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The Linkages between Entrepreneurial Orientation, Market Orientation toward MSMEs Performances

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A B S T R A C T

This paper examines the effect of entrepreneurial orientation on the performance of companies, with market orientation that consists of competitor orientation and customer orientation as the mediating variable. This research uses 100 samples of MSMEs in Sukoharjo Regency, Central Java Indonesia. The hypothesis testing is carried out using Structural Equation Modeling. The result shows that entrepreneurial orientation has a positive effect toward company's performance and market orientation, which consists of competitor orientation and customer orientation. However, market orientation, both of competitor orientation and customer orientation has no effect on company's performance. This result indicated that market orientation, either competitor orientation and customer orientation do not mediate the effect of the entrepreneurial orientation toward company's performance.

Keywords: Entrepreneurial Orientation; Market Orientation; Company's Performance; MSME

Ⅰ. Introduction

Micro, Small, and Medium Enterprises (MSMEs) have an increasingly important role on the economic growth in most countries (Idar & Mahmood, 2011). In Indonesia, MSMEs give a major contribution in reducing unemployment which in turn can increase national economic growth. Based on data from the Badan Pusat Statistik (BPS - Central Statistical Agency) (2012), during the year of 2012 the number of MSMEs in Indonesia has reached 56.5 million units. The number is higher than the previous year in 2011 which was only 55.2 million units of MSMEs (grow 2.41%). The increase in the number of MSMEs in Indonesia is followed by an increase in the absorption of labor, from 101.7 million people to 107.7 million people. Most of MSMEs have simple procedures and systems in order to increase the flexibility, shorten the time in decision making, greater comprehension and provide quick response toward the needs of consumers. Nevertheless, MSMEs have a greater pressure in maintaining the level of competitiveness both in the domestic market and global market, due to the global competition, the advancement of technology, and the changes in

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customer needs (Singh et al., 2008).

The implementation of the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) by the end of the year 2015 brought both positive and negative effects. The positive effect of the implementation of AEC among others was the creation of a broader international market. However, this positive effect is also followed by negative effect that is an increase in international competition. To remain competitive, MSME should keep the innovation in marketing and entrepreneurial activity, thus it can achieve a competitive advantage (Barsh, 2008). Market orientation and Entrepreneurial Orientation put emphasis on proactive behavior in detecting the industrial environment, including market information and competitor's strategy in creating innovation, and responding to customer needs on time. The characteristic of entrepreneurial orientation and market orientation emphasizes the company's willingness to do an innovation in organization (Baker & Sinkula, 2009). In other words, entrepreneurial behavior combined with market orientation capability is described as company's success and capability in creating innovations to respond the external environment and fulfilling customer needs (Huang & Wang, 2011).

Idar & Mahmood (2011) examine the role of market orientation to mediate the effect of entrepreneurial orientation toward the performance of SMEs in Malaysia. The results show that entrepreneurial orientation and market orientation affect the performance of SMEs, while market orientation mediates the effect of entrepreneurial orientation toward the performance of SMEs. According to Narver & Slater (1990), the main dimension of the market orientation is customer orientation and competitor orientation. The research conducted by Idar & Mahmood (2011) has not divided market orientation into 2 dimensions a so it cannot be known which dimension affects the performance of company, whether it is customer orientation, competitor orientation, or both of them. Therefore, this research examines the relationship between entrepreneurial orientation, market orientation, and company's performance by dividing market orientation into customer orientation and competitor orientation in order to provide clearer overview about the effect of the market orientation toward the performance of company by taking MSMEs in Sukoharjo Regency as the research object.

Ⅱ. Literature Review and Hypothesis

A. The Effect of the Entrepreneurial Orientation toward Company's Performance

Miller (1983) mentioned that, "an entrepreneurial firm is the one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch". Entrepreneurial orientation is likely to have positive implications toward a company's performance. Several studies has examined the effect of entrepreneurial orientation on companies performance (Wang, 2008; Idar & Mahmood, 2011; Hassim et al., 2011; Montiel-Campos & Aguiler-Valenzuela, 2013), and the results stated that entrepreneurial orientation is a factor that affects companies' performance. Furthermore, Lumpkin and Dess (1996) stated that, companies that have a strong entrepreneurial orientation will be more willing to take risk, and not only survive from the past strategy. In such a dynamic environment like today, entrepreneurial orientation is obviously a very important factor for the sake of company's life. Therefore, the hypothesis formulated is

H_1: Entrepreneurial orientation has a positive effect towards company's performance.

B. The Effect of Entrepreneurial Orientation toward Customer Orientation and Competitor Orientation

Entrepreneurial orientation is assumed to have a direct relation with the market orientation which

consists of customer orientation and competitor orientation. Zahra & Covin (1995) state that companies with entrepreneurial orientation can achieve greater target market and broader market position than their competitors. Matsuno et al., (2002) find that entrepreneurial orientation encourages market orientation, thus the higher the level of entrepreneurial orientation is the higher the level of market orientation. Companies with the high entrepreneurial behavior will be more concerned about their customer and competitor. The statement is in line with research's result conducted by Idar & Mahmood (2011) who found that entrepreneurial orientation has an effect on the market orientation. Therefore, hypotheses that can be formulated are:

H_2: Entrepreneurial orientation has a positive effect towards customer orientation

H_3: Entrepreneurial orientation has a positive effect towards competitor orientation

C. The Effect of Customer Orientation and Competitor Orientation toward Company's Performance

Naver & Slater (1990) define market orientation as the most effective and efficient organizational culture in forming required behaviors to create value for costumer and generate optimal company's performance. The level of company's attention with customers and competitors orientation will generate good company's performances. Company's performance is the result of various marketing strategies, which is formulated and implemented by the company. The research conducted by Jaworski & Kohli (1993) finds that the greater level of market orientation owned by organization is, the greater overall performance level owned by the company. Market orientation is an important factor for companies to understand the market as a basis in developing product and service strategy, in order to fulfill the customer and market needs, and to determine the success of the company. Furthermore, the research conducted by Baker & Sinkula (2009) and research conducted by Idar & Mahmood (2011) also found that market orientation has an effect on a company's performance. Therefore, hypotheses proposed are:

H_4: Customer orientation has a positive effect towards company's performance

H_5: Competitor orientation has a positive effect towards company's performance

D. The mediating role of customer and competitor orientation towards the effect of Entrepreneurial Orientation on company's performance

Market orientation that consists of customer and competitor orientation and entrepreneurial orientation are important factors that could affect a company's performance. The measurement of entrepreneurial orientation reflects a marketing strategy that will lead to innovation, proactive attitudes, and higher courage in risk taking and risk management. Higher entrepreneurial orientation that is developed by a company will make the market orientation and company's performance higher. Matear et al.,(2002) suggests that market orientation can contribute as a mediating variable in the effect of entrepreneurial orientation towards company's performance. Market orientation can mediate the effect of entrepreneurial orientation towards company's performance. This is because the indicator of entrepreneurial orientation that is focused on customer and competitor orientation will result in good company's performance. The research of Idar & Mahmood (2011) founds that market orientation mediates the effect of entrepreneurial orientation towards company's performance. Therefore, the hypotheses are:

H_6: customer orientation mediates the effect of Entrepreneurial Orientation towards company's performance.

H_7: competitor orientation mediates the effect of Entrepreneurial Orientation towards company's performance.

Based on the hypothesis established, we propose the

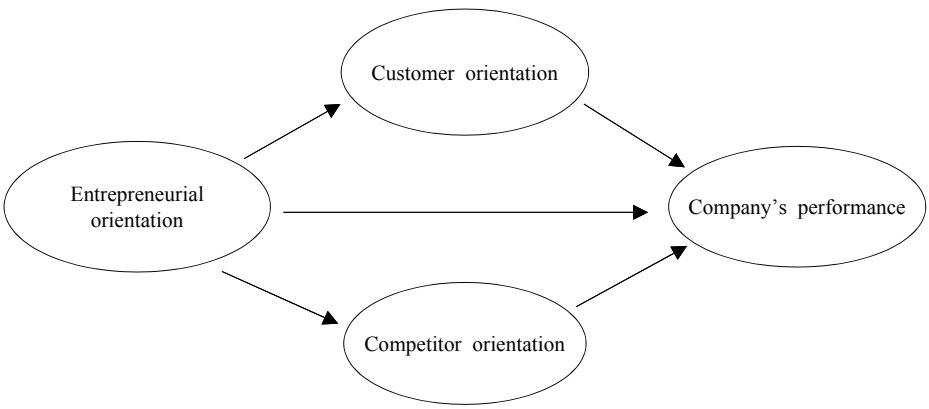

Figure 1. Research model

conceptual research model as specified in Figure 1.

Ⅲ. Research method

A. Population and sample

The population for this research is all MSMEs batik, furniture, and herbal industries in Sukoharjo district, Central Java Indonesia. Thus, the sample of this research is MSMEs batik, furniture, and herbal industries in Sukoharjo that has been established for at least 3 years, and the respondents for this research are MSMEs' owners of batik, furniture, and herbal industries in Sukoharjo. The representative sample size to be used in SEM analysis is at least five times of the number of indicators (Hair, 2010). The number of indicators in this study is 20, so that the minimum number of samples is 100. A survey instrument was developed to collect the quantitative data needed for our conceptual model and hypotheses testing. A total of 150 questionnaires were distributed directly, 100 surveys were collected and used for analysis. Sample Characteristics are shown in Table 1.

Table 1. Sample Characteristics

	Characteristics	Sample (N=100)	%
Industry	Herbal	22	22
	Furniture	41	41
	Batik	37	37
Companies age (years)	3 - 12	50	50
	13 - 22	25	25
	23 - 32	16	16
	33 - 41	9	9
Companies size	Micro	41	41
	Small	31	31
	Medium	28	28

B. Operational definition and variable measurement

All variables were measured on a 5-point Likert scale, ranging from ''strongly disagree'' to ''strongly agree'', unless otherwise noted.

1. Entrepreneurial Orientation

Entrepreneurial orientation is divided into three dimensions: innovation, risk taking, and proactiveness (Covin & Slevin, 1991; Miller, 1983). Innovation is the organization commitment to create and introduce its products, production process, and organization system (Covin & Slevin, 1991). Miller & Friesen (in Lumpkin & Dess, 1996), defined risk taking as "the degree to which managers are willing to make large and risky resource commitments. Proactiveness refers to processes aimed at anticipating and acting on future needs by "seeking new

opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle" (Venkatraman in Lumpkin & Dess, 1996). Following Kellermanns & Edleston (2006) and Weismeier-Sammer (2011), a 7 item scale was employed to assess the level of entrepreneurial orientation. Three items concern the introduction of new products and their degree of innovativeness, two items are related to the firm's tendency to high-risk projects and actions undertaken to position it self on the market, respectively, and two items are related to the firm's commitment to research and development as well as their innovation strategies.

2. Market Orientation

1) Customer Orientation

Customer orientation is SMEs' commitment to satisfy their customers, collecting information on customer's needs, undertake some efforts to satisfy the customer, and pay attention to customer's complaints (Mavondo et al., 2005). The measurement of customer orientation variable is carried out using 5 items statements: commitment to satisfy customers, collecting information of customers' needs, ways of satisfying customers, customers' complaints, and attention to customers; that are based on Mavondo et al., (2005).

2) Competitor Orientation

Competitor orientation is MSMEs activity to discuss information about competitors, competitor's excellence, competitor's strategy, responding to competitor's actions and to take competitive advantages over competitors (Mavondo et al.,2005). The measurement of competitor orientation variable is carried out using 5 items statements: discussion about information of competitors, information of competitors' excellence, discussion of competitors' strategy, responding to competitors' actions, and surpassing competitors; that are based on Mavondo et al., (2005).

3. Company's performance

Company's performance is measured by 3 items statements: respondents were asked to compare the return on capital employed, earnings per share, and sales growth of their own firm with those of their main competitors in the past five years; that are based on Wang (2008). Each item is measured by Likert scale with 5 alternative choices that are ranked from worse until better.

Ⅳ. Results

A. Research instrument test

Validity test is conducted towards 4 main variables that are entrepreneurial orientation, market orientation (which consists of customer orientation and competitor orientation), and company's performance. The result of validity test shows that there are 3 items that are not valid, which are excluded from analysis. The items are the items of entrepreneurial orientation statement 7 (KP7), as well as the items of customer's orientation 2 and 4 (OPL2 and OPL4).

Reliability test results show that the amount for entrepreneurial orientation is 0.895, customer orientation is 0.834, competitor orientation is 0.841 and company's performance is 0.838.

B. Hypothesis test

Hypothesis testing was conducted using the tools of Structural Equation Modeling (SEM)-AMOS software by adoption of a two-step process of hypothesis testing as follows. At the first step the researchers are testing the goodness-of fit of the model using basic criteria in SEM. The second steps is the hypothesis testing for causal relationships between variables using the criteria of Critical ratio (CR). Explanations for each analysis are as follows:

Table 2. The result of Model's Goodness-of-Fit

Goodness-of-fit Indices	*Cut-off Value*	Result	Model Evaluation
Chi-Square (χ^2)	Expected to be small	126.159	Fit
Degrees of freedom	Positive	103	Fit
Probability level (p)	≥0.05	0.060	Fit
CMIN/DF	≤2.0	1.225	Fit
GFI	≥0.90	0.876	Not- Fit
AGFI	≥0.90	0.816	Not- Fit
TLI	≥0.90	0.967	Fit
CFI	≥0.90	0.975	Fit
RMSEA	≤0.08	0.048	Fit

1. Analysis of Model's Goodness-of-Fit

Table 2 explains the result of the goodness-of-fit from the research model used. In this test the c^2 value the result shows a signification value that is higher than 0.05 with the amount of c^2 as much as 126.159 which shows us that the research model used fits. The Chi-square is sensitive to the size of the sample, which means other indicators are required to generate a certain justification about the model fit (Ghozali & Fuad, 2005). The other fit indices are: Chi-square divided by degree of freedom (CMIN/DF) = 1.225, Tucker Lewis Index (TLI) = 0.967, Comparative Fit Index (CFI) = 0.975, and Root Mean Square Error of Approximation (RMSEA) = 0.048. In general, the model submitted shows good compatibility level.

2. Analysis of Regression Weights

The result of the test presented in the table 3 shows that from the 5 tracks analyzed, there are 3 tracks that have significant interaction.It can be determined from the magnitude of the significance level (p) which is smaller than 5% for the effect of entrepreneurial orientation to the consumer orientation; entrepreneurial orientation to the competitor orientation; and the effect of entrepreneurial orientation to the company's performance. Table 3 also shows the effect of the consumer orientation and competitor orientation to the company's performance that is not significant.

Ⅴ. Discussion

A. The Effect of Entrepreneurship Orientation toward Company's Performance

The results of calculation presented in the table 3, shows the value of C.R. of entrepreneurial orientation toward the company's performance is 2.313 with the estimation value of 0.325 and a significance level $p<0.05$. Thus, it can be concluded that the first hypothesis (H1) is supported. This is because a company with entrepreneurial orientation will have a new capability, starting new businesses, developing new flow of profit, and increasing the performance of the company, profitability, and growth (Zahra et al., 2000). The company can achieve targeted market share, if they create innovations in generating the product, improving the quality of the product, and in the production process. A company that have a high proactive traits will know attempts that are taken by their competitors, thus, they could make

Table 3. Regression Weights

			Estimated	S.E.	C.R.	P
Company's performance	←	Entrepreneurial Orientation	.325	.140	2.313	.021
Consumer Orientation	←	Entrepreneurial Orientation	.824	.128	6.444	.000
Competitor Orientation	←	Entrepreneurial Orientation	.565	.099	5.702	.000
Company's performance	←	Consumer Orientation	.004	.079	0.053	.958
Company's performance	←	Competitor Orientation	.093	.156	0.594	.553

earlier movement to get in the market before their competitors. And in the end, a pro-active company will have more competitiveness than those that are not proactive, and give them a potential to be the market leader which is always headed on the established strategy, and long term goals. In taking an innovative and a high pro-active action, it is implied that there is the dimension of readiness to take risk, which has to be estimated carefully by the company by paying attention to the cost-benefit appropriately. Therefore, it will make the company sustain in the changing environment. The result of this research is in line with with the research done by Wang, 2008; Idar & Mahmood, 2011; Hassim et al., 2011; Montiel-Campos & Aguilar-Valenzuela, 2013.

B. The Effect of Entrepreneurial Orientation to the Consumer and Competitor Orientation

The results of calculation presented in the table 3, shows that the value of C.R. for the entrepreneurial orientation toward the customer orientation is 6.444 with estimation value of 0.824 and a significance level at $p<0.05$, thus, it can be concluded that H2 is supported. While the value of C.R. for the entrepreneurial orientation toward the competitor orientation is 5.702 with the estimation value of 0.565 and a significance $p<0.05$, thus, it can be concluded that H3 is supported. A company with a high entrepreneurial behavior will pay more attention to their consumer and competitor, they'll always identify every chance to beobtained and to be served, and also developing the marketing strategy integrally to increase their sales and profit. Those competitiveness can be achieved by developing and understanding each information about consumers and by giving the greatest value, compared to their competitors. Consumer satisfaction is the key indicator of company successfulness in controlling the market, successfulness in controlling the market could give a positive effect in the company's performance, comparing to their competitors that could not control the market. The results of this research support the research done by Matsuno et al., (2002) and Idar & Mahmood, (2001) which found that entrepreneurial orientation encourage market orientation, thus, the higher the level of entrepreneurial orientation, means the higher the market orientation.

C. The Effect of Consumer and Competitor Orientation toward Company's Performance

The results of calculation presented in the table 3, show that the value of C.R. for consumer orientation toward the company's performance is 0.053 with the estimation value of 0.004 and a significance level $p>0.05$. Thus, it can be concluded that the H4 is not supported. While the value of C.R. for competitor orientation toward the company's performance is 0.594 with estimation value of 0.093 and a significance level $p>0.05$. Thus, it can be concluded that the H5 is not supported. It shows that the market orientation including the consumer or the competitor orientation, is not a factor with the direct effect toward the MSMEs performance. Market orientation indicates the competencies in understanding the consumer, because it might give a chance to satisfy the consumer, as well as the competencies to identify the movement of the competitors. Understanding the consumers and competitors does not increase the company's performance directly, especially for the MSMEs level that usually only follows the market trend and does not understand their consumers and their competitors. The result of this research does not supports the previous research by Idar & Mahmood (2001) which shows that the market orientation has an effect toward the company's performance.

D. The Role of the Market Orientation (Consumer and Competitor) as Mediating Variable in the Effect of Entrepreneurial Orientation toward the Company's Performance

The result of the research shows that the market orientation including consumer and competitor orientation, does not have an effect to the company's performance. It means that the market orientation including consumer and competitor orientation do not mediate the effect of the entrepreneurial orientation to the company's performance, thus the sixth and seventh hypothesis (H6 and H7) are not supported. This phenomenon might be happened due to the level of the MSMEs in Sukoharjo Regency, where entrepreneurial orientation is the most dominant factor in increasing company's performance. The results of this research do not support the research conducted by Idar & Mahmood, (2001) which points out that market orientation has the mediating effect of entrepreneurial orientation toward company's performance.

Ⅵ. Conclusion

Based on the analysis of the result using SEM method we can conclude that: 1. entrepreneurial orientation has an effect toward the company's performance; 2. entrepreneurial orientation has an effect on the market orientation which consists of consumer orientation and competitor orientation; 3. Market orientation which consists of consumer orientation and competitor orientation does not have an effect on company's performance; 4. Market orientation which consists of consumer orientation and competitor orientation is not mediating the entrepreneurial orientation effect on the company's performance.

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