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Article

Entrepreneurial orientation, business performance, and traditional leadership style

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Entrepreneurial orientation, business performance, and traditional leadership style

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ABSTRACT

This study aims to determine the role of entrepreneurial orientation in mediating Minangkabau Universal Leadership and the performance of Small and Medium Enterprises (SMEs) in Padang, West Sumatra, Indonesia. Minangkabau Universal Leadership is used as an antecedent to represent traditional type leadership in West Sumatra that consists of three values: custom, religious, and intellectual. This leadership type was found more suitable to implement in this research because West Sumatra is a unique province with an esteemed culture that is still used and held by its people nowadays. During the pandemic era (in 2020), there were lots of new businesses in a small and medium scale that were established in Padang, West Sumatra, Indonesia. Based on purposive sampling techniques, this study uses 180 small and medium businesses as a sample. The criteria of respondents are based on the type of business, the ownership, number of employees, year of establishment, and profit in a year. The data was collected through questionnaires from 2021 to 2022. Each of the businesses is represented by a respondent. After the hypotheses were tested using SEM-PLS, the study found that Minangkabau Universal Leadership has a positive and significant influence on business performance. Hence, entrepreneurial orientation was found to mediate the relationship between Minangkabau Universal Leadership and business performance.

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1. Introduction

Harsanto and Roelfsema (2015) research regarding the role of leadership, and entrepreneurial orientation in determining the performance of a business states that transformational leadership is a type of leadership that can affect performance. However, in the cultural context of Asia, the influence of transformational leadership will then become less relevant. The results of previous research suggest that transformational leadership will be more effective in an intrapreneurial environment, which allows the entrepreneurial abilities of employees to develop and bring benefits to employees and the company (Clement & Bangniyel, 2019; Harsanto & Roelfsema, 2015; Ilyas et al., 2017; Musara & Nieuwenhuizen, 2020). This argument was supported by Muchiri and McMurray (2015) research which carried out the same research on leadership and entrepreneurship and found that the human role is very important in a company, including SME. The importance of human management makes the role of a leader very important in an SMEs (Bamfo et al., 2023). The leader would enhance the role of employees in SMEs, so this research also aims to determine the effects of employees on company performance and how to implement effective leadership to improve SME performance (Banerjee, 2021; Clement & Bangniyel, 2019; Engelen et al., 2015; Katsaros et al., 2020).

Sulastri et al. (2019) conducted research about a new leadership concept based on the existing matrilineal culture in West Sumatra, Indonesia. This leadership is called Minangkabau Universal Leadership (MUL).

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This leadership type is the development of existing traditional leadership, then adapted to the development of contemporary leadership theory. This leadership has several indicators that represent transformational leadership: Charismatic traits (idealized influence), visionary traits (inspirational motivation), intellectual stimulation, and kinship (individual consideration). The difference is this leadership also has other indicators, such as protecting honor, applying science, building tawheed, and developing science. This research is based on the fact that there is a socio-cultural transformation experienced by the Minangkabau people and has brought changes to society, including in leadership. One of these transformations occurred in areas that developed into urban areas characterized by pluralism, which tended to generate ties in terms of organization. This condition is relatively different from the conditions in Minangkabau cultures which are relatively homogeneous based on kinship ties. These differences can affect the implementation of leadership in urban areas. Conceptually, this research is based on traditional leadership theory and modern leadership which is developed based on transformational leadership theory. Therefore, when the authors wanted to examine leadership, entrepreneurial orientation, and business performance in SMEs, the leadership theory used was Minangkabau Universal Leadership (MUL). Leadership formulated based on traditional values is believed to have a stronger influence on the performance of a company (Muchiri & McMurray, 2015; Phillips et al., 2019; Yanti et al., 2021).

Entrepreneurial orientation is an important indicator that can determine the performance of a business (Barney et al., 2001a, 2001b). A strong entrepreneurial orientation influences several indicators of company performance including satisfaction with the company, global success ratings made by business owners or managers, sales growth, and return on investment. The previous study by Aftab et al. (2022) found that entrepreneurial orientation has a positive effect on entrepreneurial competence and company performance. Hence, entrepreneurial orientation was also found to have a mediating role in determining business performance (Aftab et al., 2022c).

Minangkabau Universal Leadership (MUL) consists of traditional values, religious values, and scientific values, as well as transformational leadership values, so this type of leadership is deemed suitable to be applied to improve business performance in challenging times like today (Sarwar et al., 2023), which require innovation strategies resulting from an entrepreneurial orientation. Minangkabau Universal Leadership, measured leader competencies (Ishaq et al., 2023), can be promoted as one of the entrepreneurial competencies that can influence business performance (Aftab et al., 2022b). Therefore, this study aims to determine the influence of Minangkabau Universal Leadership on business performance mediated by entrepreneurial orientation.

In today's business, the most dominating business actors are Generation Y. Generation Y is also often referred to as the millennial generation because they were born and grew up in the era of digital media and technology. The millennial generation has advantages in operating computers and understanding new technologies so that they have more value at work. In the city of Padang, currently, the millennial generation owns the largest percentage of newly established businesses. The business is expected to be strong and able to face environmental changes. There are many conditions where businesses that have just opened do not last long because they are crushed by intense competition and many competitors. This very tight competition is caused by the many similar businesses that continue to enter the market, especially those that offer their products at low prices and very attractive product variants. This causes new businesses in the city of Padang, Indonesia to be able to compete.

2. Literature review

2.1. Resource-based view

The resource-based view (RBV) theory theoretically explains and expands the research on entrepreneurship. The theory argues that through an entrepreneurial process of cognition, discovery, understanding of market opportunities, and coordinated knowledge, inputs become heterogeneous outputs (Barney et al., 2001a). It also attaches the important role of heuristic-based logic in providing resources for entrepreneurs to study and assimilate the implications of new changes for certain inventions quickly. Entrepreneurial opportunities arise when certain individuals (in this case leaders) have insight into the value of resources that others do not (Muigai et al., 2023). Entrepreneurial awareness, entrepreneurial

knowledge, and the ability to coordinate resources are seen as resources in their own right. Causal ambiguity is seen as the essence of entrepreneurship because it acts as an expansion of the knowledge base and absorptive capacity of entrepreneurs through experience and learning to achieve sustainable competitive advantage (Al-Abbadi & Abu Rumman, 2023).

2.2. Business performance

Business performance refers to the results of the company's business activities (Anwar & Shah, 2021; Ferreras-Méndez et al., 2021; Kiyabo & Isaga, 2020; Zhai et al., 2018). Performance is also a factor that can be used to measure the impact of a company's strategy in facing competition. Every company that is successful and able to survive will have a program regarding business performance because, through good business performance, it will effectively be able to eliminate wasteful use of resources (Harsanto & Roelfsema, 2015; Musthofa et al., 2017) and improve their business competitiveness (Kiyabo & Isaga, 2020). Thus, performance is about doing work, the results achieved from the work, and what is done and how to do it.

2.3. Minangkabau universal leadership

Leadership can be seen as a social and cultural phenomenon. Previous research indicates that leadership has a relationship with entrepreneurship (Al-Shami et al., 2023), specifically, transformational leadership. It is also argued as a fairly complex phenomenon because it is created for a purpose and consists of many parties such as leaders, followers, resources, and the situation and environment in which leadership is implemented or processed (Sulastri et al., 2018). The definition of leadership which connotes the ability to influence others to achieve a certain vision and mission, is different from management because it does not depend on the position or position held (Rose & Mamabolo, 2019; Zainab et al., 2022).

Sulastri et al. (2019) in the same topic with previous research also carried out the form of a taxonomic analysis of traditional Minangkabau leadership values so that candidates and leaders can learn and master them. Hoping that these values can be applied without being limited by time and space, the traditional Minangkabau leadership value taxonomy is complemented by transformational leadership values formulated and developed by Bass (1990). In this context, Minangkabau traditional leadership values refer to customary values, religious values, and scientific values. Meanwhile, transformational leadership refers to the values of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Avolio et al., 1999; Avolio & Gardner, 2005; Bass, 1990; Judge & Piccol, 2004). Sulastri et al. (2018) research proves that every leader, both formal and non-formal, especially those in the city of Padang as a reflection of the Minangkabau plural society uses the Minangkabau Universal Leadership (MUL) model. Based on RBV theory, leadership that provides a combination of traditional and transformational values can be the resource to improve business performance.

Hypothesis 1: MUL has a positive and significant influence on business performance in SMEs

2.4. Entrepreneurial orientation

Entrepreneurial orientation can be defined as an entrepreneurial process from the bottom up in a company that is closely related to intrapreneurship (Harsanto & Roelfsema, 2015). The important thing to note is individual autonomy and the company's attitude towards new opportunities. The most widely used entrepreneurial orientation model in previous research shows that there are five dimensions of entrepreneurial orientation, namely: autonomy, innovation, risk-taking, proactivity, and competitive aggressiveness (Alshanty & Emeagwali, 2019; Mrabure et al., 2021; Zhang et al., 2021). The entrepreneurial orientation urges companies to direct their strategic decisions and practices toward pursuing new opportunities (Engelen et al., 2015). Entrepreneurial orientation directs the organization to pursue new opportunities in the market. Therefore, the implementation of an effective entrepreneurial orientation requires transformational leadership behaviors from top management. This perspective is consistent with the notion that leadership behavior is an important mechanism for integrating and aligning in successful strategy implementation (Panjaitan et al., 2021).

Hypothesis 2: MUL has a positive and significant influence on entrepreneurial orientation in SMEs

In addition to paying attention to leadership style, a business must also be able to apply entrepreneurial orientation and innovative work behavior. Entrepreneurial orientation can be applied concerning the extent to which the business strategy can reflect entrepreneurial practices and behavior to adapt and be friendly to the internal and external environment (green economy). Innovative behavior determines the desire of employees to apply new ideas, products, processes, and strategies to the work being done, meaning that high performance can be achieved due to innovative behavior. This is in line with research conducted by Harsanto and Roelfsema (2015) which states that business performance, including startups, is influenced by entrepreneurial orientation. The stronger the entrepreneurial orientation, innovative behavior, and business strategy owned by the company; the stronger the company's performance will be. The entrepreneurial orientation also intervenes in the relationship between MUL and business performance.

Hypothesis 3: Entrepreneurial orientation has a positive and significant influence on business performance in SMEs

Hypothesis 4: Entrepreneurial orientation mediated the relationship between MUL and business performance in SMEs

3. Method

This research is categorized as quantitative research that identifies the influence of MUL and entrepreneurial orientation on the business performance owned by Generation Y. The source of research data comes from primary data, which is questionnaires, obtained by survey. The questionnaire uses Likert scale (1 to 5). Business performance and entrepreneurial orientation were measured using a questionnaire developed from Harsanto and Roelfsema (2015) research and MUL was adapted from Sulastri et al. (2018). The object of the research is all Generation Y who own newly established businesses. To determine the respondents, a purposive sampling technique was used. By using the sample criteria (a) Owners and employees are from Generation Y, (b) the business has to be newly established businesses, and (c) has profit above IDR 10,000,000/year. Sampling in this study was carried out based on the criteria by Hair et al. (2019) which states that the minimum sample size is 10 times the number of research indicators. So, the sample of this study is 180 coffee shops, café and restaurant businesses.

This study uses SEM-PLS as an analytical tool to test hypotheses. This technique was carried out to test the influence of MUL on newly established business performance and to test the indirect effect of MUL on business performance through entrepreneurial orientation. The collected data will be tested for validity and reliability through statistical analysis before testing the hypotheses (Table 1).

Table 1. Measurements.

No	Variable	Indicators	Scale
1	Minangkabau Universal Leadership	Preserving mutual legacy/ inheritance Protecting the dignity of the clan/ society Exemplary Guiding in monotheism and worship Developing science Implementing science Charismatic Visionary Inspirational Kinship	Likert (1-5)
2	Entrepreneurial Orientation	Innovation Proactive Risk-taking	Likert (1-5)
3	Business Performance	Sales Net sales Market share Customer Customer Satisfaction	Likert (1-5)

4. Results and discussion

4.1. Results

From the results, it was found that the development of SMEs, especially newly established businesses in the city of Padang, can be done through several characteristics. The first characteristic is the gender of the SME owner. The results of this research showed that 56.7% of newly established business owners in the city of Padang were men. The results of this research found that gender differences will significantly influence the income of SMEs because this research reveals that men are more productive in increasing newly established business's performance. The results of this research also show that the level of ownership of SMEs is dominated by men due to gender phenomena throughout the world, it is found that the level of male entrepreneurs is higher than women. The second characteristic found was the age of the business owner. The age of respondents in this study was dominated by 58% in the range of 25-30 years. These findings are following the sampling criteria, the coffee shop owners who will be used as samples in this research are the millennial generation. In total, the age range of respondents shows that owners of newly established businesses in the city of Padang are at a productive age in running a business. Age is an intrinsic factor that is believed to influence the business. Age differences will be related to the ability to process knowledge and skills. Age differences will have implications for the nature, appearance, and performance of the organization. In general, young workers (productive age) tend to be more dynamic, energetic, mobile, and easily receptive to new ideas. Although generally less diligent and dedicated than older and relatively experienced workers.

Table 2 shows the Fornell-Larcker Criterion to measure the discriminant validity of variables in this research. It is to ensure that one construct did not reflect another construct in this research.

Based on Fornell-Larcker Criterion analysis, the square root of the AVE for each construct is greater than the other correlation values between the latent variables.

Figure 1 shows the relationship model between variables. In the model of the relationship between the initial variables, it can be seen that the indicators are not yet valid because there are still indicators that have a loading factor value below 0.5 or do not have good convergent validity, namely X10 which has a loading factor value of 0.463.

Therefore, it is necessary to re-estimate the initial construct model by dropping the indicators that fall into the discriminant validity category. After the indicator from X10 is removed, the variable model is re-estimated, so the final form of the inter-variable model is obtained, which can be seen in Figure 1 (Table 3).

From the results of the final outer loading, it can be concluded that the indicators for each variable provide a high convergent validity value because all indicators have a loading factor above 0.5. Likewise, the cross-loading value shows good discriminant validity, that is, if you compare the correlation of variable indicators, it has a higher value compared to the correlation of other variable indicators.

Composite reliability results will show a satisfactory value if it is above 0.7. The composite reliability results of the SmartPLS output in this study can be seen in Table 4.

Table 4 shows that the composite reliability value for all constructs is above 0.7 which indicates that all constructs in the estimated model meet the criteria and are reliable.

Table 5 shows the R-square value of the MUL variable obtained at 0.605. This result shows 60.5% of the MUL variable can be influenced by the entrepreneurial orientation variable. As for the entrepreneurial orientation variable, it was obtained at 0.626. This result shows that 62.6% of the entrepreneurial orientation and performance variables can be influenced by the MUL variable.

Table 2. Fornell-Larcker criterion.

	Minangkabau Universal Leadership	Business Performance	Entrepreneurial Orientation
Minangkabau Universal Leadership	0,814		
Business Performance	0,691	0,826	
Entrepreneurial Orientation	0,790	0,764	0,910

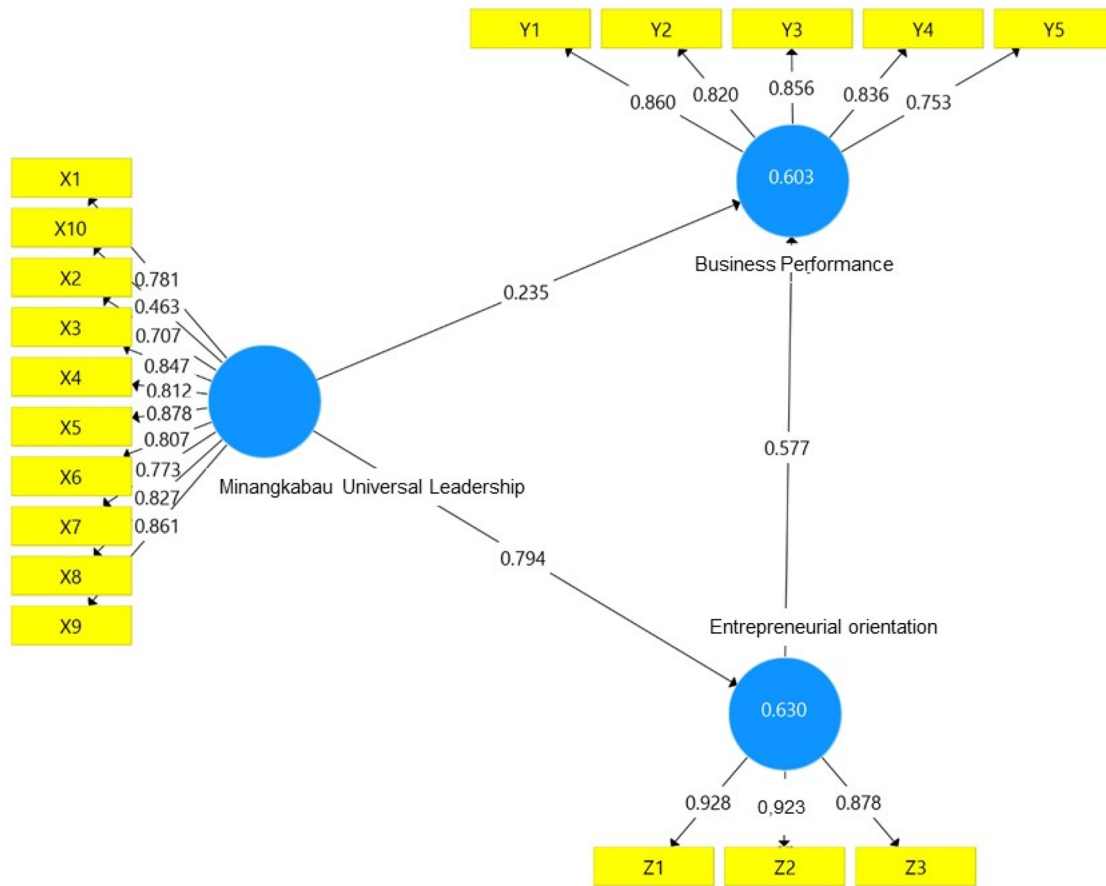


Figure 1. Research model.

Table 3. Square root of average (AVE).

	AVE
Minangkabau Universal Leadership	0.662
Business Performance	0.682
Entrepreneurial Orientation	0.828

Table 4. Composite reliability.

	Composite Reliability
Minangkabau Universal Leadership	0.946
Business Performance	0.915
Entrepreneurial Orientation	0.935

Table 5. R-square.

	R-square
Minangkabau Universal Leadership	0.605
Entrepreneurial Orientation	0.626

5. Hypotheses testing

The direct effect hypothesis test is carried out by looking at the t-statistics generated by the Inner model. The research hypothesis can be accepted if the t-statistic > 1.96. Table 6 shows the results of the direct effect hypothesis test.

In PLS statistical testing of each hypothesized relationship is carried out using a simulation. In this case, the bootstrap method was carried out on the sample. Testing with Bootstrap is also intended to minimize the problem of abnormal research data.

Table 6. Inner model.

	Direct Effect				
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values
MUL - Business Performance	0.233	0.231	0.080	2.917	0.04
MUL - Entrepreneurial Orientation	0.790	0.788	0.038	20.680	0.000
Entrepreneurial Orientation - Business Performance	0.580	0.585	0.070	8.339	0.000

Table 7. Indirect effects.

	Original Sample (O)	Sample Mean	Standard Deviation	T Statistics	P Values
MUL - Entrepreneurial Orientation - Business Performance	0.458	0.461	0.060	7.612	0.000

The results of the first hypothesis test show that the MUL variable with performance shows a statistical t-value of 2.917. This value is greater than the value of t-Table (1.96). This result means that there is a significant influence between MUL on coffee shop business performance. The workload on burnout. The path coefficient value of 0.233 means that if the MUL is implemented properly, the business performance will be higher, and vice versa.

The results of testing the second hypothesis show that the MUL variable on entrepreneurial orientation shows a statistical t-value of 20.680. This value is greater than the value of t-Table (1.96). This result means that there is a significant influence between MUL and entrepreneurial orientation. The path coefficient value of 0.790 means that if the MUL is getting better, the entrepreneurial orientation will also be getting better and vice versa.

The results of testing the third hypothesis show that the entrepreneurial orientation variable on performance shows a statistical t-value of 8.339. This value is greater than the value of t-Table (1.96). This result means that there is a significant influence between entrepreneurial orientation and performance. The path coefficient value of 0.070 means that if the perceived entrepreneurial orientation is high or good, the business performance will be higher and vice versa.

The indirect effect hypothesis can be accepted if it produces a t-statistic > 1.96 (Table 7).

Based on the results of calculating the coefficient of the indirect variable, the t-statistic value obtained for the indirect effect of MUL on performance through entrepreneurial orientation of $7.612 > 1.96$, with an original sample of 0.458, it can be concluded that MUL has a significant effect on performance through entrepreneurial orientation in the coffee shop business in the city of Padang. This means that if the MUL in the coffee shop business has been implemented properly, it will improve business performance and will increase entrepreneurial orientation in the Padang coffee shop business. The data processed show that four hypotheses in this study were supported.

6. Discussion

The results of this study prove that by improving business performance a leader who is able to provide direction (Agyapong et al., 2017) and motivation to all employees at work later will provide increased business performance (Clement & Bangniyel, 2019; Engelen et al., 2015). Leadership in Generation Y has a distinctive approach because digitalization no longer allows leaders to act conventionally. Millennial leadership needs to understand and use the communication patterns of the millennial generation they lead. In addition, Generation Y leadership needs to encourage innovation and creativity in the field of digital applications. All channels of innovation and creativity in business management to improve performance must be well-designed and concrete (AlMuhayfith & Shaiti, 2020; Tang et al., 2018; Xie et al., 2019).

Padang, Indonesia, is a city that has a strong culture and customs (Sulastri et al., 2018, 2019). The development of knowledge in terms of human resource management has also resulted in a modern

leadership style known as transformational leadership which consists of idealized influence, inspirational motivation, intellectual stimulation, and individual consideration (Avolio et al., 1999). This study uses MUL indicator which is a leadership that developed from the transformational leadership style. From the results of the study, it was found that MUL provided a positive and significant role and influence on business performance. This means that business owners have applied an effective MUL style to their business, resulting in positive and significant results.

Based on the results of the study it can be concluded that the leadership of the newly established business in the city of Padang has carried out its role thereby increasing business performance. The positive role given by the business leader in this research is in the form of exemplary, namely the leadership provides examples of behavior based on religious teachings both to employees and to others through forums and other activities. In addition, the leader also gave examples of behavior such as guiding monotheism and worship, implementing religious values, influencing employees to always carry out religious teachings, and making decisions according to religious teachings. With the role of leader of religious-based, it will provide a positive role in business performance (Harsanto & Roelfsema, 2015). Then, knowledge-based leadership is implemented based on science and technology in this study. The leaders have implemented a knowledge-based leadership style to provide a significant and positive role in the performance of the coffee shop business (Kisubi et al., 2021). In this case, the leaders carry out their role as knowledge-based leaders, namely by providing direction to their employees to always improve science and technology and apply science and technology in carrying out their work (Kiyabo & Isaga, 2020). The leader in this research also carried out the transformational leadership that sets a positive example in every behavior of subordinates (idealized influence), encourages employees to improve better performance (inspirational influence), creates a climate that is conducive to the development of ideas (intellectual stimulation), and gives attention to employees (individualized consideration) (Avolio et al., 1999; Bass, 1990). This research gives the result that transformational leadership plays a role in increasing the profit of newly established businesses in the city of Padang.

This research has several weaknesses that need to be overcome by future research. First, it focuses on leadership styles that were developed and implemented in Padang, Indonesia only. For future research, this research needs to expand to other leadership styles in improving business performance. For example, a comparative study between Minangkabau Universal Leadership and servant leadership in enhancing business performance. In previous research by Ruiz-Palomino et al. (2023), servant leadership has influences on employee social capital and performance. Second, Minangkabau Universal Leadership needs to be tested in other industries, such as the banking and insurance industry. This research is needed because previous research found that leadership has less influence in that industry (Ruiz-Palomino et al., 2013).

7. Conclusion

From the data processed, it was found that 1) there is a significant influence between MUL on business performance, 2) there is a significant effect between entrepreneurial orientation on business performance and 3) there is a significant influence between MUL on business performance with entrepreneurial orientation as a mediating variable in coffee shop business in the city of Padang. The implication of this finding shows that in communities that still hold onto culture and other traditional values, a leader who implements its values has a significant impact on business performance. This research also supports that innovative behavior resulting from MUL and is supported by resources such as entrepreneurial orientation can improve business performance in SMEs.

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Disclosure statement

No potential conflict of interest was reported by the author(s).

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