

The Influence of Entrepreneurial Orientation on Competitive Advantage and Company Performance

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Abstract

This research aims to explain the influence of entrepreneurial orientation on competitive advantages and performance of companies, especially SMEs, in the Amangtiwi Association in Malang. This research uses the path analysis method as a statistical tool conducted on UKM Paguyuban Amangtiwi in Malang city. It tests the model to understand the essential variables that can significantly affect its performance. The results showed that entrepreneurial orientation positively affects competitive advantage. Competitive advantage also has a substantial relationship to company performance. In addition, entrepreneurial orientation also affects the company performance.

Keywords: entrepreneurial orientation, competitive advantage, company performance, SMEs

1. Introduction

Enterprising direction is viewed as a primary interaction of associations that add to organization endurance and performance. Pioneering direction is the fundamental angle in maintaining a business because the time spent reestablishing development can influence the organization's existence. With no organization adjustment, the organization will be affected by external changes (outer). Wood et al. (Wood et al., 2004) clarifying the direction of the business is the capacity to divert imaginative development in organizations that have more worth. To acquire a strategic advantage and accomplish better, organizations should have more ability to perform independence, advancement, hazard taking, proactiveness, and serious forcefulness. One of the numerous examinations that research the immediate impacts of each element of driving direction is on the exhibition of SMEs. Past research has tracked down that the commitment of each component of pioneering direction to corporate execution fluctuates, and indeed, the self-rule and forcefulness of cutthroat measurements don't connect at all with the organization's exhibition. (You et al., 2010)-(Kamukama et al., 2011) expresses that the upper hand affects the organization's presentation.

Intensity can be accomplished when the organization has an optimistic mood of the business venture due to the significance of the capacity to deal with an organization well. Peteraf & Barney (Peteraf et al., 2003) clarified that organizations that enjoy had a cutthroat benefit could make monetary worth contrasted with contenders. Enterprising disposition and the results of conduct to development are firmly affected by the foundation of the administration that worries the experience of attempting to lead. The administration's capacity will impact the organization's disposition to focus on the organization's situation on the lookout. The pioneer becomes receptive to the organization, market

needs and frequently requires another item configuration to conform to the progressions and misuse of customer tastes, consequently making an upper hand of the organization (Hadjimanolis, 2000). These capacities are in the driving direction.

To contend, SMEs essentially should likewise have high imagination to huge rival organizations and other SMEs. It mirrors that SMEs additionally need greatness to contend. The upper hand is a high-intensity ability when contrasted with its rivals or other SMEs. The organization needs to carry out a cutthroat technique to win a rivalry, which the current innovativeness division generally does. In building a cutthroat methodology that begins from advancing an overall equation on how the business will be developed, the motivation behind the turn of events, and what arrangements should be made to accomplish the proposed targets. Bharadwaj et al. (Bharadwaj et al., 1993) clarified that the upper hand is the aftereffect of procedures that use different assets possessed by the organization.

Exceptional abilities and resources are viewed as a wellspring of the upper hand. Impressive mastery is the organization's capacity to make its workers as significant in accomplishing the upper hand. Porter (Porter, 1980) clarified that the upper hand is the worth of prevalence claimed by an organization notwithstanding a rivalry. The upper hand is at the core of advertising execution to confront the contest.

Seeing the uprising of the creative economic area has incredible potential for the public economy. A few spaces are highly concerned today, particularly the food, dress, and artistry areas. As a general rule, developing innovative businesses by 5.6% with the specialty, design, and culinary sectors occupied the most elevated story contrasted with different areas. As is known, the commitment of an innovative economy to public GDP is 7.05% or Rp 641.81 trillion—the creative economy positions seventh out of 10 contributory areas to general GDP. The five innovative industry bunches that contributed the biggest GDP were culinary 32.51%, style or design 28.29%, painstaking work 14.44%, distributing and printing 8.11%, and plan 3.9%. In 2013, there were 5.4 million innovative organizations that assimilated 11.8 million specialists. The creative economy is additionally ready to contribute to the country's foreign trade through fares of US\$ 3.2 billion or about 5.8%. The likely open up favorable circumstances for the SME business that nearby ventures should use to present different benefits that rival other areas.

This examination was directed at the biggest SME bunch in Malang, to be specific, Paguyuban Amangtiwi. The primary thing is picking the object of exploration in the gathering since it has numerous SME individuals. The Amangtiwi SME Association likewise has an agreeable called Amangtiwi Cooperative. To turn into a great power in infiltrating the neighborhood to a worldwide market SMEs (Small and Medium Enterprises) in Malang should be coordinated and have a mission.

Research is now increasingly developed in the SME sector research, especially in Indonesia, which has the 4th largest population globally. In addition, the SME sector is also one of the economic fields that have been a characteristic of the Indonesian economy. So that research on the same topic related to the development of SMEs in Indonesia in the future should continue to be conducted with other variables that are still not widely discussed, such as social capital, culture, government policies, and religion, which in recent years has become an issue that affects economic and tourism conditions in Indonesia.

2. Research Method

Based on the purpose of the research to be achieved, this type of research is explanatory research that verifies the association of a set of variables in the established research environment (Indrawan et al., 2014). The questionnaire uses a Likert measurement scale from 1 to 5. Then to measure entrepreneurial orientation using basic measurements from Mason et al. (2015) through 6 indicators, namely Innovativeness, Risk-Attitude, Proactiveness, Autonomy, Aggressiveness, and Competitive. Furthermore, this study developed measurements from Bharadwaj et al. (Bharadwaj et al., 1993); there are five indicators: uniqueness, more affordable price, rarely encountered (step), not easy to replicate, and not easily replace. As a bound variable, namely the business performance of this research using the basis of measurement Anik (2015), there are three indicators: sales growth, profitability, and market share.

The total SME as an active research population member of the Amangtiwi group amounted to 242 SMEs, using slovin's formula. A sample of 147 SME respondents consisted of three industrial sectors, namely handicrafts, beverage food, and fashion in Malang, East Java, Indonesia. This study uses path analysis; according to Pedhazur in Winarsunu (2017), path analysis is a method used to see the direct or indirect consequences of a variable hypothesized as a cause of variables imposed as a result. Variables in the analysis of this path are distinguished into two exogenous: causal and endogenous variables or consequent variables (Sarwono, 2006).

Path analysis is conducted to find explanations of direct and indirect relationship patterns based on theoretical considerations and knowledge from researchers displayed in the form of images (path diagrams/path diagrams) that help conceptualize complex problems and recognize empirical implications and theories being tested. The reason for using path analysis in this study is to know the direct and indirect influence of each variable to be tested. Adaya's innovation skills in entrepreneurship are essential to be able to compete with other competitors. Such innovations can be either products or ways of selling them. The innovative products can attract the interest of consumers to be able to compete with other products.

This study developed the conceptual model described in Figure 1 below, namely:

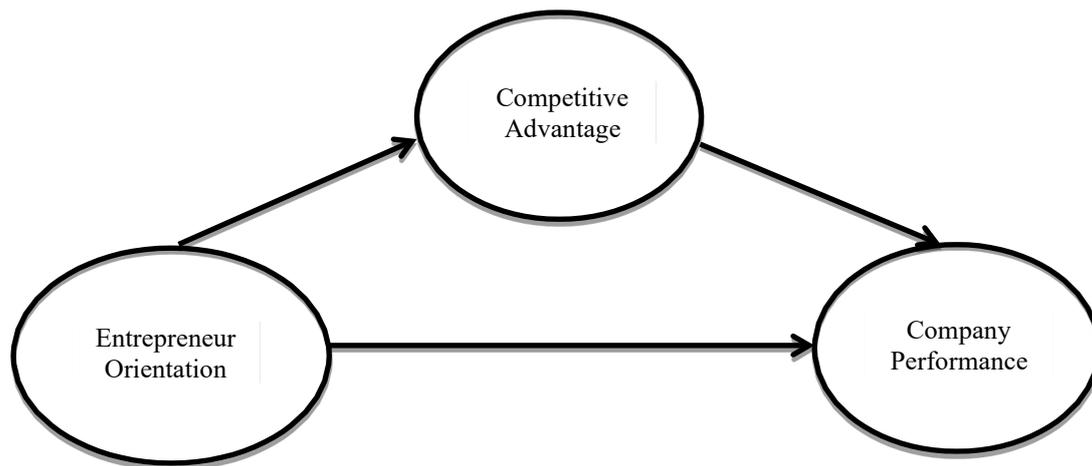


Figure 1: Research Concept Model

Miller and Friesen (Miller et al., 1983) stated that the product could be described as the fastest innovating company and introduced new products and services. In addition, courage to take risks is necessary for companies to act proactively and innovatively to gain a competitive advantage. Companies that apply entrepreneurial orientation would gain a competitive advantage (Aloulou et al., 2005). Based on the relationship that was built, this study developed hypotheses, namely:

H1: Entrepreneurial orientation has a significant impact on competitive advantage

Many researchers have attempted to explain the company performance by investigating the entrepreneurial orientation of a company (Wiklund et al., 2003). Therefore, the relationship between Entrepreneurial Orientation and the company performance has become an interesting main focus for studying Entrepreneurial Orientation (Covin et al., 1989). To date, the findings have been mixed. Several studies have shown that Entrepreneurial Orientation, direct or indirect, has a positive relationship with the company performance (Li et al., 2009). This means that companies adopting Entrepreneurial Orientation do better than those who do not have such orientation. This association may be related to the current dynamic business environment is a shorter product life cycle, and raises uncertainty (Rauch et al., 2009). In addition, the actions of competitors, as well as customers, are unpredictable.

The application of entrepreneurial orientation will have the best performance impact when the company has a competitive advantage. This best performance results from the competitive advantage gained due to the benefits that exist in the company while other companies do not own or do so (Newbert, 2008). Based on the relationship contained in the explanation so that the hypothesis developed is:

H2: Entrepreneurial orientation has a significant impact on company performance

Nelson (1991) stated that the company only produces a set of products with a group of processes does not guarantee a long-term competitive advantage. The complementary advantage is reflected in the company ability to innovate and, through competitive advantage, will trigger the creation of the company performance. Li & Atuahene (2001) stated that competitive advantage significantly influences SME performance as measured through sales volume, profit level, market share, and return on investment. Competitive advantage can be obtained from the company ability to manage and utilize its resources and capital. Chapman et al. (2002) stated that competitive advantage is an

essential factor in making good performance. Story et al.(Story et al., 2011) say that skill development, incubation, and acceleration are crucial indicators in creating competitive advantages to improve the company performance. Based on this relationship, the hypotheses in this study are stated below:

H3: competitive advantage has a significant impact on company performance

3. RESULT AND DISCUSSION

The following summarizes the research results through Path Analysis techniques by testing the direct and indirect relationships described in Table 1.

Table 1. Summary of Path Analysis Results

Exogenous Variables	variable Endogenous	Direct Effect	Indirect Effect	Total Effect	t count	Sig.	information
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 results of table 1 it can be known that the influence of Entrepreneurial Orientation Variable (X) has a $t_{calculated}$ value of 6,392 with a probability of 0.000. Because $t_{calculated} > t_{table}$ ($6,392 > 1,983$) or $sig\ t < 5\%$ ($0.000 < 0.05$) then the Variable Orientation Entrepreneurship (X) has a significant effect on Competitive Advantage (Z). In addition, the Entrepreneurial Orientation Variable (X) has a $t_{calculated}$ value of 4,610 with a probability of 0.000. Because $t_{calculated} > t_{table}$ ($4,610 > 1,983$) or $sig\ t < 5\%$ ($0.000 < 0.05$), the Entrepreneurship Orientation variable (X) has a significant effect on The Company Performance (Y). Competitive Advantage Variable (Z) has a $t_{calculated}$ value of 8.472 with a probability of 0.000. Because $t_{calculated} > t_{table}$ ($8,472 > 1,983$) or $sig\ t < 5\%$ ($0.000 < 0.05$), then the variable Competitive Advantage (Z) has a significant effect on the Company Performance (Y).

The test results directly show that Entrepreneurial Orientation (X) significantly influences Competitive Advantage (Z). A considerable influence means that the Entrepreneurial Orientation consisting of Innovation from SMEs, the ability to take risks, SMEs that can take long-term opportunities, business concepts that can be competitive, and aggressive levels in improving positions in the market, as well as competitive competition, can affect variable Competitive Advantage (Z). This shows that UKM Paguyuban Amangtiwi Malang is increasingly showing that it can excel to compete in the food and beverage, food, and handicraft sectors.

The results of this study are in line with research conducted by Lee & Hsieh(Lee et al., 2010) that innovation, initiative, and risk-taking can affect sustainable competitive advantage (SCA). Similarly, a study conducted by Sirivanh et al.(2014) examined 331 entrepreneurs in Lao PDR or Laos. The results of his research show that positive entrepreneurial orientation affects competitive advantage. Abd Aziz & Samad(2016) argues that SMEs must invest in innovation to create competitive advantages. Continue to innovate will be done by the company leadership that has an entrepreneurial spirit to excel from its competitors. According to Aloulou & Fayolle(Aloulou et al., 2005) that the courage to take risks is necessary for companies to act proactively and innovatively to gain a competitive advantage. The condition explains that companies that apply entrepreneurial orientation will gain a competitive advantage. According to Peteraf and Barney(Peteraf et al., 2003), companies with a competitive advantage can create economic value.

Economic value is generally created by the production process of products/services that generate more excellent benefits at the exact cost compared to competitors (for example, differentiation-based competitive advantages) or the same benefits at lower prices than competitors (for example, efficiency-based competitive advantages). UKM Paguyuban Amangtiwi, especially the food and beverage sector, benefited significantly because of the current trend of market opportunities, namely the cake and souvenir business so that the demand is enormous. But there are packing constraints that are lacking in technology and less desirable by consumers. SME constraints encountered by such researchers resulted in consumers being less interested in buying SME products, so Amangtiwi SMEs cannot compete with large-scale companies.

The results of statistical tests directly show that Entrepreneurship Orientation (X) has a significant influence on the Company Performance (Y). There is an important influence between the variable Entrepreneurship Orientation (X) and Corporate Performance (Y) which means that with UKM, Paguyuban Amangtiwi must have more talent for

product innovation, risk-taking, competitive aggressiveness and see the market to gain a competitive advantage and achieve higher performance, the greater the SME has the characteristic the more significant the performance of SMEs obtained.

The results of this study are supported by the research of Fakhrol Anwar Zainol (2011), Sirivanh et al. (Sirivanh et al., 2014). This means the performance of Amangtiwi SMEs can increase if Amangtiwi SMEs have an entrepreneurial orientation. The results of this study are in line with research conducted by Hafeez et al. (2011), which examined 398 SMEs in Malaysia were. In one of the results of his study, entrepreneurial orientation significantly influenced the company performance. Similarly, research conducted by Mason et al. (Mason et al., 2015), who researched 300 SMEs in Udine Province (Northern Italy) and Kartner region (northern Austria), explained that entrepreneurial orientation significantly affects the performance of companies with age and size of companies as variable controls. In Udine Province, it was found that innovativeness, risk, and competitive indicators positively affect its performance. Still, there is also a negative and significant relationship that is on the aggressiveness indicator. In the partner area, the cheerful hands significantly influential are autonomy and competitive.

UKM Paguyuban Amangtiwi should be able to improve its performance by exploiting market opportunities and neutralizing threats. According to Peteraf & Barney (Peteraf et al., 2003), SMEs must create new value and superiority positions to deliver products or services with unique features and lower costs than competitors. SMEs can exploit a combination of valuable resources that competitors don't do. Therefore, the orientation of entrepreneurship as a method, practice, and decision-making style of managers using entrepreneurial actions is an effort from the strategic level to direct the resources owned to generate competitive advantage (Simamora, 2004).

The last part is the competitive advantage reflected in the company ability to continue to innovate and, through competitive advantage, will trigger the creation of company performance. As Maydeu-Olivares & Lado (2003) said, it results in a competitive advantage in using resources and generating satisfaction in a profitable market. Sustained competitive advantage (SCA) is achieved because market orientation requires complex organizational knowledge that competitors do not easily emulate. From the analysis of the path obtained the value of *R square* of 0.307 or 30.7%. This means that the company performance is influenced by 30.7% by competitive advantage. This significant influence indicates that if the competitive advantage is increased, it will be followed by improved performance. Therefore, to further maximize the company performance.

This research is in line with Li & Atuahene's opinion (Li, H., & Atuahene-Gima, 2001), which realized that competitive advantage has a significant influence on SME performance as measured by sales volume, profit rate, and return on capital. Competitive advantage can be obtained from the company ability to manage and utilize its resources and money. These resources include SME-generated products and services. Chapman et al. (Chapman et al., 2002) also explained that competitive advantage is essential in making good performance. Amangtiwi SME Association agrees that SMEs should always be able to excel compared to other companies. It is necessary to look at unique product and service factors that are different from others, competitive prices, products that are rarely found and not easy to replicate or replace. These advantages include uniqueness that is different from other companies, competitive prices, products that are seldom seen and not easily imitated. These factors make SMEs can improve their performance. SMEs also need to develop expertise in creating products and acceleration as an essential indicator in triggering the creation of competitive advantages to strengthen the company performance.

4. Conclusion

This study shows that SMEs in Indonesia should improve their entrepreneurial orientation in developing their businesses. This is because it is known that entrepreneurial orientation has a significant relationship to competitive advantage and company performance. The results of this study are also expected to be the basis for future research that better discusses other variables that have not been discussed much, such as social capital, entrepreneurial education, culture, and consumer behavior in Indonesia as a developing country with a large population. In addition, this research has limitations in that research is only conducted in the SME sector of handicrafts, food beverages, and fashion. Further research can be expected to research other sectors such as large manufacturing companies or service and technology companies.

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