SENSING CAPABILITY, ENTREPRENEURIAL ECOSYSTEM TO BOOST SMALL BUSINESS PERFORMANCE

Lasmy, Bina Nusantara University
Tirta Nugraha Mursitama, Bina Nusantara University
Asnan Furinto, Bina Nusantara University
Setyo Hari Wijanto, Indonesia University

ABSTRACT

MSMEs can contribute to Indonesia's GDP more than large businesses and have a significant workforce absorption. MSMEs need to scale up, which is also one of the Ministry of MSMEs and cooperatives' work programs. This study looking for how to booster small business performance. There are two independent variables, sensing capability and exposure to entrepreneurial ecosystem. One dependent variable, small business performance. This research is a quantitative study, distributing questionnaires online with a total number of respondents of 459 small businesses in the F&B sector in Jakarta with age> 3 years, and data analysis using SPSS. This study's results are sensing capability and exposure to entrepreneurial ecosystems affect small business performance partially and simultaneously.

Keywords: Sensing Capability, Exposure to Entrepreneurial Ecosystem, Small Business Performance.

INTRODUCTION

An Austrian political economist who is the most influential economist of the 20th century said that entrepreneurship has long been a major force for the economic development of a country (Schumpeter, 1934). This also triggers the interest of researchers from various scientific backgrounds to conduct research related to entrepreneurship in various countries, types of industry and business scale. Based on a recent survey, the number of small-scale businesses in Indonesia is 783.132 unit, much greater than that of medium-scale businesses is 60.702 unit. However, medium-scale businesses are able to contribute to Indonesia's GDP 1.923.715 billion, far more than the contribution made by small-scale businesses 1.347.104 billion. In other words, if more and more small-scale businesses were able to upgrade to medium-scale enterprises, the GDP of the Indonesian state could be even better. This is also one of the work programs of the Indonesian Ministry of Cooperatives and SMEs which targets 6% of Indonesian small businesses to progress to the middle class in the next five years (Depkop, 2020; Okezone, 2020).

Some of the difficulties experienced by efforts to graduate from class include insecurity in technology, lack of knowledge, management skills, innovation, networking and capital (Pasardana, 2019; Awaludin, 2019). Another important ability for an entrepreneur is sensing capability. Several studies have shown that sensing capability has a positive effect on business performance in Kenya (Kihara et al., 2016), sensing capability plays an important role in business performance in the logistics industry (Sudrajat et al., 2019) but different with (Lindblom et al., 2008) who argue that sensing capability does not have a significant effect on business performance in retailbusinesses. Entrepreneurs are unlikely to be active individually (Autio et al., 2014; Greve & Salaff, 2003) and entrepreneurial activities are social activities

that are relational (Granovetter, 1985). Daniel Isenberg, a Professor of entrepreneurship from Babson College and also the founder of the Babson Entrepreneurship Ecosystem Project (BEEP) said that an entrepreneur or entrepreneur can be successful and continue to grow when the entrepreneur has access to human, financial, professional resources and operates in an environment where government policies encourage and protect entrepreneurs. This network is called the entrepreneurial ecosystem. EEE plays a key role both as a cultural repository where entrepreneurial stories are archived and shared and as a social network where venture capitalists, mentors, experienced entrepreneurs, and a talented workforce regularly come together (Pittz & Hertz, 2017).

The increase in the number of women and men entrepreneurs who are oriented towards business growth is very important for the economy because they are the ones who create jobs, absorb unemployment, reduce poverty, involve the community, and have high productivity, innovation and export (Mason & Brown, 2013). Therefore, this study aims to analyze the effect of exposure to entrepreneurial ecosystem and sensing capability in encouraging the performance of small-scale Indonesian businesses engaged in the food and beverage sector, business age >3 years, located in Jakarta and have a desire to move up the class. In the end, this research will provide theoretical as well as practical contributions.

LITERATURE REVIEW

There are different views on the theory that is used as a reference in small-scale business performance research. Research in 1988 stated that there is no correct theory for small businesses because not all of them include a framework that is able to explain and become a reference for small business management (D'Amboise & Muldowney, 1988). Meanwhile, other research views resource-based theory (Amit & Schoemaker, 1993; Barney, 1991; Esteve-Pérez & Mañez-Castillejo, 2008; Hanlon & Saunders, 2007; Sirmon & Hitt, 2003) and strategic adaptation perspective as the most appropriate theory (Dollinger, 1999). This view believes that tangible and intangible resources such as the adoption of e-commerce in business activities are significant for a business's performance. However, they are not sufficient to improve performance it takes skills continuously developed to make strategy adaptation (Ucbasaran et al., 2001). The LPPI (Indonesian Banking Development Institute) and Bank Indonesia (2015) divide the characteristics of small businesses based on revenue per year, >300 - 2.5 billion.

Sensing Capability (SC)

SC is one of the five elements of dynamic capabilities that support organizational resilience (Baškarada & Koronios, 2018) which includes sensing, searching, seizing, shifting, and shaping (Teece, 2017). SC is a company's activity in identifying, developing and accessing opportunities related to customer needs; mobilization of resources in dealing with needs and opportunities, capturing value and transforming capabilities refers to changing or reconfiguring resources to maintain new or different values. SC is not positively related to retail business financial performance (Ardyan, 2016; Lindblom et al., 2008). Meanwhile, other researchers argue that SC is part of dynamic abilities and affects business performance (Buil-Fabregà et al., 2017; Jantunen et al., 2018; Murray et al., 2016; Zimuto & Maritz, 2019).

Exposure to Entrepreneurial Ecosystem (EEE)

Ecosystem refers to the interaction of an organism with its environment as a unit. Thus, the term Entrepreneurial Ecosystem (EE) refers to a combination of actors and factors that play a role in entrepreneurship development (Pereverzeva, 2015). The EE requires a certain set of elements or attributes to be able to develop (Mack & Mayer, 2016; Roundy, 2017) such

as a strong market, creating entrepreneurial opportunities, attracting skilled workforce, networks between entrepreneurs that provide skills, support, and guidance, and cultural orientation (Spigel, 2017). Isenberg builds an entrepreneurial ecosystem framework consisting of policy, finance, culture, support, human resources and markets (Isenberg, 2010). The EE as a platform for providing the necessary support, guides, mentors, motivates and promotes entrepreneurial activities so as to improve the performance of SME businesses in Malaysia (Rajah et al., 2019). Business performance is influenced not only by internal factors (for example, workforce skills, investment levels, innovation strategies, and marketing) but also on the quantity and quality of interactions with external stakeholders through the entrepreneurial ecosystem platform.

Small Business Performance (SBP)

Performance is an important thing that every company must achieve because performance reflects its ability to manage and allocate its resources. Measurement of business performance is not sufficient only to measure finan1cially such as sales growth, profit and ROIbut also non-financial measurements such as customer satisfaction, employee satisfaction reputation and innovation (Ong et al., 2016; Jain & Moreno, 2015; Sucahyo et al., 2016; Tseng & Lee, 2014).

Based on the review above, the research hypothesis in this study:

H_1: *Sensing Capability (SC) has a positive effect on small business performance (SBP).*

H_2: *Exposure to Entrepreneurial Ecosystem (EEE) has a positive effect on small business performance(SBP).*

H_3: *Exposure to Entrepreneurial Ecosystem (EEE) and Sensing Capability (SC) has a positive effect on small business performance (SBP) simultaneously.*

RESEARCH METHODOLOGY

The method adopted in this research is quantitative. Data collection using a questionnaire instrument. The questionnaire was distributed online through the association channels and the entrepreneur community. Then the questionnaire data that has been successfully collected, are further analysed such as descriptive analysis to determine the characteristics of the business profile, the characteristics of the respondent's profile and a description of the results of the answers to the questionnaire statements. Then further testing the validity, reliability and hypothesis of the relationship between variables with the help of the SPSS application. Data collection method is cross-sectional. That is, data is only taken within a certain period of time (Sekaran & Bougie, 2013). The sampling technique used nonprobability sampling - purposive sampling with the criteria of the respondents being small-scale business owners in the food and beverage sector, located in Jakarta, with a minimum age of 3 years and wanting to be promoted. The Indonesian Central Statistics Agency reported that the number of small businesses in Jakarta in 2018 was 9,791 units, so the minimum sample required was 385 by calculating the taro yamane formula (Yamane, 1967). Then the measurement scale uses a 6 likert scale.

RESULTS

Distribution of online questionnaires to business owners through various associations, entrepreneurial communities and personal channels. The data received was then screened

according to the criteria of the respondents in this study and obtained as many as 459 respondents.

Descriptive Statistics

Descriptive statistical analysis contains the analysis unit's profile and the respondents who participated in answering the distributed questionnaires (shows in Table 1).

Table 1
RESPONDENT AND SMALL BUSINESS

Category	Description	%
Gender	Male	48
	Female	52
Generation	Z	42
	X	37
	Millennial	20
	Baby Boomers	1
Level of education	Collage	49
	Below or high school or equal	51
Business age	3-5 Years	32
	>5 Years	68
Type of business	Food	48
	Beverage	11
	Food & Beverage	41
Business Location	West Jakarta	27
	North Jakarta	24
	East Jakarta	20
	South Jakarta	17
	Central Jakarta	12
Income in a year	300-500 million	94
	>500-1 billion	3
	>1 billion-2.5 billion	3

The pattern of the respondents' answers is summarized and to help understand or interpret the mean results of the variables, these results are converted to Percent of Maximum Possible (POMP) scores (Cohen et al., 1999) which have a scale of 0-100. This POMP is widely used as an alternative score standardization in psychology research (Fischer & Milfont, 2010). The range of POMP score results, namely 66.69-83.35, which means that the respondents agree, feel satisfied and consider the latent variables SC, EEE and SBP, their dimensions and indicators necessary. Then, the validity and reliability test using SPSS and the result is valid and reliable.

Table 2
COEFFICIENTS[a]

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	13.757	1.676		8.207	0.000
SC	0.495	0.105	0.246	4.728	0.000
EEE	0.142	0.025	0.289	5.557	0.000

a. Dependent variable:SBP

Based on Table 2, the results of hypothesis 1 test, the effect of SC on SBP is the sig value of .000 <0.05 and the t-count value of 4.728> t-table 1.96 so that it can be concluded that there is an effect of SC on SBP. Then the results of hypothesis test 2, the effect of EEE to SBP is a sig value of .000 <0.05 and the t-count value of 5,557> t-table 1.96 so that it can be concluded that there is an effect of EEE on SBP.

Table 3
ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4901.640	2	2450.820	68.192	0.000[b]
Residual	16388.587	456	35.940		
Total	21290.227	458			

a. Dependent variable: SBP
b. Predictors: (Constant), EEE, SC

Based on Table 3, namely the results of testing hypothesis 3 with SPSS, the simultaneous influence of SC and EEE on SBP is a sig value of 0.000<0.05 and an f-count valueof 68.192>f-table 3.02 so it can be concluded that there is an effect of SC and EEEsimultaneously on SBP.

Table 3
MODEL SUMMERY

Model	R	R square	Adjusted R square	Std Error of the Estimate
1	0.480[a]	0.230	0.227	5.995

a. Predictors: (Constant), EEE, SC

Then the coefficient of determination test is carried out to find out how big the simultaneous effect is. Based on the output above (shows in Table 3), it is known that the r-square value is 0.230, this means that the simultaneous effect of SC and EEE on SBP is 23%.

DISCUSSION AND CONCLUSION

Based on the review in the previous section, it can be concluded that all of the dimension, indicator is necessary; all independent variables have an influence on the dependent variable partially and simultaneously. In addition, EEE has a greater influence on SBP,19% than SC, 17%, partially and 23% simultaneously. This means that small businesses in Jakarta need to immediately join various entrepreneurial ecosystems such as communities, employers' associations to get support, motivation, access, and policies in entrepreneurship. As stated in the results of previous research that entrepreneurship is a relational activity; it is very unlikely for a business to run alone without a linkage with an ecosystem similar to the surrounding environment such as suppliers, government, associations, fellow entrepreneurs and others. Entrepreneurs can build relationships with various stakeholders through the entrepreneurial ecosystem so that opportunities to develop their business are also greater. In addition, by joining an entrepreneurial ecosystem, it allows entrepreneurs to get various opportunities to offer relevant programs, share knowledge, information, enrich skills, add partners who can have a positive impact on their personal and business performance. Furthermore, small business entrepreneurs hone sensing skills such as recognizing new opportunities, creating new opportunities and not becoming a follower. Then when the entrepreneur has joined the ecosystem and has a good sensing capability, the effort is able to booster the performance of his or her business and scale up. In addition, the results of hypothesis testing support several previous studies.

SUGGESTIONS

This research has achieved its objectives and answered questions. However, future research still has certain limitations, such as adding new variables such as gender, expanding the scope of research, conducting this research with an experimental approach, and others.

REFERENCES

Amit, R., & Schoemaker, P.J.H. (1993). Strategic assets and organizational rent. *Strategic Management Journal*, *14*(1), 33-46.

Ardyan, E. (2016). Market sensing capability and SMEs performance: The mediating role of product Innovativeness Success. *DLSU Business and Economics Review*, *25*(2), 79-97.

Autio, E., Kenney, M., Mustar, P., Siegel, D., & Wright, M. (2014). Entrepreneurial innovation: The importance of context. *Research Policy*, *43*(7), 1097-1108.

Awaludin, F.Y. (2019). Google Indonesia perbanyak UMKM NTB ikut pelatihan usaha digital.

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, *17*(1), 99-120.

Baškarada, S., & Koronios, A. (2018). The 5S organizational agility framework: a dynamic capabilities perspective. *International Journal of Organizational Analysis*, *26*(2), 331-342.

Buil-Fabregà, M., Alonso-Almeida, M. del M., & Bagur-Femenías, L. (2017). Individual dynamic managerial capabilities Influence over environmental and social commitment under a gender perspective. *Journal of Cleaner Production*, *151*, 371-379.

Cohen, P., Cohen, J., Aiken, L.S., & West, S.G. (1999). The problem of units and the circumstance for POMP. *Multivariate Behavioral Research*, *34*(3), 315-346.

D'Amboise, G., & Muldowney, M. (1988). Management Theory for Small Business: Attempts and Requirements. *Academy of Management Review*, *13*(2), 226-240.

Esteve-Pérez, S., & Mañez-Castillejo, J. A. (2008). The resource-based theory of the firm and firm survival. *Small Business Economics*, *30*(3), 231-249.

Fischer, R., & Milfont, T. (2010). Standardization in psychological research. *International Journal of Psychological Research*, *3*(1), 88-96.

Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, *91*(3), 481-510.

Greve, A., & Salaff, J.W. (2003). Theory: Entrepreneurs and Network Activities Social Capital and Social Network. *Entrepreneurship: Theory and Practice*, *28*(1), 1-22.

Hanlon, D., & Saunders, C. (2007). Marshaling Resources to Form Small New Ventures: Toward a More Holistic Understanding of Entrepreneurial Support. *Entrepreneurship Theory and Practice*, *31*(4), 619-641.

Isenberg, D.J. (2010). The big idea: How to start an entrepreneurial revolution. *Harvard Business Review*, *88*(6).

Jain, A.K., & Moreno, A. (2015). Organizational learning, knowledge management practices and firm s performance: an empirical study of a heavy engineering firm in India. *The Learning Organization*, *22*(1).

Jantunen, A., Tarkiainen, A., Chari, S., & Oghazi, P. (2018). Dynamic capabilities, operational changes, and performance outcomes in the media industry. *Journal of Business Research*, *89*(January), 251-257.

Kihara, A.S.N., Ngugi, P.K., & Ogollah, K. (2016). Influence of Dynamic Capabilities on Performanceof Large Manufacturing Firms in Kenya. *International Journal of Business Strategies*, *2*(1), 106-126.

Lindblom, A. T., Olkkonen, R.M., Mitronen, L., & Kajalo, S. (2008). Market-Sensing Capability and Business Performanceof Retail Entrepreneurs. *Contemporary Management Research*, *4*(3), 219-236.

Mack, E., & Mayer, H. (2016). The evolutionary dynamics of entrepreneurial ecosystems. *Urban Studies*, *53*(10), 2118–2133.

Mason, C., & Brown, R. (2013). Creating good public policy to support high-growth firms. *Small Business Economics*, *40*(2), 211-225.

Murray, N., Lynch, P., & Foley, A. (2016). Unlocking the magic in successful tourism destination marketing: the role of sensing capability. *Journal ofMarketing Management*, *32*(9-10), 877-899.

Ong, S. Y. Y., Habi din, N. F., Salleh, M. I., & Fuzi, N. M. (2016). The relationship between ICT adoption and business performance in Malaysia and Indonesia. *Geografia - Malaysian Journal of Society and Space*, *12*(12), 40-49.

Osakwe, C. N., Chovancova, M., & Ogbonna, B. U. (2016). Linking SMEs profitability to brand orientation and market- sensing capability: A service sector evidence. *Periodica Polytechnica Social and Management Sciences*, *24*(1), 34-40.

Pittz, T. G., & Hertz, G. (2017). A Relational Perspective on Entrepreneurial Ecosystems: The Role and Sustenance of the Entrepreneurship Center. *Journal of Enterprising Communities : People and Places in*

the Global Economy, *11*(1), 166-185.

Rajah, S., Kadir, S. ., & Yusoff, W. F. . (2019). Malaysian entrepreneurial ecosystem influence on SMEs business performance. In S. K.S (Ed.), *Proceedings of the 33rd International Business Information Management Association Conference, IBIMA 2019: Education Excellence and Innovation Management through Vision 2020* (pp. 7421-7438). International Business Information Management Association, IBIMA.

Roundy, P. T. (2017). Hybrid Organizations and the Logics of Entrepreneurial Ecosystems. *International Entrepreneurship and Management Journal*, *13*(4), 1221-1237.

Sirmon, D.G., & Hitt, M.A. (2003). Managing Resources: Linking Unique Resources, Management, and Wealth Creation in Family Firms. *Entrepreneurship Theory and Practice*, *27*(4), 339-358.

Spigel, B. (2017). The Relational Organization of Entrepreneurial Ecosystems. *Entrepreneurship: Theory and Practice*, *41*(1), 49-72.

Sucahyo, Y.G., Utari, D., Budi, N.F.A., Hidayanto, A.N., & Chahyati, D. (2016). Knowledge management adoption and its impact on organizational learning and non-financial performance. *Knowledge Management and E-Learning*, *8*(2), 387-413.

Sudrajat, D., Saroso, H., Lasmy, Herlina, M.G., & Syahchari, D.H. (2019). The role of sensing capability in improving financial performance of logistics service firms. *International Journal of Innovation, Creativity and Change*, *10*(9), 153-167.

Teece, D.J. (2017). Towards a capability theory of (innovating) firms: Implications for management and policy. *Cambridge Journal of Economics*, *41*(3), 693-720.

Tseng, S.M., & Lee, P. S. (2014). The effect of knowledge management capability and dynamic capability on organizational performance. *Journal of Enterprise Information Management*, *27*(2), 158-179.

Ucbasaran, D., Westhead, P., & Wright, M. (2001). The Focus of Entrepreneurial Research: Contextual and Process Issues. *Entrepreneurship Theory and Practice*, *25*(4), 57-80.

Wardoyo, D.T.W., Iriani, S.S., & Kautsar, A. (2018). Adoption of e-commerce, entrepreneurship orientation mediated by business strategy on the performance food industries. *International Journal of Civil Engineering and Technology*, *9*(5), 896-902.

Zimuto, J., & Maritz, R. (2019). Modelling effect of valuable resources on franchise outlet performance: dynamic sensing capability as mediator. *South African Journal of Economic and Management Sciences*, *22*(1), 1-9.