

The influence of entrepreneurship orientation and management capability on performance of small and medium enterprises in Bogor

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ABSTRACT: The purpose of this research is to know the influence of entrepreneurship orientation and management capability on the performance of Small and Medium Enterprises (SMEs) in Bogor, Indonesia. The population in this study is all SMEs in Bogor that are registered with the Indonesian Chamber of Commerce and Industry: the total number is 78 SMEs. The data collection technique used in this study is a questionnaire. The data analysis technique used in this research is path analysis processed by the AMOS software, version 23. The results showed that entrepreneurship orientation variables have a positive and significant effect on the management capability of SMEs. The entrepreneurship orientation and management capability have a positive and significant effect on the performance of SMEs in Bogor. The direct influence of entrepreneurship orientation has the greatest influence on performance of SMEs in Bogor.

Keywords: Performance, Entrepreneurship Orientation and Management Capability

1 INTRODUCTION

Small and Medium Enterprises (SMEs) have an important role in the Indonesian economy. The SMEs sector, can help reduce unemployment in Indonesia. The SMEs has proven to be a pillar of a tough economy. During the crisis of 1998, the sector was able to survive and did not suffer serious consequences due to the crisis.

SMEs sector are also regarded as an activity that dominates more than 95% of the structure of the Indonesian economy. This sector has a very strategic role, both socioeconomic and political social. Economic functions of this sector include providing goods and services for consumers with low to medium purchasing power, contributing to more than half the economic growth and to the acquisition of foreign exchange. Socially and politically, the function of this sector is also very important, especially in the absorption of labor and efforts to eradicate poverty. In addition, small business is a

fundamental requirement for Indonesia, a country that embraces the populist system.

With such a large role and potential, it is reasonable to develop small and medium businesses as much as possible in order to improve the welfare of the community while supporting the regional economy (Ratnawati & Hikmah, 2012). Based on searches conducted by the authors there are 78 SMEs registered with the Indonesia Chamber of Commerce and Industry. The types of SMEs in [Table 1](#).

Many factors affect the performance of SMEs. This research discuss related to entrepreneurship orientation and management capability.

Entrepreneurial orientation has an important role in business success and a firm's performance. It refers to the attitude of an entrepreneur to be proactive, innovate, and have the courage to take risks with a strong calculation. This is in accordance with previous research showing that a firm can be said to use entrepreneurship orientation if

Table 1. Types of SMEs in Bogor.

Number	Types of SMEs	Total
1	Footwear	6
2	Electronic	1
3	Craft	30
4	Metal	2
5	Food and drink	10
6	Textiles and garment	9
7	Leather goods and imitation	2
8	Furniture	3
9	Chemical and rubber	10
10	Children's toys	3
11	Plants and ornamental fish	2
Total		78

the firm has characteristics such as product innovation, risk-taking, and being proactive in innovation. Thus, entrepreneurial orientation refers to processes, practices, and activities that use product innovation, take risks, and strive to proactively innovate in order to defeat competitors. A focus on innovation, proactive behavior, and risk-taking is used to guide entrepreneurship orientation (Andiningtyas & Ratna, 2014).

Previous research about the effect of entrepreneurship on performance as proposed by Barney et al (in Murni et al, 2014) suggests that the performance of the organization is essentially determined by internal resources, especially those related to intangible assets such as entrepreneurial orientation, managerial capabilities, and innovation. Barney et al. (in Murni et al., 2014) examines and analyzes the effect of entrepreneurial orientation on sustainable innovation with the management capability as an intervening variable.

Lumpkin Eisner (in Nur & Salim, 2014) examines entrepreneurship orientation by stating that there are 5 dimensions of entrepreneurship orientation, namely autonomy, inovativeness, risk taking, proactiveness, and competitive aggressiveness. Entrepreneurship orientation show significant effect on performance.

Entrepreneurial orientation, management capabilities, and innovations are direct positive influences and significant to the business performance SMEs in Aceh, Indonesia (Nurlina, 2014).

2 LITERATURE REVIEW

2.1 Performance of SMEs

According to Jauch and Glueck (in Soares, 2014) company performance can be seen from the level of sales, profit rate, return on capital, turnover and market share. SMEs not overcoming growth

constraints arises from inherent weaknesses in SMEs, such as lack of knowledge and technology for production, lack of marketing knowledge and skill constraints in resources (human and financial), and lack of knowledge in management capabilities (Tambunan, 2009).

2.2 Entrepreneurship orientation

The concept of entrepreneurship as an organizational orientation was first used by Miller (in Nurlina, 2014) to capture the risk-taking, innovative and proactive dimension of entrepreneurial behavior. Entrepreneurship orientation is an organization desire to promote and support creativity, flexibility and risk considerations. It demonstrates the entrepreneurial process and attempts to answer the question of how an activity is implemented. Developments in strategic management experience a shift in the entrepreneurial process, in which the methods, practices, and decision-making styles of managers use entrepreneurial action, according to Lumpkin and Dess (in Wardi & Susanto, 2015).

According to Fatoki (in Nayda, 2016), entrepreneurship orientation refers to the tendency of organizational decision-making to support entrepreneurial activities. Entrepreneurship orientation is also an individual process in pursuit of entrepreneurship opportunities based on the level and nature of available resources reflected through innovative, risk-taking, and proactive attitudes.

2.3 Management capability

Roman & Soliman, (2016) emphasized the importance of different skills, talents, and competence that constitute managerial capability and of human resource actions that require managerial capability all in a bid to increase performance and foster a firm's growth.

Studies by Jantunen et al., (2005); Gastro, (2007); Balkundi and Harrison, (2006); Ireland et al., (2009); Yang, (2010); Jusoh et al., (2011) and Khalili, 2012 (in Roman and Soliman, 2016) include human relations skills encompassing emotional intelligence, self-management, flexibility, synergy, conflict resolution, time management, employee coaching, team work and learning.

According to Nur and Salim (2014) the management capability of an entrepreneur is a set of administrative and operative skill and competencies required to carry out management functions, such as the ability to plan, organize, direct, supervise, or carry out assignment. This is consistent with the notion that achievement of performance can not be separated from the proper execution of management functions. This is consistent with the approach proposed by (Mintzberg, 2014), in which

managerial behavior consists of (a) interpersonal roles, (b) Informational roles and (c) decisional roles.

3 RESEARCH METHODS

The population in this study is all SMEs in Bogor, Indonesian that are registered with the Indonesia Chamber of Commerce and Industry; the total number is 78 SMEs. All populations were sampled. Data collection techniques in this study a questionnaire. The research questionnaires distributed to the respondents contained statements related to the performance of SMEs, entrepreneurship orientation and management capability of SMEs in Bogor. Data analysis technique in this research is by path analysis use proses by the AMOS software, version 23.

4 RESULT AND DISCUSSION

4.1 Result

4.1.1 Normality test

The normality assumption test is shown in Table 2:

Based on Table 2 the multivariate data distribution pattern of research variables tends to follow the normal distribution model. The multivariate critical ratio value of 0.178, Critical ratio ≤ 2.58 .

4.1.2 Hypothesis test

Hypothesis test results are presented in the Table 3:

Table 2. Normality test.

Variable	Skewness	Critical ratio	Kurtosis	Critical ratio
Entrepreneurship	-	-	0,097	0,175
E_Orientation	0,062	0,225		
Management_Capability	0,006	0,022	0,265	0,478
Performance	0,301	1,084	0,084	0,151
Multivariate			0,221	0,178

Table 3. Hypothesis test.

Relationship between variables		P-value
Management_ capability orientation	<--- O_Entrepreneurship	0,024
Performance	<--- Management_ Capability	0,040
Performance	<--- O_Entrepreneurship orientation	0,003

Table 3 shows that all exogenous variables have the significant effect on endogenous variables. This can be seen from the significant value of all exogenous variables on endogenous variables where $p \leq 0.05$.

4.2 Discussion

The results of this research showed that entrepreneurship orientation variables have a positive and significant influence on management capability with a coefficient of 0.249. In other words, every additional one unit of entrepreneurship orientation will will increase management capability by 0,249%.

The results also showed that entrepreneurship orientation has a positive and significant impact on the performance of SMEs with a path coefficient of 0.314. The path coefficient indicates a positive direction, indicating that if the entrepreneurial orientation increases then the company's performance will also increase. Conversely, if the entrepreneurial orientation decreases, then the performance of the company will also decrease. This shows that we can improve the performance of SMEs in Bogor by increasing the entrepreneurial orientation of business owners. The path coefficient of 0.314 indicates that every one unit increase of entrepreneurship orientation will improve the performance of SMEs by 0.314%.

Furthermore, management capability also has a positive and significant influence on the performance of SMEs with a coefficient of 0.219. The path coefficient shows a positive direction, indicating that if the management capability of business owners in Bogor increased then the performance of the company will also increase. The results of the study are in accordance with the results of the present study are in accordance with the results of the study by Nurlina (2014), showing that Entrepreneurial orientation, management capabilities, and innovations are positive and influence business.

The direct effect of entrepreneurship orientation toward management capability is given by $0,2491 \times 0,2491 = 0,0620$. This shows that the direct effect of entrepreneurship orientation on management capability is 6.20%. The direct effect of entrepreneurship orientation on the performance of SMEs in Bogor is given by $0.3141 \times 0.3141 = 0.0986$. This shows that the direct influence of entrepreneurship orientation on the performance of SMEs in Bogor is 9.86%. The direct effect of management capability on the performance of SMEs in Bogor is given by $0.2187 \times 0.2187 = 0.0478$. This shows that the direct effect between management capability on the performance of SMEs is 4.78%. The indirect

effect of entrepreneurship orientation through management capability on the performance of SMEs in Bogor is given by $0,2491 \times 2187 = 0,054$. This shows that indirect influence of entrepreneurship orientation through management capability on the performance of SMEs in Bogor is 5,4%.

The calculation of direct and indirect effects of exogenous variables on endogenous variables found that the direct effect of entrepreneurship orientation has the greatest effect on the performance of SMEs in Bogor. In other words, entrepreneurship orientation has an important role in improving the performance of SMEs in Bogor.

5 CONCLUSION

The results showed that entrepreneurship orientation variables have a positive and significant effect on management capability of SMEs in Bogor. Entrepreneurship orientation and management capability also have a positive and significant effect on the performance of SMEs in Bogor. The calculations of direct and indirect effects of exogenous variables on endogenous variables found that the direct influence of entrepreneurship orientation has the greatest influence on the performance of SMEs in Bogor.

6 RECOMMENDATION

The authors provide recommendations to improve the performance of SMEs by increasing risks, taking and innovation and by expanding the network. Entrepreneurs also need to improve management capabilities in both planning and processes.

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