

## ENTREPRENEURSHIP ORIENTATION STRATEGY, MARKET ORIENTATION AND ITS EFFECT ON BUSINESS PERFORMANCE IN MSMEs

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*(Submit : December 19<sup>th</sup> 2019, Revised : 12<sup>th</sup> January 2020, Accepted : 27<sup>th</sup> February 2020)*

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### ABSTRACT

*SMEs contribution to economic growth makes the MSMEs performance need to be improved. In this case numerous factors should be considered in improving performance of SMEs such as entrepreneurship and market orientations, so this study was conducted with aim to examine the crucial effect of entrepreneurship and market orientations on the business performance to MSMEs. This research is done by using quantitative approach. The samples taken are 50 SMEs business players built by Department of Commerce Surabaya. Data collection in this study was done by distributing questionnaires. Analysis technique of data is multiple linear regression analysis. Findings of this study indicate that the orientation of entrepreneurship and market has significant effect both partially and simultaneously on business performance on MSMEs.*

**Keywords :** *Entrepreneurship Orientation, Market Orientation, Business Performance*

### INTRODUCTION

Micro, Small and Medium Enterprises (MSME) has significant part in the Indonesia economic. Micro, Small and Medium Enterprises (MSME) are economic activities of the people who stand alone and small-scale and managed by community groups or families. MSMEs greatly urge the national economic, because it can absorb very high unemployment and contribute high Gross Domestic Product (GDP). In 2013, the aggregate of Small and Medium Enterprises (SMEs) reached 56.6 million. Of these, 99.8% of MSMEs are able to absorb the workforce as much as 97% of the total workforce exists today. Small businesses such as cooperatives and MSMEs contribute substantially to Gross Domestic Product (GDP) of 56% (Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, 2013). In other words, MSMEs can be referred to as the backbone of the State's economy.

Based on State Ministry of Cooperatives and SMEs data in 2011-2013 stated that SMEs is still majority in the business sector, i.e. rise 2.41% from 55,206,444 business units in 2011 to 56,534,592 business units in 2012 or 99 % of business performer in Indonesia. And the period of 2011-2012 number of GDP of SMEs there is surge of 12.67% from Rp 4,321,830 billion in 2011 to Rp 4,869,568 billion in 2012. While the Indonesia Chamber of Commerce and Industry (Kadin) estimates MSMEs sector will grow about 25% in 2012 compared to 2011's forecast of 15-20%.

The MSMEs upsurge has quite rapidly, the largest contribution in East Java province from total 33 provinces in Indonesia, East Java is the individual province that cooperative sector and MSMEs has crucial role in advancing the regional economy. Number of its industry 54.34% coming from MSMEs and able to accommodate 98% of labor, so in addition to prospering the perpetrators of MSMEs, also assist the government in alleviating unemployment. From several assessments, the cooperative sector of East Java positioned in first rank and has a major part in supporting the populist economy if compared to other 33 provinces. East Java has been a province of locomotives for the cooperative movement in Indonesia. It is inseparable from the role of district/city governments that continue to encourage the cooperatives setting up. The outcome, contribution of cooperatives and SMEs in East Java GRDP is quite fantastic. Contribution in this sector reached 57% of East Java GDP of Rp 884 Trillion. Contribution of cooperatives and SMEs in the East Java's economy is very large, reaching more Rp 600 trillion (BAPPEDA, 2013).

Conversely, MSME continue to face challenges because SMEs actors react to changes in many factors such as emerging markets and standards to better quality of product in whole of the world, demand to fastest delivery and tighter business relationship (Gupta and Cawthon in Setiawan, 2015). Therefore, the MSMEs perpetrators necessary to understand these challenges. However, in reality MSMEs in East Java are still restricted by some of them, the problem of low quality of human resources (HR), low business management, product competitiveness, access to capital and not yet optimal network of business cooperation, quality of human resources that can increase productivity and added value of small businesses are excellent human beings who are always focused on pursue and take advantage of opportunities by creating new goods and services as product development, by creating new organizational forms or processing new raw materials. Implementing a better and efficient process will be able to winning the market competition (Braman in Sumiati, 2015).

MSMEs in Indonesia are difficult to develop in the market due to internal problems such as low quality of human resources such as lack of skilled human resources, lack of entrepreneurial orientation, low technology and management, and low market orientation. Two of the many internal problems faces SME that are entrepreneurial and market orientations. The significance of entrepreneurship and market orientation as a unity support the success, especially for MSME.

Entrepreneurship orientation as an organisational strategic supply with potential to produce competitive advantage. Potential of entrepreneurship orientation and its impact on business act depends on the entrepreneurship orientation role as a driver or pioneer for organizational and innovation capabilities (Poudel, Carter, & Lonial, 2012). The entrepreneurial orientation is the key to organizational success and profitability achievement. Companies that adopt an entrepreneurial orientation will perform better than those who do not adopt (Taylor, 2013). This shows that entrepreneurship orientation is a significant contributor to the success of the company. Concept of entrepreneurship orientation developed a multidimensional construct including innovation dimensions, risk taking and proactive attitudes (Idar & Mahmood, 2011). The entrepreneurial orientation emphasizes the spirit of creating business innovation as a refresher of the business congestion that often accompanies in the early step of innovation (Zhou, Yim, & Tse, 2005). Gosselin (2005) discovered there is imperative connection between entrepreneurship orientation and firm performance.

In addition, good performance in SMEs is supported by a good market orientation. Market-oriented business is a company whose engagements are consistent with marketing concept.

According to Baker & Sinkula; Narver & Slater, in Setiawan (2015) a company with market orientation, has a faster base for improvement, and will be reflected in the company's success of the product, profitability, market share, and sustainable competitive advantage. The result of strategy implementation based on market orientation, enables the company to adapt successfully to environmental change. Market orientation is, significantly, an important factor that allows companies to grasp markets then develop product and service strategies to meet the customer and the market needs (Baker & Sinkula, 2009). Research conducted by Kohli and Jaworski in Setiawan (2015), found that bigger market orientation of an organization, the bigger of its performance. Likewise with Setiawan (2015) who found that variable of market orientation partially affect the performance of small businesses. Usvita (2015) proves a significant effect to market orientation on performance of the company.

Based on theoretical and empirical literature review, this research was conducted with the aim to examine the effect of entrepreneur and market orientation on the MSME's performance. The impact that can be seen by the lack of good quality service is that the customer will move to other delivery services. (Daengs, Mahjudin, & Hufon, 2012:424).

## **LITERATURE REVIEW**

### **Entrepreneurship Orientation**

Entrepreneurship represents creative and innovative capabilities that are the foundation, and the resources to seek opportunities for success. Some of the management literature provides three organizational dimensions for entrepreneurship management process: innovation ability, risk taking ability, and proactive nature (Weerawardena, 2003).

According to Lumpkin and Dess in Setiawan (2015) entrepreneurial orientation is the principle of efforts to identify and exploit opportunities, while Liao and Sohmen in Sumiati (2015) entrepreneurial orientation is a characteristic and value embraced by the entrepreneur itself which is the nature of abstinence giving up, taking risks, speed, and flexibility. Covin and Slevin in Mustikowati & Tysari (2014) propose an integrated and integrated model that explains relationship between entrepreneurship behavior with the company's environment, strategy, internal factors and company performance. In his view, Covin and Slevin in Mustikowati & Tysari (2014) declare entrepreneurship to demonstrate certain standard behaviors, reflected in a strategic philosophy in effective management practices.

Miller in Mustikowati & Tysari (2014) describes the entrepreneurial orientation as one concerned in market-product innovation, performing a bit of a risky business, and first come up with 'proactive' innovation, as well as delivering a blow to defeat competitors. The entrepreneurship orientation reflects the extent to which the organization is able to identify and exploit untapped opportunities. A company is said to have a spirit of entrepreneurial orientation if bias becomes the first in innovating new products in the market, has the courage to take risks, and is always proactive towards changing demands for new products (Nuvriasari, Wicaksono, & Sumiyarsih, 2015).

The better prevention of low quality obviously will lose all the other quality costs. The fewer problems the less quality assessment is needed because the products are made well in advance (Daeng, Mahjudin, & Tupiana, 2014:117).

### **Market Orientation**

Market orientation is company's focus to deal with marketing cross-functional

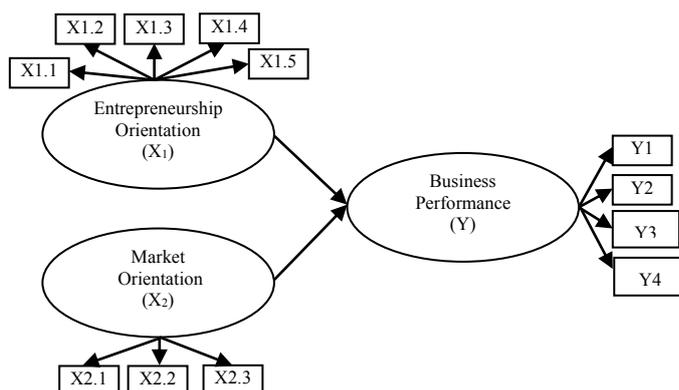
responsibilities where companies seek to meet customer needs that are top priority to the entire organization Narver and Slater in Setiawan (2015). A similar view put forward by Day in Sumiati (2015) suggest market orientation reflects competency to perceive the customer, because it has opportunity to create customer satisfaction as well as skills to recognize the counterpart movements. Market orientation is the abilities and basic culture principles of the organization. The major purpose of market orientation is to provide higher value to customers based on knowledge derived from the customer and competitor analysis, whereby this knowledge is acquired and distributed across organizational elements. Market orientation fosters experimental culture and focuses on continuous improvement in enterprise processes and systems. Furthermore, Craven in Sumiati (2015) defines market orientation as strategic customer targeting and builds consumer-focused organizations, providing a competitive base that focuses on delivering services that meet consumer’s expectations, so as success to calm a competition. Marketing scholars show that market orientation is compilation of specified behaviors and activities, resources, the basis for decision making (Kohli and Jaworski in Setiawan, 2015). According to Narver and Slater in Setiawan (2015), market orientation encompass three orientation of behaviors : customer, competitor and interfunctional coordination and two decisions criteria included profit targets and long-term focus.

### Business Performance

Chakravarthy in Mustikowati & Tysari (2014) declares that company performance is a construct commonly to measure the impact of strategy orientation on the company. Pelham and Wilson in Mustikowati & Tysari (2014) define company performance as a successful new product in the market developing, where performance can be considered through sales growth and market share. Ferdinand (2000) expresses business performance factor is frequently used to measure the impact strategy on the company. Company strategy usually directed to generate good performance of marketing and financial. Furthermore Ferdinand also asserted that well performance is conveyed in three major values, namely sales value, sales growth, and market share.

Performance is an action that consists of several elements and not results in an instant. Performance imply multidimensional concepts and relation between entrepreneurial orientation and it can depend on indicators to access performance ( Lumpkin and Dess in Sumiati, 2015). Business performance is represented through economic performance comprising market share, premium growth and profitability (Olivares & Lado, 2008).

### Conceptual Framework



**Hypothesis**  
 H1 : entrepreneurship orientation has significant effect and positive on business performance on MSME Surabaya.  
 H2 : market orientation has significant effect and positive on business performance on MSME Surabaya.

## RESEARCH METHODS

### Types of Research

The research designed using quantitative data analysis and questionnaire data collection method. This research is included type of causal research because the one variable with the other interrelated variables is independent variable and dependent variable. According Sugiyono (2014) causal relationship is a causative relationship there are independent variables (variables that affect) and the dependent variable (influenced). The research design is a plan to determine the resources and data that will be used to be processed in order to answer the research questions. Research conducted based on data collection method, this study used questionnaire to be filled.

### Population and Sample

Population is a generalization area or district consists of objects or subjects with qualities and characteristics determined by researchers to be studied and drawn a conclusion (Sugiyono, 2014). Population in this research is all MSMEs built by Department of Commerce Surabaya.

Sample is measure of quantity and characteristics belong to the population (Sugiyono, 2014). Sampling technique is technique to take a sample then determine sample used in the research (Sugiyono, 2014). This study uses total sampling that is determining sample when all members of population worn as a sample. So samples that used in this study as many as 50 MSMEs players built by the Department of Commerce Surabaya.

Nothing the scope of economic development, it is no less important in its implementation is the community participations in the implementation of development itself. (Daengs & Mahjudin, 2017:4).

### Definition of Operational Variables

Definition of Operational is a concept or something that can be measured and can be seen in the dimensions of behavior, aspects or traits shown by the concept.

#### 1. Entrepreneurship orientation (X1)

Entrepreneurship orientation describes the purpose of a company to be incorporated in the opportunity to open up new markets, renewal of existing market operations. The indicator of entrepreneurship orientation variables refers to Setiawan (2015), namely:

##### a. Flexible

Flexible is subject to change as customer wishes.

##### b. Proactive

Proactive is a company where leaders have ability to recognize opportunities and commitment to innovation.

##### c. Courage to take risks

Taking risks can be defined as an opportunity-oriented person in the uncertainty decision-making context.

##### d. Experience trying

Experience is the attitude of entrepreneurship and consequences of behavior to innovation that is influenced by the background of leadership regarding the experience of trying his leadership.

##### e. Anticipatory

Anticipatory is the company's ability to overcome or anticipate any changes.

## 2. Market Orientation (X2)

Market orientation is the company's responsive level to the target market. Indicator of market orientation variables refers to Setiawan (2015), namely:

- a. Customer Orientation  
Customer orientation is company's willingness to understand customer's needs and wants.
- b. Competitor Orientation  
Competitor's orientation is the company's willingness to monitor its competitors' strategies.
- c. Market Information
- d. Market information is the company's efforts to seek information about the market conditions of the industry.

## 3. Business Performance (Y)

Business performance is referring to the achievement level or achievement of the company. Business performance variable indicator refers to Setiawan (2015), namely:

- a. Sales turnover  
Sales turnover is sales quantity of the company's products.
- b. Sales return  
Sales return is amount of product sales return.
- c. Reach of marketing territory  
The reach of the marketing area is the breadth of the marketing area of the product.
- d. Increased sales  
Increased sales is sales number that increased from the previous period.

## Data collection techniques

Method employed researcher in this study is survey method, using questionnaire tool. According Sugiyono (2014) questionnaire is data collecting technique performed by contributing a set of written statements to respondents to be answered. Scale method using Likert scale. The variables measured in the Likert scale are converted into sub-variables, where sub-variables are translated into measurable components.

## Data analysis technique

Data analysis is data simplifying process into a readable form and be implemented. Analysis technique chosen is to analyze the data and test this research hypothesis is The Structural Equation Model (SEM). To answer the hypothesis used Partial Least Square (PLS). Calculations performed using Smart Partial Least Square (PLS) tool, due to the multi-path shape and model used in the Reflective form. Calculation model is done by using Smart PLS tool because in this research have multi-path relationship and formative and reflective. Sample in this research has been fulfilled to as many as 50 respondents. Formative model is a model that shows the direction of the relationship from indicator as latent variable. Reflective model showing relationship of latent variable to the indicator.

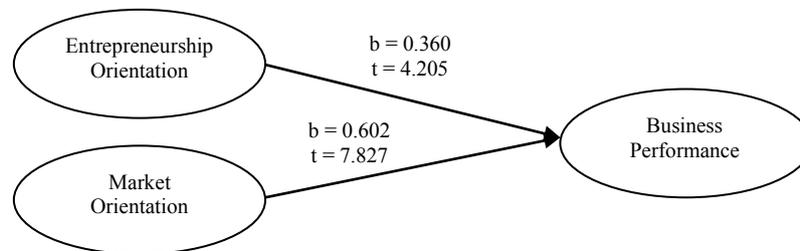
## ANALYSIS AND DISCUSSION

### Inner Model Evaluation

Inner models are sometimes referred to as (inner relation, structural model and substantive theory) to specify the influence between research variables (structural model).

### Inner Model Test or Structural Model Test

Analysis result of the suitability level that constructed structural model shows the conclusion that the overall model has been "Relevant" to explain the variables studied and the effect on each variable. Calculation of the value of Q2 in obtaining value of 0.819 or already exceeds critical limit of 0.5 thus structural model has been declared suitable and appropriate.



There are 2 exogenous variables in the inner model studied, the Entrepreneurship Orientation and Market Orientation, while endogenous variable in the inner model examined is Business Performance. In the equation model with endogenous Business Performance value of  $R^2$  reaches 0.819. This means that Business Performance can be explained by Entrepreneurship Orientation and Market Orientation reaching 81.9%.

The result of Q2 is 0.819 which is range 0.66 - 1.00, so it can be said is a "good" model.

### RESULT OF HYPOTHESIS TEST

#### Hypothesis Test 1 (H1)

The first hypothesis in the research proved true, because analysis results of the data shows t-value of 4.205 which means bigger than 1.96, so it can be said that the Entrepreneurship Orientation has significant effect on Business Performance. Purpose of the relationship between two variables is positive which means the better the entrepreneurship orientation will be able to improve business performance by having a big effect of 0.360.

#### Hypothesis 2 (H2)

The second hypothesis in the research prove true, because the results shows that t-value of 7.827 which means bigger than 1.96, so it can be said that Market Orientation has significant effect on Business Performance. Purpose of the relationship between two variables is positive which means that the better market orientation will increasingly can improve business performance by having a big effect of 0.602.

### DISCUSSION

The data analysis result shows that Entrepreneurship Orientation has a significant effect on Business Performance on MSME which is proven from t- value 4.205 which means bigger than 1.96, so it can be explained that the business performance progress on MSME can be formed through adoption of good entrepreneurship orientation. Entrepreneurship orientation effect on business performance is positive which indicates that the better entrepreneurship orientation will be able to improve business performance at MSME.

Findings in this study indicate that entrepreneurship orientation has an important role in developing business performance on MSMEs. It is Taylor (2013) said that entrepreneurship

orientation is the key to organizational success and profitability achievement. Companies that adopt an entrepreneurial orientation perform better than those who do not adopt.

The results of this study consistent with Gosselin (2005) who found that significant relationship relating to entrepreneurship orientation and company performance. Results of this study also confirmed the findings by Mustikowati and Tysari (2014) which proves that performance improvement of SMEs Sentra in Malang Regency inseparable from the entrepreneurs ability of understanding entrepreneurship orientation.

Result of data analysis also found that Market Orientation has significant effect to Business Performance on MSME which is proven from t-value equal to 7,827 which means bigger than 1.96, so it can be explained that improvement of business performance at MSME can be formed through market orientation done. The effect of market orientation on business performance is positive indicating the better market orientation will be able to improve business performance on MSME.

Findings in this study point out that market orientation engage in important role in improving business performance for MSMEs, such as Baker and Sinkula (2009) which explains that market orientation is significantly a key factor that allows companies to recognize the market and make product and service strategies meet the need of customers and market thereby triggering performance improvements.

In fact, investors do not always receive the accurate information of company financial statements and the level of its fairness is in doubt. (Daengs & Rahmansyah, 2017:1).

The results found market orientation influences business performance consistent with Kohli and Jaworski's findings in Setiawan (2015) who found the bigger market orientation of an organization, the bigger of overall performance. Setiawan (2015) who examined Small Processing Enterprises in Palembang town found that market orientation variables partially affect the performance of small businesses. These results also support Usvita (2015) who examines the SMEs Food of Perindagtamben Agency Padang that prove the existence of significant market orientation effect on corporate performance.

Investment growth plays an important role in economic growth, because investment expenditure component is quite large and variable. (Soeherman, Daengs, Mursinto, & Ratnawati, 2014:45).

## **CONCLUSION**

1. Entrepreneurship orientation has significant effect and positive on business performance of MSMEs targeted by the Department of Commerce of Surabaya.
2. Market orientation has significant effect and positive on business performance of MSMEs built by the Department of Commerce of Surabaya.
3. Entrepreneurship orientation and market orientation has significant effect concurrently on business performance on MSMEs built by the Department of Commerce of Surabaya.

## **SUGGESTION**

1. It is expected that small entrepreneurs can maintain their capability related to entrepreneurship orientation because with this strategy the company can achieve optimal performance.
2. It is expected that small entrepreneurs can manage the business with market orientation so as to improve their performance and have high competitiveness particularly facing the enactment of ASEAN Economic Community.

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