

ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE IN SMALL MEDIUM ENTERPRICE IN COMPUTER SERVICE AND SOFTWARE

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Abstract

Penelitian ini mengkaji pengaruh entrepreneurial orientation terhadap kinerja perusahaan dan juga menginvestigasi lebih lanjut pengaruh respons pasar dalam meningkatkan pengaruh hubungan entrepreneurial orientation terhadap kinerja perusahaan. Penelitian sebelumnya mengungkap, kinerja perusahaan sangat penting untuk kelangsungan hidup perusahaan dan serta kemampuan beradaptasi dengan dinamika lingkungan bisnis seperti: pesaing, pelanggan, ataupun tren pasar. Penelitian ini dilakukan di lingkungan Industri Layanan Komputer dan Peranti Lunak (LKPL) dengan mengambil 126 sampel perusahaan kecil-menengah di Jakarta. Hasil penelitian menunjukan bahwa entrepreneurial orientation tidak berpengaruh terhadap kinerja perusahaan secara langsung. Penelitian ini juga memberikan bukti empiris terhadap ketidakkonsistenan dari penelitian sebelumnya tentang pengaruh entrepreneurial orientation terhadap kinerja perusahaan. Penelitian ini mendukung bahwa entrepreneurial orientation memiliki pengaruh tidak langsung terhadap kinerja perusahaan, yang dimediasikan oleh respons pasar. Sehingga dapat disimpulkan bahwa perusahaan yang memiliki enterpreneurial orientation dan responsif terhadap pasar akan senantiasa terus adaptif dengan dinamika lingkungan bisnis dan dapat meningkatkan kinerjanya.

Kata Kunci: Responsifitas pasar,

INTRODUCTION

Creative industry in Indonesia widely contributes to the national GDP, as stated by the creative industry development study, Ministry of Trade (2008), in 2006 the creative industry contributed by 5.67% to the national GDP. In details, the computer services and software industry as the subsector of creative industry contributed by 7.54% to national GDP, higher than national GDP at that time that reach around 5% in average. As stated by

Eisenhardt and Sull (2000) the computer services and software industry is characterized by the intense competition, instant imitator, low barrier of new entrants, and customer that refuse to pay a cent. Moreover computer services and software industry is also categorized as high-tech industry where the condition of environmental dynamism and uncertainty are high, fast changing competitive boundaries and market condition (Marksman et al., 2001; Bahrami and Evans, 1989).

In fact those conditions might lead to hypercompetition (D'Aveni, 1994). The impact of high competition intensity, uncertainty, and fast changing environment are very significant to small- and medium-sized firms which have resource limitations and capabilities (Kusumawardhani, 2009; Knight, 2000). The main purpose of this research is to answer the question how can small- and medium-sized firms survive and grow to overcome environmental challenges. The role of small- and medium-sized firms are very important in many countries because they can substantively represent as the indicator of economic growth and job creations (Soininen 2011; Karpak and Topcu, 2010; Paul et. al., 2007; Carree and Thurik, 1998).

Knight (2000) stated that to face environmental challenges and to surpass competitors, entrepreneurial orientation (EO) is needed. Not only that, EO also plays important role to exploit opportunities (Covin and Slevin, 1989). To successfully exploit opportunities firms have to integrate certain behaviors which are innovative, proactive, and risk-taking (Soininen, 2011; Miller, 1983; Covin and Slevin, 1991a, 1993; Covin and Slevin, 1989). If a firm has successfully exploit the opportunities, it might lead to enhance firm's performance (Pett and Wolff, 2010; Li, Huang, and Tsai, 2009; Zahra, 2008; Keh et. al, 2007). Entrepreneurial firm activity such as exploring and exploiting strategy have positive impact to firm's performance (Siren et. al., 2012). On the other hand, Matsuno et. al. (2002) and Baker and Sinkula (2009) argued that being entrepreneurial is not enough to enhance firm's performance. It needs market orientation (MO) that mediates the EO to performance relationship.

A research from Zahra (2008) also supports that EO to performance link performs better if a firm is being market driven. Kohli and Jaworski (1990) state that market orientation consist of intelligence generation, dissemination, market responsiveness. Moreover, previous research noted that market responsiveness is the key dimension of MO (Kohli and Jaworski, 1990;

Jaworski, Kohli, and Kumar, 1993; Day, 1994; Slater and Narver, 1994b; Zahra, 2008; Garrett et. al., 2009; Keh et. al., 2007).

The concept of EO was introduced by Miller (1983) and consists of three dimensions which are innovative, proactive, and risk-taking. Miller's research pointed out that those behavior play significant role to achieve higher firm performance. Being innovative as defined by Miller (1983) is the activity of the firm that focused heavily on research and development to create new product or process, and generate new ideas (Lumpkin dan Dess, 1996; Slevin and Covin, 1990; Zaltman, Duncan, and Holbek, 1973).

Furthermore Lumpkin and Dess (1996) pointed out that being innovative is the key factor whether a firm is able to successfully explore and exploit the opportunities. Proactive behavior is a competitive aggressive move to initiate actions that being followed to competitors (Miller, 1983). Soininen (2011) defined that proactive is an opportunity seeking behavior and looking forward perspective that characterized by creating new products or services to surpass competitors and anticipate future demand. Risk taking behavior is the ability to take risk regarding the running business to explore and be able to exploit opportunities (Miller, 1983). Nasution et. al. (2011) stated that risk taking activity is the desire to exploit opportunities with calculated risk. In addition Soininen (2011) defined that risk taking activity is an activity that allocate certain resources to exploit opportunities in uncertain environment.

Consistent with Miller (1983), Covin and Slevin (1991a) using a grounded theory approach, defined that the key behavioural dimension of EO are innovative, proactive, and risk taking. Moreover Kreiser, Marino, and Weaver (2002) started to research EO psychometrics in multiple countries and concluded that Covin and Slevin (1991a) EO dimensions consist stronger validity than Lumpkin and Dess (1996) five EO dimensions, which are innovative, proactive, risk-taking,

competitive aggressiveness, and authority. Since EO is part of the firm resource it plays important role to improve performance (Barney, 1991; Penrose, 1959). Many researches pointed out that EO is positively and significantly influence firm performance (Li et. al., 2009; Keh et. al., 2007; Wiklund and Shepherd, 2003; Dess, Lumpkin and Covin, 1997; Covin and Slevin, 1991b). EO-performance link can be measured using financial perspective (Zahra, 2008), growth (Pett and Wolff, 2010; Wiklund and Shepherd 2003; Wiklund, 1999) those researches found empirical evidence that EO influence positively to performance. Thus firms that have higher EO tend to achieve higher performance (Wiklund, 1999; Zahra danCovin, 1995; Zahra, 1991). Therese research propose the following hypothesis:

H1: Entrepreneurial orientation influence positively firm performance

Matsuno et. al. (2002) suggested that EO-performance link is mediated by market orientation (MO). Baker and Sinkula (2009) also argued that EO-performance have positive impact if mediated by MO because firm that implement MO tend to be more responsive to customers, competitors and market trends. Firms that are responsive to market perform better than firm that lack of responsiveness (Kohli and Jaworski, 1990) and responsiveness also needed to adapt to the business environment (Day, 1994). Zahra (2008) also noted that market responsiveness can be beneficial in high tech industry where emergent opportunities exist thus to be able to exploit those opportunities firms need to be responsive to market change.

Hult, Ketchen and Slater (2005) argued that to be adaptive in dynamic, uncertain, and fast changing environment marketing information processing are needed to be able to exploit opportunities. Marketing information processing can be achieved by being responsive to market changes. As suggested by Jaworski, Kohli, and Kumar, (1993) market responsiveness is the key element of market

orientation. Thus this research propose the following hypotheses:

H2: Entrepreneurial orientation influence to performance is positively mediated by market responsiveness

OBJECTIVES

The research objectives are to address the inconsistency and theoretical gap whether the influence of entrepreneurial orientation to performance is direct or indirect. Furthermore this research also aim to extract further empirical evidence of the survivability and adaptability of the small- and medium-sized enterprises that operate under one of the most volatile and dynamic industry, which is computer services and software industry.

METHOD

The research method used survey by distributing the questionnaires to 153 small- and medium-size firms that operate in computer services and software industry located in Jakarta. To categorize the firms to small-, or medium- sized enterprises this research used total employee as the indicator, as there various local standard in which to categorize the firms, this research uses Kushnir et. al. (2010) to categorize the size of the firms. The categories are defined as follow: micro firms: 1-9 employees; small: 10-49 employees; and medium: 50-249 employees.

The categorization of business fields were based on Book V the Development of Industrial Cluster, Indonesia Ministry of Industry (2009) the computer services and software industry includes mainly of these fields which are hardware, software, consultancy, multimedia, and content. This research also used purposive sampling, as suggested by Anderson and

Eshima (2011) and Kehet. al. (2007), top management representative and business owner were the main respondents. The main questionnaires were adapted from Anderson et. al. (2009) to measure entrepreneurial orientation, and market responsiveness. Another question to measure market responsiveness was added and adopted from Kohli and Jaworski (1990). Lastly to measure firm performance, this research used growth dimension as suggested by Pett and Wolff (2010). Researcher kept the confidential privacy of the respondents. Furthermore the researcher also provided guidance that the answers were not about right or wrong as suggested, to avoid biases (Podasakoff, et al., 2003).

RESULT AND DISCUSSION

From the 153 questionnaires given to the respondents, only 126 questionnaires were returned. In total 82 firms have operated 4 – 6 years, 30 firms have operated 7 – 9 years, and 14 firms have operated more than 10 years. In term of firm size, 110 firms have 10 – 49 employees and 16 firms have 50 – 249 employees. The following tables show the descriptive statistical result of the respondents.

Table 1. Firms that Have More than one Field of Businesses

Fields	Total
Software, and Consultancy	23
Software, and Content	13
Software, Multimedia, and Content	6
Software, Multimedia, and Consultancy	1
Software and Hardware	4
Software, Hardware, and Consultancy	6
Multimedia and Content	3
Software, Hardware, Content, and Multimedia	1
Software, Consultancy, Content	2
Σ	59

Source: survey

Table 2. Firms that have one Field of Businesses

Fields	Total
Software	53
Hardware	4
Consultancy	10
Σ	67

Source: survey

Table 3. Respondent's Position

Position	Total	(%)
Manager	97	77
Director	2	2
General Manager	8	6
Chief	2	2
Owner	17	13
Σ	126	100

Source: survey

Table 4. Respondents' Working Experience

Position	Total	(%)
2 - 5	104	83
6 - 9	20	16
10 >	2	2
	126	100

Source: survey

The analysis used SEM, with maximum likelihood estimation on Lisrel 8.7. The first step was to make the measurement model and analyze the validity of each indicators using confirmatory factor analysis (CFA). This process is very important because it is used as a basis for structural modeling. As noted by most researchers validity is a very important concept for a research. Having good measurement from the indicators is one of the prerequisite to analyze causal relationship within latent variables as suggested by Anderson and Gerbing (1982).

The recommended value of standardized loading factor is higher than 0.5 (Hair et. al.,

2010). Base on Figure 1 the value of each item is ranged between 0.53 – 0.88.

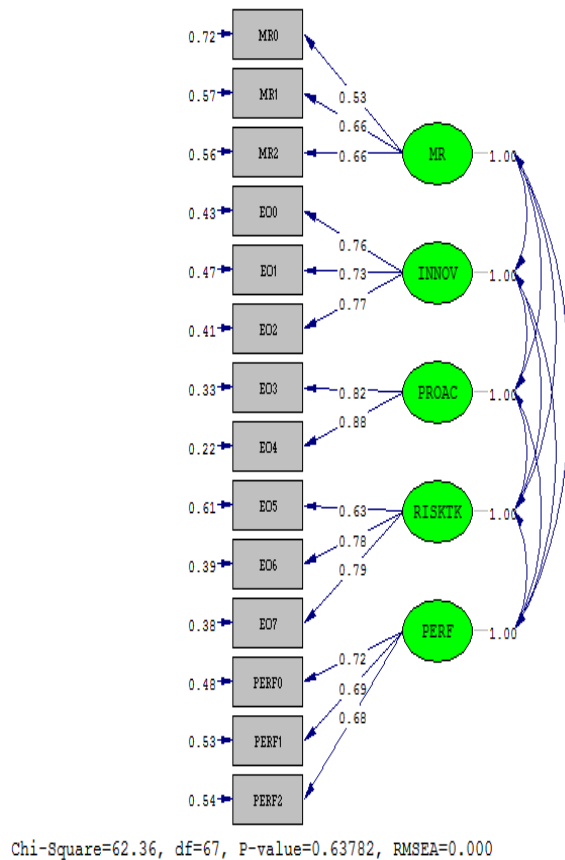


Figure 1. Measurement Model

Table 5. Statistical Result of Measurement Model

Measurement	Estimated Value	Benchmark Value
DoF	67	Positive
RMSEA	0.0	Close Fit (< 0.05)
CFI	1.00	Good Fit (≥ 0.90)
SRMR	0.051	Good Fit (≤ 0.10)
GFI	0.93	Good Fit (≥ 0.90)
NFI	0.93	1

Source: data proceeded

The second test is to measure the fitness of the measurement model. To measure its fitness

RMSEA, as it provides consistent result across various estimations (Sugawara and MacCallum, 1993). As stated by Hair, et. al., (2010) RMSEA that has the value below or equal to 0.08 considered as good fit and it is acceptable. Another way to measure model fitness is using goodness of fit index (GFI) that widely used in various research. The measurement model has GFI score 0.93 which said to be good fit (Hair, et. al., 2010). The third test is to measure construct reliability and validity using the following formula (Wijanto, 2008):

$$\text{Construct Reliability} = \frac{(\sum \text{Standardized Loading})^2}{(\sum \text{standardized loading})^2 + \sum \text{Measurement Error}}$$

$$\text{Variance Extracted} = \frac{\sum \text{Standardized Loading}^2}{\sum \text{Standardized Loading}^2 + \sum e_j}$$

Figure 2 and the following tables are the results of construct validity and construct reliability:

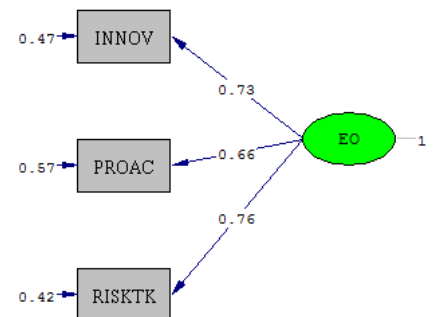


Figure 2. Latent Variable Score (LVS) of INNOV, PROAC, and RISKTK

Table 6. Construct Reliability and Validity of Entrepreneurial Orientation

	CR	Benchmark	VE	Benchmark
INNOV	0.79		0.56	
PROAC	0.84	≥ 0.7	0.72	≥ 0.5
RISKTK	0.77	(Hair et. al., 2010)	0.54	(Hair, et. al., 2010)
EO	0.76		0.51	

Source: data proceeded

Table 7. Construct Reliability and Validity of Market Responsiveness

	CR	Benchmark k	VE	Benchmark
MR	0.65	≥ 0.7 (Hair et. al., 2010)	0.38	≥ 0.5 (Hair et. al., 2010)

Source: data proceeded

Table 8. Construct Reliability and Validity of Performance

	CR	Benchmark k	VE	Benchmark
PERF	0.73	≥ 0.7 (Hair et. al., 2010)	0.48	≥ 0.5 (Hair et. al., 2010)

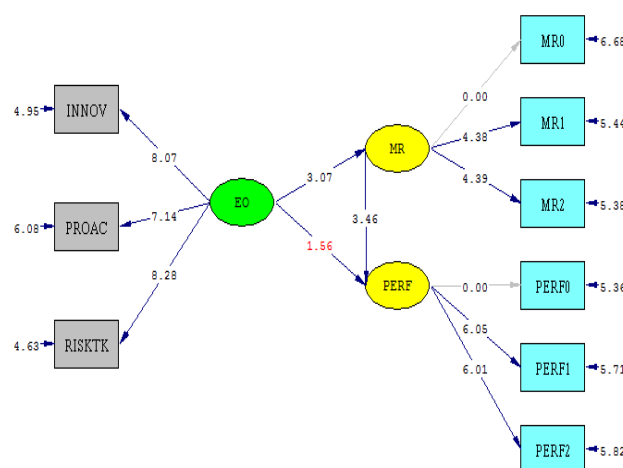
Source: data proceeded

Based on the statistical results, Table 6 shows that the entrepreneurial orientation as a construct is valid and reliable because the CR and VE value are higher than the recommended benchmark value. Table 7 indicates that the market responsiveness CR is below the recommended benchmark value, but Hair et. al. (2010) stated that ranged value between $0.6 \geq CR \geq 0.7$ is still accepted and considered reliable. The VE shown on table 7 is below than the recommended benchmark value, as stated by Bagozzi and Youjae (1988) VE value equal to 0.4 is still acceptable. Table 8 indicates that the performance CR value is higher that the recommended benchmark value but the VE value is below the recommended benchmark value, but still considered accepted according to Hair, et. al. (2010), but more errors.

To test the hypothesis, structural modeling were used. The standard t-value was used to estimate the correlation among variables with minimal value of 1.96 but recommended t-value to be over 2.00 (Wijanto, 2008).

Based on Figure 4, we can analyze that the variable entrepreneurial orientation (EO) is clearly reflected by innovative, proactive, and risk-taking behavior, thus this research support the previous study (Soininen, 2011; Covin and Slevin, 1993; Miller, 1983). As pointed by Zahra

(2008) and Anderson et. al. (2009) firms that exhibit innovative, proactive, and risk-taking behavior tend to have high EO especially in high-tech industry. Furthermore firms with high EO also exhibits high market responsiveness activity (Anderson, et. al., 2009).



Chi-Square=17.93, df=24, P-value=0.80633, RMSEA=0.000

Figure 3. Structural modeling

Table 9. Statistical Result of Structural Model

Measurement	Estimated Value	Benchmark Value
DoF	67	Positive
RMSEA	0.0	Close Fit (< 0.05)
CFI	1.00	Good Fit (≥ 0.90)
SRMR	0.051	Good Fit (≤ 0.10)
GFI	0.93	Good Fit (≥ 0.90)
NFI	0.93	1

Source: data proceeded

On figure 3, the structural model itself has the acceptable integrity GFI > 0.90 (Hair, et. al., 2010). The t-value of the EO to market responsiveness relationship is statistically over the recommended value (t-value = 3.07) thus it indicates that this research accepts the second hypothesis 2 (H2). The H2 is accepted because of the computer services and software industry in Indonesia has the characteristics of high-tech industry. Thus, environmental conditions acts

as a force that triggers the entrepreneurial firms to be responsive to market changes, otherwise they won't be able to exploit opportunities (Zahra, 2008). Another factor that make the EO to market responsiveness relationship positively significant is the small- and medium-sized firms that exhibit high EO that leads to higher market responsiveness (Anderson, 2009) to be able to exploit emergent opportunities (Zahra, 2008). Moreover Li et. al. (2008) explained that in developing countries EO activity stimulates managers to be more risk-taking and responsive to market in order to create opportunity and be able to exploit it.

This research supports that market responsiveness plays important role in order to enhance EO to performance relationship. Matsuno et. al. (2002) and Baker and Sinkula (2009) stated that the relationship between EO and performance is not direct. One of important factors that must be underlined that in small- and medium-sized firms exhibit more entrepreneurial strategy (Mintzberg and Waters, 1985). As stated earlier small and medium-sized firms in high-tech industry tend to have high EO and exhibit more responsiveness to the environment thus resulting that market responsiveness is the gateway of the information and knowledge flow. This condition enhance firms to improve learning capability especially strategy to improve their competitive position (Anderson et. al. 2009) through market intelligence (Jaworski and Kohli, 1993; Kohli and Jaworski, 1990) and avoid strategic misstep that could affect them financially.

The relationship between EO and performance as stated by previous research is positively significant (Zahra, 2008; Wiklund and Shepherd, 2003). But the empirical evidence shows that EO to performance is not positively significant, thus hypothesis 1 (H1) is rejected. The main cause of the not significantly connected between EO and performance directly is that global (country) and local (organization) culture as the contingent factors to the relationship. As stated by Krieser et. al

(2002) national culture might influence the relationship because most of the EO research carried in developed country thus it might not resulted the same if the research carried in developing country, in this case Indonesia. Kusumawardhani (2009), and Mueller and Thomas (2001) also noted that nation-wide culture also influences how individual acts and behaves.

Additionally Lumpkin and Dess (1996) and Miller (1983) stated that individual behavior shapes EO in organizational level. Moreover, Richard, Barnett, Dwyer and Chadwick (2004) stated that the management team culture also can act as a mediating factor between EO and performance relationship. The least factor that influence EO and performance relationship is the obscurity of small and medium-sized company about their financial report, it might hard to find the impact of certain strategy financially. Shimizu and Hitt (2004) also stated that strategic misstep that happens to small and medium-sized firms could have an impact on financial condition.

The characteristics of EO, innovative, proactive, and risk-taking also manifest various type of learning. In this case, the computer services and software industry might have the type of Schumpeterian competition (Daneels, 2012) because the competition is based on the innovation that disrupts other technologies (creative destruction). So in this type of industry the innovative activity is heavily focused to produce new process, products, and services in order to compete. As noted by Wiklund and Shepherd (2003) that EO is positively and significantly improve learning through knowledge creation process.

Thus the market responsiveness is needed in order to learn and adapt to the environment and then craft strategy to respond it. Although Siren et. al. (2012) stated that strategic learning influence significantly to performance. The misinterpretation of information could be the root cause why firms fail to exploit emergent opportunities that mostly exist in high-tech

industry (Zahra, 2008; Keh et. al., 2007). Furthermore external pressure that might play important role that force small- and medium-sized company to take the wrong strategy or action (Johnson Jr, et. al., 2008) and environment condition (Zahra, 2008; Covin and Slevin, 1989).

CONCLUSION

As noted from the research, EO and market responsiveness robustness play important role for small- and medium-sized company in order to be adaptive to the environment and outperform the competitors. For macroeconomics performance Casson and Wadeson (2007) stated that entrepreneurship contributes to the macroeconomics performance by increasing GDP (Soininen, 2011). Specifically EO plays important role in order to enhance strategic learning that obtained from market responsiveness process. Not only that, market responsiveness also contributes in improving strategic learning so small- and medium-sized firm can be adaptive to environment, especially in computer services and software industry in Indonesia.

Entrepreneurial orientation that reflected from innovative, proactive, and risk-taking behavior is needed to small and medium-sized firms in order to be adaptive and survive the competition in high-tech computer services and software industry. Not only EO, market responsiveness also play important roles in improving better decision making (Cardella, 2012). So a firm that implement EO and be responsive to market will achieve higher learning capability and improved performance. As for managers and decision makers, both EO and market responsiveness are benefactors to accumulate information and knowledge in order to learn about customer, market changes, and competitors (Narver et. al. 2004; Day, 1994) and then finally be able to explore and exploit opportunity that exists in computer services and software industry (Zahra, 2008).

As for future research, since this research is not focused whether responsiveness and the strategic change are success or not. Hamsal (2006) recommended that strategic consistency and strategic flexibility also play important role to influence significantly to firm performance. As recommended environment contingency factor (Covin and Slevin, 1989; Wiklund 1999; Zahra, 2008; Lumpkin and Dess, 1994) and firm size (Wiklund and Shepherd, 2003) have a chance in influencing the EO relationship to performance and the EO relationship to strategic learning that obtained from market responsiveness.

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