

# THE EFFECTS OF ENTREPRENEURIAL ORIENTATION AND MARKET ORIENTATION ON BUSINESS PERFORMANCE

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## ABSTRACT

*The main purpose of this study was to find out the effect of entrepreneurship and market orientation on business performance. The respondents of this research were business actors of cut flower arrangement business in Bandung City, Indonesia which consists of 150 people. The Method used descriptive and explanatory survey in which both aimed to know the description of research object and the characteristics and relationships among variables. The verification analysis used Structural Equation Modeling with Partial Least Square (SEM-PLS) approach. The research results showed that business performance was not directly influenced by entrepreneurial and market orientation.*

**Keywords:** Entrepreneurial, Entrepreneurial Orientation, Market Orientation, Business Performance.

## INTRODUCTION

Gomez et al. (2010) declared that the results of their research showed no significant relationship between entrepreneurship orientation and performance. In addition, Tang et al. (2008) on his research results show the relationship between entrepreneurship orientations with the performance is not linear but curvilinear.

According to Keh et al. (2007) entrepreneurship orientation has a positive impact on the company performance. The same results are also shown by Wiklund and Shepherd (2005). However, based on the survey results within the field, on one side of the breakthroughs for business development has been done as much as 73.33%, but turnover decreased (23.33%) and fluctuated (56.67%). Based on the description of the survey results, there is a gap (phenomenon) of entrepreneurship orientation issues that apparently has not done with an optimal effort, thus entrepreneurship orientation becomes one of the discussions throughout this study.

In addition to entrepreneurial orientation, market orientation also affects the company's performance (Baker & Sinkula, 2009). Market orientation is the extent to which businesses have a strong customer focus and competitor orientation, and work as a cross-functional team to develop and delivering market-based strategies (Best, 2009). However, from previous studies, there is a disagreement over the relationship between market orientation and firm performance.

The results of research by Baker & Sinkula (2009), Jyoti & Sharma (2012), Protcko & Dornberger (2014), and Šályová et al. (2015) indicate that there is a significant effect of market orientation on performance, but the research of Hongming et al. (2007) showed that there is no influence of market orientation on performance.

Gomez et al. (2010) market orientation has a positive effect on business performance. However, based on the preliminary survey in the field, on the one hand, the consumer needs have been done as much as 93.33%, but the turnover decreased (23.33%) and fluctuated (56.67%). Based on the description, shows the gap (phenomenon) of entrepreneurship orientation problems

that apparently has not been pursued optimally. Therefore, the main purpose of this study was to determine the influence of entrepreneurship and market orientation on business performance.

## ENTREPRENEURIAL ORIENTATION

The term entrepreneurship in the Indonesian language is a direct translation of entrepreneurship and entrepreneurial. Hence, both terms in Indonesian are often translated in one term even though both have the differences. The entrepreneurship according to Kraus et al. (2010) is interpreted as an adjective that describes a certain approach. He added more the entrepreneurial is a strategic orientation that affects the organization. The term entrepreneurship that exists in the concept of entrepreneurship orientation in this study is derived from the concept. In most of the literature, the term of strategic orientation is the description of entrepreneurial concept.

According to Suryana and dan Bayu (2011), entrepreneurship, as known in English as a term derived from the French language, "*entreprendre*" which mean adventurer, creator, and business manager. Furthermore, the term of entrepreneurship is a character or feature generally attached to an entrepreneur.

Lumpkin and Dess (1996) introduced the term of entrepreneurial orientation that is now commonly used. In their point of view, the entrepreneurial orientation is an entrepreneurial process, whereas entrepreneurship refers only to new entrants (new entry). According to them, newcomers refer to actions that may be initiated by an individual, small company, or strategic unit of the large enterprise. Lumpkin and Dess (1996) in the same article also identified dimensions that characterize the entrepreneurial process and studied the relationship between entrepreneurial orientation and firm performance as well as possibilities as a moderator variable.

As added more by Lumpkin and Dess (1996), the definition of entrepreneurial orientation is a process-focused concept of organizational entrepreneurship orientation. They revealed that the dimensions of entrepreneurship orientation are autonomy, innovativeness, risk taking, pro-activeness, and competitive aggressiveness. The entrepreneurial orientation refers to a specific level of corporate behavior in the face of risk, independent activity, engaging in innovation and reacting positively and aggressively to competitors within the market. Lumpkin and Dess (1996) also said that an organization did not have to use all five dimensions, but it can only use several dimensions depend on the context under study. This is evidenced by the empirical research of Lumpkin and Dess (2001) using at most two dimensions, namely pro-activeness, and competitive aggressiveness. According to Wiklund and Shepherd (2005) this orientation refers to the firm's strategic orientation, understanding specific aspects of entrepreneurship such as styles, methods, and decision-making practices. The statement according to Wiklund and Shepherd (2005) asserted that the entrepreneurial orientation reflects how the company operates rather than what it does.

Researchers defined the entrepreneurship orientation as the processes, structures, and behaviors of firms that are characterized by innovativeness, pro-activeness, and risk-taking. Hence, the entrepreneurship orientation is a process, structure, and behavior of a company characterized by innovativeness, pro-active, and risk taking. The dimensions of entrepreneurship orientation as asserted more by researchers, are innovativeness, pro-activeness, the Thus, the dimensions of entrepreneurship orientation in this study were included in proactive and risk-taking.

## MARKET ORIENTATION

According to Best (2009) in order to achieve a powerful market orientation, a business needs to adopt a market-based management philosophy. The definition of market orientation as revealed by Best (2009) refers to the degree in which a business has an intense customer focus and orientation towards the competitors and works across a cross-functional team to develop and deliver a market-based strategy. Based on the definition proposed by Best (2009), the dimensions of market orientation are: strong customer focus, competitor orientation, and work across functional teams (departments).

According to Drumond et al. (2009) there are 5 things that must be done to achieve market orientation such as a focus on the customer, focus on competitors, and integrate the marketing into business, strategic vision and realistic expectations.

In order to support Drumond statement, Cravens and Piercy (2009) also pointed out the same perception through the concern and purpose of marketing orientation such focusing on the customer to achieve the main goal of an organization that is profitability.

In this study, the measurement of market orientation is based on the definition and dimension of Best (2009), but the dimensions used appropriately with the object and purpose of this research such as customer focus and competitor orientation.

## BUSINESS PERFORMANCE

Based on data from the Indonesian Central Bureau of Statistics in 2009, Indonesia has a large number of businesses of around 4,370 units (0.01%), medium-sized businesses around 39,660 units (0.08%), small businesses of 520,220 units (1.01%), and businesses micro is 50,700,000 units (98.90%). This shows that SMEs are the foundation of the economy in Indonesia. SMEs are an important driver for the development of the local economy and community (Tambunan, 2006). The Bandung City is one city that has a large contribution to the creative industry in Indonesia. The creative industry is divided into 15 sub-sectors, one of which is handicraft. The development of the creative industry is inseparable from the role of MSMEs (UMKM) in the Bandung City. The largest number of MSMEs in the creative industry in Bandung is in the food and beverage sector and fashion, and then the third is handicrafts (Rahmanda, 2017).

Venkatraman and Ramanujam (1985) explained that business performance reflecting the perspective in strategic management that is a sub-point of the overall concept of effectiveness from the company. Wiklund and Shempherd (2005) also asserted that the performance of small and medium enterprises is multi-dimensional, so it is very useful to unite the various dimensions of performance in empirical studies. In accordance with that opinion, Rauch et al. (2009) revealed that business performance was a multi-dimensional concept. One common difference between financial and non-financial measures namely the assessment of factors such as sales growth indeed the investment return and the goals such as satisfaction and success rates globally as determined by the owner or manager within the firm.

The definition of business performance that is usually used based on Wiklund and Shempherd (2005) and Rauch et al. (2009). The measurement of business performance in this study is based on the subjective perception from the business actor of cut flower arrangement. The reason to use this approach is that business owners were usually reluctant to disclose the proper performance records, and they were less willing to share objective performance data. In

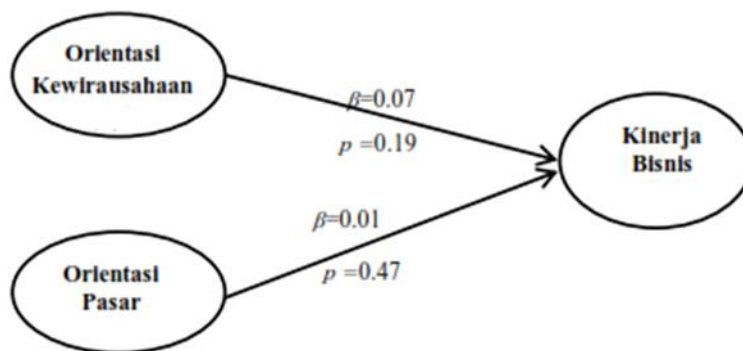
addition, unlike large corporations, they generally did not have complete records and bookkeeping, which related to their business performance.

## METHODOLOGY

The respondents of this research were business actors of cut flower arrangement business in Bandung City, Indonesia which consists of 150 people. The method used descriptive and explanatory survey in which both aimed to know the description of research object and the characteristics and relationships among variables. The verification analysis used Structural Equation Modeling with Partial Least Square (SEM-PLS) approach.

## RESULT

The entrepreneurial orientation has no significant effect on business performance because it has the p-value value as 0.19, (above 0.05). The direct influence of entrepreneurial orientation towards the business performance was very small at 7%. Likewise, the market orientation does not have a very significant influence because it has the p-value as 0.47 (very well above 0.05). The verification analysis is conducted at first step, because both directions of business and market orientation were not significant and two-stage trimming has been done. It started from the least insignificant (entrepreneurial orientation to performance) and then continued to the next non-significant relationship (market orientation to performance). Thus, it indicated there was no direct significant influence of entrepreneurial and market orientation on business partially. The results of the hypothesis test individually showed that the entrepreneurial and market orientation not entirely does not significantly influence business performance at 5% confidence level. The measurement of size (effect size) as an absolute value that described the individual contribution of each variable, namely the entrepreneurial orientations (0.029) toward the business performance were included in the weak category. This value indicated that the influence of entrepreneurial orientation was very weak at the practical point of view. Market orientation size toward business performance (0.003) included in the very weak category. The value also indicated that market orientation had a very weak influence in the business performance from a practical point of view. This is in line with the research conducted by A which obtained the results Organizational Learning and Market Orientation do not have a positive contribution to the increase of Business Unit Performance but in Job Satisfaction had a positive contribution to the increase of Business Unit Performance and had a positive effect to market orientation (Al Idrus et al., 2018a; Al Idrus et al., 2018b) so in the future it is necessary to do research on the contribution of Job Satisfaction to Business Unit Performace with the same sample this study (Figure 1).



**FIGURE 1**  
**THE EFFECT OF ENTREPRENEURIAL ORIENTATION AND MARKET ORIENTATION TOWARDS BUSINESS PERFORMANCE**

### CONCLUSION

The entrepreneurial and market orientation did not play a direct role in the formation of business performance. The entrepreneurial orientation individually has no significant role to business performance. In addition, the market orientation has no significant role directly in the achievement of business performance. The entrepreneurial and market orientation indirectly played an important role in business performance through other actions or mediation variables. As the suggestion of further study, it hoped that the future researchers to add other moderate variables or factors in this study. In addition, through the implication of this study probably change by creating the transformation of dimensions or indicators thus it can be applied to different respondents or analytical units. For business development, it is necessary to develop other fields of small and medium enterprises in order to improve business results, so that the economy in Bandung city also increases.

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