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EFFECT OF ENTREPRENEURIAL ORIENTATION TOWARD COMPETITIVE ADVANTAGE AND BUSINESS PERFORMANCE

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ABSTRACT

This study has the objectives to describe the effect of entrepreneurial orientation toward competitive advantage and business performance particularly for SMEs within Paguyuban Amangtiwi in Malang. Also, it aimed to test the model in understanding the most important variable which has greater effect for business performance. This study use *Path Analysis* method as the statistical tool and will be implemented in SME Paguyuban Amangtiwi in Malang. Result of this study shows that entrepreneurial orientation has positive effect toward competitive advantage. It also has significant relationship toward business performance. Entrepreneurial orientation also affects business performance.

KEY WORDS

Entrepreneurial orientation, competitive advantage, business, performance, enterprises.

Entrepreneurial orientation was considered as the critical process of organization that gives contribution for firm's survival and performance. Entrepreneurial orientation is the main aspect in running a business, because in its process, innovation renewal could affect firm's life, without any change the firm would be eroded by external changes. Wood et al. (2004) describe that entrepreneurial orientation is the ability to distribute creative innovation in business with added value. Firm should obtain more talent to conduct autonomy, innovation, risk taking, *proactiveness* and competitive aggressivity to gain competitive advantage and higher performance. One of the many studies which examine the direct effect from each dimension of entrepreneurial orientation is study regarding SME performance. Prior study discover that contribution of each and every entrepreneurial orientation dimension for business performance is varying, and in reality, autonomy and competitive aggressivity of the dimension has no correlation with business performance. Zhou et al. (2009), Li et al. (2010), Kamukama et al. (2011) suggest that competitive advantage has significant effect toward business performance.

Competitiveness can be reached if the firm has high *entrepreneurship* due to the importance of ability in managing the firm. As explained by Peteraf and Barnety (2003) the firm that has competitive advantage would be able to create *economic value* than its competitor. Entrepreneurial attitude and consequence of behavior toward innovation would highly influenced by its superior's background in his working experience. Superior's ability would highly affect firm's behavior in paying attention toward firm's position in the market, superior became responsive toward firm, market's needs and mostly needed new product design to adjust with the change and exploitation of consumer's taste, and thus creating firm's competitive advantage (Hadjimanolis, 2000). This ability lies in entrepreneurial orientation.

To be able to compete, SMEs basically should possess high creativity so that they could compete with large firm and other SMEs. This reflects that SMEs would also need competitive advantage. Competitive advantage is a high competitive ability compared to its competitor or other SMEs. In order to win the competition, firm should implement competitive strategy, which was done by the creative division. To build a competitive strategy, the

common formula should be directed into how business would be developed, what is the purpose of this development, and what policies needed to achieve the expected goals. Bharadwaj et al. (1993) describe that competitive advantage is the result of strategy implementation by utilizing all resources possessed by the firm.

Firm's ability and its unique asset were seen as the source of competitive advantage. Unique ability is the firm's ability to put its employees as one of the important parts to achieve competitive advantage. Porter (2008) explained that competitive advantage is superiority value own by a firm in facing a competition. Competitive advantage is the heart of marketing performance to face the competition.

We can see that creative economy sector has a large potential toward national economy. There were several sectors currently under the spotlight such as food and beverages, fashion and handicraft sectors. In general, creative industry grew about 5,6% with handicraft, *fashion*, and culinary sectors has the highest growth compared to other sectors. As commonly known, contribution of creative economy toward national PDB was about 7,05% or about Rp 641,81 trillion. Creative economy sits on the seventh position out of ten contributor sectors toward national PDB. Five creative industry group as the largest PDB contributors were culinary 32,51%, fashion 28,29%, handicraft 14,44%, publishing 8,11% and design 3,9%. In 2013, there were about 5,4 million creative business that absorb 11,8 million labor. Creative economy also able to contribute to national income through export about US\$ 3,2 billion or about 5,8% (Detik, 2016). This potential shows the opportunity for SMEs industry which should be utilizes by local industry to introduce several advantages in competing with other sectors.

This study was conducted to the largest SMEs association in Malang called Paguyuban Amangtiwi. Reason to select this Paguyuban was due to its large number of SMEs as its member (Dinas Koperasi dan UKM Kota Malang, 2017). Paguyuban Amangtiwi also has the cooperative called Koperasi Amangtiwi. To become a strong entity in penetrating local and international markets, SMEs in Malang city should be organized and has one mission.

Studies nowadays was directed more toward SMEs sectors particularly in Indonesia that known as the 4th largest nation in the world. Also, SMEs sector also became one economy field that known as the typical economy character of Indonesia. Therefore, studies regarding similar topics related with future SMEs development in Indonesia should be done continuously using various variables such as social capital, culture, government policies and religion which become influential issues lately toward the economy and tourism condition of Indonesia.

LITERATURE REVIEW

Entrepreneurial is the creative and innovative ability act as the basic and resource to seek opportunity for success. Several management literatures give three dimensional basic from organizational tendency for entrepreneurial management process, which were innovation ability, risk taking ability and proactive trait (Weerawerdeena, 2003). According to Sigauw, Simpson and Baker (1998), entrepreneurial competence was needed in marketing strategy implementation so that competitive advantage can be attained through responsivity value over customer's needs.

Specific dimension of *Entrepreneurial Orientation* was introduced for the first time by Miller (1983). This study mention that entrepreneurial is one that "involved in product market innovation, conduct risky business and for the first time conduct 'proactive' innovation, defeating competitor to survive" (Miller, 1983). Therefore, Miller (1983) identified the important dimension of EO as being innovative, risk taking, and proactive. More than a decade after study conducted by Miller (1983), Lumpkin and Dess (1996) propose five dimension of *Entrepreneurial Orientation: autonomy, inovativeness, risk taking, proactiveness and competitive aggressiveness*. In other word, they add two more dimension, autonomy and competitive aggressiveness, to the three dimension proposed by Miller (1983). In general, all firms would always put an effort into how to make their business to have a good performance and thus able to develop and survive longer. This desire would be

realized if the firm has high competitiveness compared to its competitor. Explicitly speaking, to win a competition, firm should implement competitive strategy, which usually done by the existing functional department or division.

Bharadwaj et al. (1993) explains that competitive advantage is the result of strategy implementation which utilizes various resources of the firm. Unique ability and asset viewed as the source of competitive advantage. Unique ability is firm's ability to make its employees as the important part in order to achieve competitive advantage. Firm's ability in developing its employees would make it advantageous in implementing human resource-based strategy and would be difficult to copy by its competitor. While unique asset or resources is the real resources needed by the firm to run its competitive strategy. Both resources should be directed to support low cost business performance and unique compared to its competitor. Entrepreneurial orientation through continuously developed attitude could improve SMEs potential in making the ability and resources as the competitive advantages.

Porter (1990) suggests that the firm could create competitive advantage through innovation by presenting new ways to fix the *value chain* so that it would create superior customer value. A proactive firm would have competitive advantage regarding response speed toward environmental change and customer's needs. Miller and Friesen (1983) suggest that proactiveness can be describes as the firm with speed in innovation and to be the first in introducing new product and services. Courage in risk taking would also necessary so that the firm was able to act in proactive and innovative manner to obtain competitive advantage. With this condition, it suggests that the firm implementing entrepreneurial orientation would obtain competitive advantage (Aloulou and Fayolle, 2005). Based on this relationship, this study develops the hypothesis:

H₁: Entrepreneurial orientation has significant effect toward competitive advantage.

Many researchers have tried to explain about business performance by examining entrepreneurial orientation of a firm (Wiklund & Shepherd, 2003). Therefore, relationship between *Entrepreneurial Orientation* and business performance has become an interesting focus in studying *Entrepreneurial Orientation* (Covin, Green & Slevin, 2006). Currently, there was mixed results. Some studies showed that *Entrepreneurial Orientation*, directly or indirectly, has positive relationship with business performance (such as, Wiklund & Shepherd, 2003; Hughes & Morgan, 2007; Li, Huang & Tsai, 2009). This means firm that adopt *Entrepreneurial Orientation* will be better than those without it. This association might be related with the fact that current dynamic business environment has shorter product's lifecycle and higher uncertainty (Rauch et al., 2009). Also, competitor's and customer's actions cannot be predicted.

According to Barney (1991), the firm would be able to fix their performance only if their strategies were able to exploit the opportunities and neutralizes threats. In other words, best business performance would not only related with exploiting combination of rare and valuable resources capability, but also related to its most effective combination. Therefore, entrepreneurial orientation as the strategy choice would able to combine resources in effective manner according to *schumpeter*, *dynamic capability* and *dominant logic*. However, value and rarity of capability combination of resources was not the direct result of entrepreneurial orientation, or in another word, entrepreneurial orientation, indirectly, has the role in determining business performance.

The fact, according to the view of "value-creation" (Peteraf and Barney, 2003), and "position superiority" (Bamberger, 1989), they should deliver product or service with unique features or lower cost than their competitor. Firm should exploit the valuable resources capability combination in which their competitor cannot do the same. Therefore, entrepreneurial orientation as the method, practice and decision making style of the manager was using entrepreneurial action as the effort from strategic level to direct the resources to create competitive advantage (Jantunen et al., 2005). Implementation of entrepreneurial orientation would give best business performance when they have competitive advantage. This best business performance emerge as the impact of competitive advantage obtained due to advantages within the firm while the competitor did not have the same advantages or cannot obtain it (Newbert, 2008). Based on this relationship, hypothesis was developed:

H₂: Entrepreneurial orientation has significant effect toward business performance.

Nelson (1991) suggest that if the firm only produce one set products with an array of process, it did not ensure long term competitive advantages. Competitive advantage would be reflected in firm's ability to innovate and through its competitive advantages they would be able to boost their business performance. Lidan Atuagene (2001) suggest that competitive advantage has significant effect toward SMEs performance measured from sales volume, profit level, market share, and *return on investment*. Competitive advantage can be attained from firm's ability in manage and utilize its resources and capital. Chapman et al. (2003) said that in its turn, competitive advantage is the important factor to create good business performance. Story et al. (2011) suggest that skill development, incubation and acceleration were important indicators to create competitive advantage in order to improve business performance. Based on this relationship, hypothesis was stated:

H₃: Competitive advantage has significant effect toward business performance.

METHODS OF RESEARCH

Based on objectives of this study, type of this study was *explanatory research* that conducts verification over relationship of several variables within study's problems (Indrawan and Yaniawati, 2014). Questionnaire was using Likert scale from 1 to 5. To measure entrepreneurial orientation, we use measurement basic from Mason et al. (2015) through 6 indicators such as Innovativeness, Risk-Attitude, Proactiveness, Autonomy, Aggressiveness and Competitive. To measure competitive advantage, this study developed measurement from Bharadwaj et al. (1993) with its 5 indicators such as uniqueness, inexpensive price, rarity (steps), difficult to copy, and irreplaceable. As dependent variable, business performance, this study use measurement basis from Anik (2015) with its 3 indicators, sales growth, profit growth and profit growth.

Total SMEs used as study population which also active member of Paguyuban Amangtiwi was 242 SME, using Slovin formula to obtain 147 samples of SME from three industrial sectors such as handicraft, food and beverages and fashion in Malang, East Java, Indonesia. This study use path analysis according to Pedhazur in Winarsunu (2004), path analysis is a method used to discover direct and indirect effect of a variable as the cause toward a variable as the impact/results. Variables in this path analysis were divided into two parts, exogenous or causal variables and endogenous or impacted/resulted variables (Sarwono, 2006).

Figure 1 – Research Framework

Path analysis was done to discover explanation about direct and indirect relationship pattern based on theoretical consideration and author's knowledge displayed in figures (path diagram) to help in conceptualizing complex problems and to identify empirical implication of the tested theory. Reason of using path analysis was to discover direct and indirect effect of each tested variables. Innovation ability in entrepreneurship was highly important to compete with other competitor. This innovation can take form in new products or new marketing scheme. Innovated products would be able to attract consumer's interest to compete with other products.

RESULTS AND DISCUSSION

Below is the summary of study result using Path Analysis by testing direct and indirect relationship as explained in Table 1.

Table 1 – Summary of Path Analysis Result

Exogenous variable	Endogenous variable	Direct Effect	Indirect Effect	Total Effect	t calculated	Sig.	Category
X	Z	0,468	-	0,468	6,392	0,000	Significant
X	Y	0,356	0,468* 0,307	0,499	4,610	0,000	Significant
Z	Y	0,307	-	0,307	8,472	0,000	Significant

Source: Processed primary data, 2018.

Based on the result in Table 1, it can be seen that effect of Entrepreneurial Orientation variable (X) has $t_{\text{calculated}}$ 6,392 with probability of 0,000. Because $t_{\text{calculated}} > t_{\text{table}}$ (6,392 > 1,983) or $\text{sig } t < 5\%$ (0,000 < 0,05), it means that Entrepreneurial Orientation variable (X) has significant effect toward Competitive Advantage (Z). Also, Entrepreneurial Orientation variable (X) has $t_{\text{calculated}}$ value of 4,610 with probability of 0,000. Because $t_{\text{calculated}} > t_{\text{table}}$ (4,610 > 1,983) or $\text{sig } t < 5\%$ (0,000 < 0,05), thus Entrepreneurial Orientation variable (X) has significant effect toward Business Performance (Y). Competitive Advantage variable (Z) has $t_{\text{calculated}}$ of 8,472 with probability of 0,000. Because $t_{\text{calculated}} > t_{\text{table}}$ (8,472 > 1,983) or $\text{sig } t < 5\%$ (0,000 < 0,05), thus Competitive Advantage variable (Z) has significant effect toward Business Performance (Y).

Based on statistical test result, it was directly showed that Entrepreneurial Orientation (X) has significant effect toward Competitive Advantage (Z). Significant effect means that Entrepreneurial Orientation which consists of SMEs innovation, ability in risk taking, SMEs that took long term opportunity, competitive business concept, and aggressiveness in improving market position, also good competitiveness would affect Competitive Advantage variable (Z). This shows that SMEs in Paguyuban Amangtiwi of Malang has revealed that they can be superior in competition for food and beverages, fashion and handicraft sectors.

This result was in line with study conducted by Jia and Chia (2010) that innovation, initiative, and risk taking can affects the *sustained competitive advantage* (SCA). Similar results also obtained in Sukkabot and Sateeraroj (2014) which studied 331 entrepreneurs in Lao PDR or Laos. Their results show that entrepreneurial orientation has positive effect toward competitive advantage. Aziz and Samad (2015) suggest that SMEs should invest in innovation so that they could create competitive advantage. Keep innovating would be done by entrepreneur firms to stay superior from its competitor. According to Aloulou and Fayolle (2005) that the courage to take risk was highly needed so that firm would act proactively and innovatively in order to obtain competitive advantage. This condition explains that the firm which implements entrepreneurship would able to create *economic value* than its competitor.

Economic value would normally created by the process of product/service which produce more benefit with similar cost compared to the competitor (for example, differentiation based competitive advantage), or similar benefit with lower cost compared to the competitor (for example, efficiency based competitive advantage). SMEs in Paguyuban Amangtiwi particularly from food and beverages sectors would reap high profit because current market opportunity trend such as cakes and souvenir business has high demand. However, there was constraint in packing which still use manual packing and less demanded by consumers. SMEs constraints as discovered by author has cause consumers to be less interested in buying SMEs product, and thus SMEs Amangtiwi still hard to compete with large firms.

Based on statistical test result, it directly shows that Entrepreneurial Orientation (X) has significant effect toward Business Performance (Y). Significant effect between Entrepreneurial Orientation (X) with Business Performance (Y) means that SMEs Paguyuban Amangtiwi should gain more talent for product innovation, risk taking, competitive

aggressiveness and reviewing market to obtain competitive advantage and attain higher performance. When SMEs has more of those characteristic, they will show higher performance.

This study's result was supported by study of Zainol *and* Ayadurai (2011), Boso et al. (2013), Sukkabot and Sateeraroj (2014). It means that performance of SMEs Amangtiwi would increase if SMEs Amangtiwi has entrepreneurial orientation. This result was in line with result from Hafeez et al. (2011) who studied 398 SMEs in Malaysia in which one of his result suggest that entrepreneurial orientation has significant effect toward business performance. Similar results also obtain by Maso et al. (2015) who studied 300 SMEs in Udine Province (north Italy) and Kartner region (north Austria) and explains that entrepreneurial orientation has significant effect toward business performance with age and firm size as its control variables. In Udine province, *innovativeness*, *risk* and *competitive* indicators has positive relationship with business performance, but it also has negative and significant relationship in aggressiveness indicator. For Kartner region, positive indicator that has significant effect was *autonomy* and *competitive*.

SMEs in Paguyuban Amangtiwi should increase its performance by exploiting market opportunity and neutralize threats. According to Peteraf and Barney (2003), SMEs should create new value and positional superiority so that they could deliver product or service with unique feature or lower cost than its competitor. SMEs could exploit valuable resource combination in which its competitor cannot do the same thing. Therefore, entrepreneurial orientation as method, practice and decision making style of the manager by using entrepreneurial action is a strategic level effort to direct the resources in order to create competitive advantage (Jantunen et al., 2005).

Last part of this study is that competitive advantage as reflected from firm's ability to keep innovating and through competitive superiority would able to create high business performance. As said by Olivares *and* Lado (2013) who believe that competitive advantage was resulted from using the resources and ability/skill to create profitable satisfaction in the market. *Sustainable competitive advantage* (SCA) could be achieved because performance of market oriented behavior would need complex organizational knowledge and difficult to copy by competitor. From path analysis result, we obtain *R square value* 0,307 or 30,7%. It means that business performance was affected about 30,7% by competitive advantage. This significant effect shows that if competitive advantage was improved, it would be followed by increasing business performance. Therefore, it could maximize business performance.

This study was in line with the opinion of Lidan Atuagene (2001) who suggest that competitive advantage has significant effect toward SMEs performance measured from sales volume, profit level and return on investment. Competitive advantage can be obtained from firm's ability in managing and utilizing their resources and capitals. These resources would cover the product and service produced by SMEs. Chapman et al. (2003) also explains that competitive advantage is an important factor to obtain good performance. Paguyuban Amangtiwi agrees that SMEs should always superior than other firm, this is an important factor by looking at its unique product and service which differentiate SMEs from large firm with competitive price, rare product and difficult to copy or replace by its competitor. These advantages include different uniqueness from other firm, with competitive price, rare product and hard to copy product or service. These factors would make SMEs to be able to increase its performance. Along the way, SMEs should also develop its skill in creating products and acceleration as an important indicator to create competitive advantage in order to increase business performance.

CONCLUSION

Results of this study show that SMEs in Indonesia should improve its entrepreneurial orientation in developing its business. It was already known that entrepreneurial orientation has significant effect toward competitive advantage and business performance. Result of this study should also used as the basic for future research which discuss other variables such as social capital, entrepreneurial education, culture and customer behavior in Indonesia as

the developing country with large number of people. Also, this study has limitation such as its limitation in studying only handicraft, food and beverages and fashion related SMEs. It was expected that future studies would study other sectors such as in large manufacturing firms or service and technology firms.

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