basis for entrepreneurial decisions and actions (e.g., [5]). Drawing on prior strategy making process and entrepreneurship research, measurement scales of EO have been developed and widely used, and their relationships with other variables have been examined. Thus, EO represents one of the areas of entrepreneurship research where a cumulative body of knowledge is developing. Entrepreneurial orientation is a multidimensional measure of firm level entrepreneurship, comprised of innovativeness, pro-activeness, risk taking, competitive aggressiveness and autonomy. Many early studies contributed to the gradual establishment of entrepreneurial orientation as a theoretically and logically legitimate construct representing the entrepreneurial nature of a firm [6]. Prior to the formal development of EO, research examining entrepreneurial organizations [7] identified many characteristics differentiating these organizations from others. Much of this research was summarized by [8] as they provided a comparison of entrepreneurial and conservative firms. In his assessment, several characteristics of entrepreneurial organizations were identified. These included such characteristics as a greater level of differentiation within the firm, higher levels of environmental hostility in a firm’s external environment, heterogeneity [8, 9], technocratization [9, 10], a greater consciousness of organizational strategy [7, 9], and higher rates of growth [9].

2.1 The relationship between entrepreneurial orientation and firm performance
The relationship between entrepreneurial orientation and firm performance has been at the forefront of entrepreneurship literature for many years. From early studies, examination of new venture performance to the breadth of recent literature examining the EO construct, researchers have placed great emphasis on the relationship between entrepreneurship and performance. Scholars have primarily theorized a positive
relationship between entrepreneurial orientation and the growth and profitability of the firm [11, 12]. However, studies have often differed in their approaches to measuring EO, with some examining overall EO in relation to performance and others examining individual dimensions of EO and performance.

Therefore, firms may have benefit from adopting an EO. Such firms innovate frequently while taking risks in their product market strategies [9]. Efforts to anticipate demand and aggressively position new product/service offerings often result in strong performance [13]. Thus, conceptual arguments suggest that EO leads to higher performance. However, the magnitude of the relationship seems to vary across studies. While some studies have found that businesses that adopt a strong entrepreneurial orientation perform much better than firms that do not adopt an entrepreneurial orientation (with an r >.30, e.g., [14, 15, 16, 17]), other studies reported lower correlations between EO and performance [18, 19, 20] or were even unable to find a significant relationship between EO and performance [21, 22]. Thus, there is a considerable variation in the size of reported relationships between EO and business performance.

H1 : Entrepreneurial Orientation has significant influence to Firm Performance

3 Methodology
The distribution of population in 25 districts / cities added grouping region fostering cooperatives and small and medium businesses that are used by the Department of Cooperatives and SMEs in West Java Province. Total population in this study were 192 140 SMEs. While the sampling technique used was cluster sampling with total sample of 163 SMEs.

Analyses tool used in this research is Structural Equation Modeling (SEM). Entrepreneurial orientation observed in 5 (five) indicators: autonomy, innovation, risk taking, proactive, and competitive aggressiveness. The independent variable is the performance of the company, with indicators on the financial perspective, customer perspective, internal business processes and learning and growth perspective.

4 Results and Discussion
The results show that entrepreneurial orientation path coefficients on the performance of the company amounted to 0.2984 with positive direction. Path coefficient is positive, meaning that the higher the entrepreneurial orientation tends to improve company performance. Furthermore, t-count value (3.91) is greater than critical t (1.96) shows that the 95% confidence level can be concluded there is significant influence of entrepreneurial orientation on company performance.

Directly contributing entrepreneurship orientation / influence by 8.91% in improving the performance of the company, then indirectly because of its relationship with the external environment and the business strategy of 12.53%. In total entrepreneurial orientation contribute to / influence of 21.44% in improving corporate performance.

Structurally, the relationship between entrepreneurial orientation on firm performance can be described as Figure 2.
entrepreneurial orientation will boost the performance of small and medium enterprises in West Java. The direct effect of entrepreneurial orientation on the performance of the company amounted to 8.91% in, while the indirect effect because of its relationship with the external environment and the business strategy of 12.53%. In total entrepreneurial orientation contribute to / influence of 21.44% in improving corporate performance.

4 Conclusion
Entrepreneurial orientation have a significant effect on the performance of the company 95%. Path coefficient entrepreneurial orientation on the performance of the company amounted to 0.2984 with positive direction which means that the higher the entrepreneurial orientation tends to improve company performance. Entrepreneurial orientation directly by 8.91% impact in improving corporate performance, conclusion of this study corroborate the findings [23, 24, 26, 28].

Entrepreneurial orientation has significant effect to performance of small and medium enterprises in West Java, although the contribution is still relatively small, is showing signs of how laying basic entrepreneurship right through the strengthening of entrepreneurial orientation is a necessity. This is also evidenced by the increasingly rapid growth of entrepreneurial orientation theoretical applications, where previously corporate entrepreneurship (entrepreneurial orientation) is only focused on the medium and small companies, but now the company is also widely used as a large-scale subjects as corporate entrepreneurship is proven to provide maximum performance in both small companies as well as the giant company [29].

This research has limitations thus cannot be generated for all SME in West Java particularly and generally in Indonesia. For the future study, the researchers should focus on other organizations either on private or government sectors in other states in Indonesia. In addition, the future research also should include both questionnaires and depth interview session together in this study as it will provide more comprehensive outcome.

References:


