Business Performance of Small and Medium Industries In Bojonegoro Indonesia

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Abstract: The purpose of this research is to find out the influence of entrepreneurial orientation toward market orientation and business performance of SMIs in Bojonegoro, and the indirect influence of entrepreneurial orientation towards business performance through the market orientation as the mediator. This research uses descriptive and quantitative analytical research design. The population is Small Medium Industries (SMIs) in Bojonegoro Indonesia, the sample collection technique has been carried out by using non-probability sampling technique in which the sample is determined based on certain criteria which is compatible with the purpose of the research. The numbers of samples which are compatible with the research criteria are 100 respondents. The data collection technique has been conducted by issuing questionnaires and performing interviews. The obtained data has been analyzed by using Partial Least Square (PLS) which is a model of Structural Equation Modeling (SEM) which is component based or variant. The result of the research shows that, entrepreneurial orientation gives influence toward market orientation, entrepreneurial orientation gives influence and business performance, Market Orientation gives influence toward Business Performance of SMIs. The entrepreneurial orientation gives indirect influence toward business performance through mediation of market orientation, is not accepted.

Keywords: entrepreneurial orientation, market orientation, business performance

I. INTRODUCTION

Small and Medium Industry (SMIs) is a creative industry which focuses on creativity and exploitation of intellectual ownership. Creative industry is an industry which derives from the utilization of creativity, skills and individual talents to create welfare and employment by generating and exploiting the individual creativity and invention. The creative economy entity has set up 16 (sixteen) subsectors which include in the creative industry, i.e.: application and game development, architecture, interior design, visual communication design, product design, fashion, film, photography, culinary crafts, music, publishing, advertising, performing arts, fine art, television and radio.

The development of SMIs in Bojonegoro district has grown rapidly, local government encourages people to make breakthrough efforts through creative industry. Various entrepreneurial training is given to community groups to improve the welfare of the people. However, the development of Small and Medium Industries as one of the drivers of the economy, which has grown rapidly has not been accompanied by maximum performance. One of the obstacles which is encountered by the SMIs is because the practitioners of SMIs have not focused on entrepreneurial orientation and market orientation, so that the performance of IKM Bojonegoro Indonesia is not optimal. Kuncoro (2006) stated that small and medium enterprises in Indonesia are difficult to develop due to internal constraints such as poor human resource quality, lack of entrepreneurial orientation, lack of technology, management and information and has not market oriented yet.

Narver and Slater (2010) defined market orientation as the most effective and efficient organizational culture to create the behaviors which are required to create superior value for buyers and to generate superior performance for the company. Companies which have made market orientation as an organizational culture will be based on external basic needs, market desires and demands as the basis for developing strategies for each business unit within the organization, and determining the success of the company.

Currently entrepreneurship particularly SMEs is called as one of the factors to realize the highly competitive and sustainable economic growth. Entrepreneurship itself means a human activity by mobilizing the mind or the body to create or to achieve a work which can manifest noble human beings. The entrepreneurial orientation reflects how firms identify and exploit untapped opportunities as organizing principles within the company (Baker & Sinkula, 2009).


The purpose of this study was to determine the effect of entrepreneurial orientation on market orientation and SME business performance in Bojonegoro, as well as the indirect effect of entrepreneurial orientation on business performance through market orientation mediators.
The significance of the importance of research is as a reference material for local government policies in the Bojonegoro district of Indonesia in encouraging the growth and development of IKM in Bojonegoro, especially to face the challenges of the Industrial Revolution 4.0

II. LITERATURE REVIEW AND HYPOTHESES

Entrepreneurial Orientation

Entrepreneurial orientation is one of the strategies of the company to improve business performance. The entrepreneurial orientation is the key to corporate success and profitability achievement. Companies that use entrepreneurial orientation principles will achieve better business performance than firms that do not use entrepreneurial orientation principles (Taylor, 2013). The entrepreneurial orientation reflects how firms identify and exploit untapped opportunities as organizing principles within the company (Baker & Sinkula, 2009).

The company ought to conduct innovation to meet the needs of potential customers, get involve in new exploitation, support new ideas, creativity in the effort to produce new innovative products and technological changes of the systems which has been used (Li, Zhao, Tan, & Liu, 2008). The model of entrepreneurial orientation in SMEs is developed based on 5 (five) dimensions: innovativeness, risk taking, proactiveness, competitive aggressiveness, autonomy (Arshad, Noor, Noor, Ahmad, & Javed, 2014). The result of the research Arshad et al. (2014) shows that entrepreneurial orientation which consists of innovation, proactive, risk-taking, competitive aggressiveness and autonomy give influence to the SMEs business performance.

These results support Idar and Mahmood (2011) which stated that the entrepreneurial orientation gives influence to the performance of SMEs business performance. This result also supports the research of Fairoz, Hirobumi, and Tanaka (2010), there is a positive correlation between entrepreneurial orientation and the performance of SMEs.

H1: Entrepreneurial Orientation gives influence to the market orientation

H2: Entrepreneurial Orientation gives influence to the Business Performance

Market Orientation

Market orientation is a corporate culture which places the market as the key to the sustainability of the company. Therefore, in order to maintain the growth rate of companies in the middle of complex competition, the market have to be managed by systematic efforts, by seeking information and recognizing customer needs so that the product which will be produced will provide satisfaction for customers. Market orientation is highly valuable, scarce, non-interchangeable and imperfectly imitated, which is considere as one of its internal capabilities and resources which can potentially create competitive advantage (Zhou, Brown, & Dev, 2009).

The market should be approached by seeking information about the characteristics and background of the customer so that the anticipation of the market can be done in a proportional way. The main market must be well served if the company is thoroughly responsive to the demand of customers and competitors in the market. The market orientation has three main aspects, i.e.: Intelligence dissemination is an attempt to summarize market intelligence that focuses on customers and competitors systematically; Intelligence generation is the dissemination of market intelligence to all units or departments within the organization; Responsiveness is a coordinated and thorough organizational response to the market responses (Walker, Brewer, Boyne, & Avellaneda, 2011). Market orientation gives influence to the SME business performance (Clarkson, Li, Richardson, & Vasvari, 2008; Dubihlela & Dhrup, 2013; Idar & Mahmood, 2011; Olivares & Lado, 2008; Spillan & Parnell, 2006).

H3: Market Orientation gives influence to the Business Performance

Business Performance

Business performance is a function of the result of existing activities within a company that is influenced by internal and external factors in achieving the goals which have been set during certain time period. The performance of SMEs can be measured through financial performance, customer loyalty, customer satisfaction, customer survival and received performance (Keshtavar, Mueinaddin, & Dehnavi, 2013). Measures of business performance with objective approaches measured through economic performance or financial performance include: ROI, sales profit, revenue growth, market share (Baker & Sinkula, 2009; Poudel, Carter, & Lonial, 2012; Taleghani, Gilaninia, & Talab, 2013).

The measurement of business performance has been carried out by using subjective approaches which is measured by using non-economic performance or non-financial performance are market performance, market effectiveness, market dominance, service quality, customer satisfaction, productivity, market valuation, buyer strength, supplier strength, sales concentration, customer loyalty, company reputation, employee turnover, organizational commitment (Al-Alak & Tarabieh, 2012; Baker & Sinkula, 2009; Husnah, 2013; Spillan & Parnell, 2006; Taleghani et al., 2013; Wingwon, 2012).

Business performance in SMEs / SMIs can be measured based on marketing performance achievement. The result of the research of Matsuno, Mentzer, and Oszomer (2002) stated that entrepreneurial orientation gives indirect influence to the organizational performance which is mediated by market orientation in manufacturing companies. The result of the research of Affendy, Nizam, Talib, and Farid (2015) on SMEs in Malaysia stated that there is an influence of entrepreneurial orientation to the performance of SMEs which is mediated by market orientation.
H4: Entrepreneurial orientation toward business performance through Market Orientation as the moderating

III. RESEARCH METHODS

This research has been conducted in Bojonegoro Regency in East Java and the population is all Small and Medium Industries (SMIs) which are located on several districts. The reason for using Small Medium Industry in Bojonegoro as the unit of analysis, because it has been expected that SMIs can encourage the economy in Bojonegoro and they are not depend on the oil and gas sector. The sample collection technique has been carried out by using purposive sampling in which the sample has been selected by using certain criteria. The samples criteria which has been carried out to the SMIs are: it has at least 5 employees, this refers to the criteria of small-scale businesses according to BPS so that the selected samples can represent the population as well; it is an individual businesses; it is owned by Indonesian citizens; it has a legal entity or not yet incorporated; its business age is above 3 years, the purpose of the criteria is to find out the business performance, business status, the number of employees and profits which has been generated.

The numbers of samples in this research are 100 respondents of SMIs, Hair, William, Barry, Rolph, and Ronald (2010) stated that if the sample is above 400, it will cause the fit model (goodness-of-fit) is not so good, so it is more recommended the use of samples at the intervals of 100-400. The data collection methods has been carried out by conducting surveys, interviews and issuing questionnaires. The obtained data has been processed by using Partial Least Square (PLS) approach. PLS is an equation model of Structural Equation Modeling (SEM) based on components or variants Ghozali (2006) and Sobel tests.

The variable of Entrepreneurial Orientation in this study refers to Lumpkin and Dess (2001) which includes: Innovativeness, Risk tasking, Pro-activeness, Competitive aggressiveness, autonomy. Market Orientation variable refers to the dimensions developed by Protco and Domberger (2014) and Walker et al. (2011) consisting of three dimensions of Intelligence dissemination, Intelligence generation, Responsiveness. While Business Performance variables refer to the dimensions developed Al-Alak and Tarabieh (2012); Özer and Tınaztepe (2014); Spillan and Parnell (2006); Taleghani et al. (2013); and Wingwon (2012) which include: Growth of customer number, Ability to dominate market, Ability to develop product / service, Consumer satisfaction, company profit.

IV. RESULTS AND DISCUSSION

The data analysis in this research has been carried out by using Structural Equation Modeling (SEM) and Smart PLS software (Partial Least Square). Data Analysis PLS Path Modeling there are 2 models i.e. Outer model and Inner model.

**Outer Model Evaluation**

Outer Model also called outer relation or measurement model specifies the relationship between the variables studied with the indicator. The result of the analysis shows that all the indicator variables have convergent validity above 0.5, so it is valid or fulfilled. The value of cross loadings shows discriminant validity results for each indicator block can be predominantly judged good with a value above 0.5 means that all indicators used in this study are valid as a measure of each construct variable. Composite reliability, all studied constructs meet the criteria, the value of all constructs > 0.60, so that each construct can be positioned as a research variable. The result of the AVE value for the indicator block measuring the construct can be expressed as having a good discriminant validity value of over 0.5. This means that all construct variables are considered reliable.

**Inner Model Evaluation**

This test is used to evaluate relationships between latent constructs such as these tests which has been hypothesized in the study, based on the PLS output, the following images are as follow:

![Figure 2. PLS Research Model](image-url)
The result of inner weight score in Figure 2 above shows that SMIs Business Performance is influenced by Entrepreneurial Orientation and Market Orientation whereas Market Orientation is influenced by Entrepreneurial Orientation shown in hypothesis testing.

The latent variables of Entrepreneurial Orientation gives influence to the Market Orientation variables has RSquare value of 0.447 indicates that Moderate model, as well as Market Orientation variables give influence to the SMIs Business Performance variables have its R2 value of 0.713 which indicates that the models are "Good".

Table 4: Inter-Construct Table

<table>
<thead>
<tr>
<th></th>
<th>original sample estimation</th>
<th>mean of subsamples</th>
<th>Standard deviation</th>
<th>1- Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation -&gt; Market Orientation</td>
<td>0.669</td>
<td>0.690</td>
<td>0.088</td>
<td>7.557</td>
</tr>
<tr>
<td>Entrepreneurial Orientation -&gt; SMIs Business Performance</td>
<td>0.561</td>
<td>0.198</td>
<td>0.129</td>
<td>5.245</td>
</tr>
<tr>
<td>Market Orientation -&gt; SMIs Business Performance</td>
<td>0.729</td>
<td>0.705</td>
<td>0.119</td>
<td>6.136</td>
</tr>
</tbody>
</table>

Source: 2020 Data Processing

Figure 3. Indirect Influence Model of Sobel Test

It has been found from the result of the test that the result of the above test get the z value of 0.750, because the value of z obtained by 0.750 < 1.98 with 5% significance level then the result proves that the Market Orientation is unable to mediate the relationship of the influence of Entrepreneurial Orientation to the SMIs Marketing Performance.

Entrepreneurial Orientation gives influence to the Market Orientation

The entrepreneurial orientation gives influence to the market orientation, which leads to innovation, (loading factor dimension, the highest entrepreneurial orientation is innovation). Innovation reflects the tendency of the company to get involve in new ideas and creative processes to produce new products. The innovation ability is related to the perception and the activity to new and unique business activities. The innovation ability is an important point of entrepreneurship and the essence of entrepreneurial characteristics. Based on the responses of respondents from the issued questionnaires, the majority of respondents strongly agree with the statement that conducting research and technology development and product innovation development, corporate acceptance to the variety of behaviors, shows that the company is proactive to changes. These results show that SMIs have the ability to develop technology and innovation. SMIs can overcome or anticipate toward all kinds of changes, have the ability to recognize opportunities and commitments for the orientation of innovation to strive to be first in market product innovation, courage to take some risks and take proactive action to defeat competitors.

These results are supported by the research of Baker and Sinkula (2009); Covin and Slevin (1989); and Zahra and Covin (1995) stated that entrepreneur-oriented companies are able to reach target markets rather than competitors, Entrepreneurial Orientation gives influence to the Business Performance

These results indicate that SMIs in Bojonegoro have high entrepreneurial orientation culture which can improve the SMIs business performance. According to Porter (1990) entrepreneurial orientation as a corporate benefit strategy in order to be able to compete more effectively within the same market place. A company emphasizes the proactivity in its business activities, then the company has engaged in entrepreneurial activities which automatically will drive high performance. Companies with high entrepreneurial activity mean that they seem to be in high spirits which will never end because of obstacles, obstacles, and challenges. These results are supported by Miller (1983) which stated that entrepreneurial orientation becomes an acceptable meaning to describe business performance. The entrepreneurial orientation is reflected in the attitude of innovation, proactive and risk-taking courage, is believed to be able to boost company performance. These results are supported by Covin and Slevin (1989) and Wiklund (1999), which stated that the higher entrepreneurial orientation can improve the company ability to market its products which leads to better business performance. The entrepreneurial orientation of an entrepreneur can lead to the enhancement in business performance is also stated by Covin and Slevin (1989).

Market Orientation gives influence to the Business Performance

These results indicate that the focus of SMIs Market Orientation in Bojonegoro give influence toward its business performance. Market orientation is a corporate culture which places the market as the key to the sustainability of the company. Based on the data of the respondents, it indicates that the majority of SMIs in Bojonegoro are agreed to coordinate with subordinates in developing the market, communicating the success of the company, responsiveness to market tastes, focusing on customers, paying attention to the
customer complaints and conducting customer satisfaction survey. These results are compatible with Kohli and Jaworski (1990) who stated that market orientation is the ability of a company to produce information about consumers and competitors. The company focuses on the customers as an important element in market orientation, which includes acquiring on the needs and desires of customers, taking action based on market intelligence. The results of the research are in accordance with the description of Proto and Domberger (2014) and Walker et al. (2011) The market orientation has three main aspects: 1) Intelligence dissemination, systematic effort of systematic intelligence focusing on customers and competitors; 2) Intellelgence generation, dissemination of market intelligence to all units or departments within the organization; 3) Responsiveness, coordinated and thorough organizational response to market response. The results of this research support the research that market orientation give influence to the SMEs business performance (Clarkson et al., 2008; Dubihlela & Dhurup, 2013; Idar & Mahmood, 2011; Olivaures & Lado, 2008) . The market orientation consists of Intelligence dissemination, Intelligence generation Responsiveness has an effect on business performance of SMEs (Spillan & Parnell, 2006).

Entrepreneurial Orientation gives indirect influence toward Business Performance through Market Orientation

Hypothesis 4 is denied, it has been proven that market orientation cannot mediate correlation of influence of entrepreneurial orientation to SMIs Marketing Performance. Although SMIs in Bojonegoro has run its business with orientation strategy of entrepreneurship and market orientation but SMEs has not paid attention to strategy for superior product. This is reflected in the responses of respondents that 50% of SMEs business ages ranged from 3-6 years showing that SMIs is still focused on profitability for business growth and development. Besides, 75% of SMIs still market their products domestically. Business performance is a function of the results of existing activities within a company that is influenced by internal and external factors in achieving the goals set during certain time period. Business performance is an economic performance consisting of market share, premium growth and profitability (Olivaures & Lado, 2008). The results of this study do not support the research of Matsumo et al. (2002) that entrepreneurial orientation has an indirect effect on organizational performance with market orientation mediation in manufacturing companies, nor does it support Affendy et al. (2015) study on SMEs in Malaysia showing that there is an effect of entrepreneurial orientation on the performance of SMEs mediated by market orientation.

V. CONCLUSIONS AND FUTURE DIRECTION

The development of SMIs in Bojonegoro district has grown rapidly, local government encourages people to make breakthrough efforts through creative industry. Various entrepreneurial training is given to community groups to improve the welfare of the people. However, the development


