

# THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION ON SME'S PERFORMANCE THROUGH ENTREPRENEURIAL COMPETENCY IN PASAR JAMBI

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## ABSTRACT

*This study aims to determine the effect of entrepreneurial orientation on business performance through the entrepreneurial competence of Culinary SMEs in Pasar Jambi. Micro, Small, and Medium Enterprises (SMEs) play an important role in economic development. So entrepreneurs need to develop entrepreneurial orientation and entrepreneurial competencies to maintain their business performance in this uncertain pandemic period. The researcher distributed questionnaires to 59 samples of SMEs in Pasar Jambi using the purposive sampling technique, then processed using SmartPLS-SEM to analyze data and test hypotheses. The study results show a positive relationship among entrepreneurial orientation and entrepreneurial performance, entrepreneurial orientation and entrepreneurial competence, entrepreneurial competence, and entrepreneurial performance. In addition, entrepreneurial competence is mediating entrepreneurial orientation and entrepreneurial performance.*

**Keywords:** *Entrepreneurial orientation, firm performance, Entrepreneurial competency*

## 1. INTRODUCTION

The world economy has witnessed the effects of the Covid-19 pandemic. Many Asian countries have felt its effects on every layer of the economy. SMEs themselves face several challenges, such as decreasing orders, scarcity of raw materials for production, decreasing or canceling export orders, and lacking labor availability due to lockdown restrictions at the national level [1]. To prevent business failure during a pandemic, businesses need entrepreneurial competence. Entrepreneurial competence can help financially deficient businesses in unforeseen circumstances, such as in the case of the Covid-19 pandemic [2]. In addition, previous studies stated that in addition to competence and a supportive environment, entrepreneurial orientation also plays a significant role [3], which influences business performance [4]. An entrepreneur must have the right orientation to take advantage of or survive in an unstable market during a pandemic.

Entrepreneurial orientation is an organizational capability and a valuable resource for identifying, analyzing, and pursuing new opportunities in a way that cannot be easily imitated [5]. Recent literature on entrepreneurial orientation has cited four dimensions: willingness to take risks, proactiveness, creativity, innovation, and autonomy [6]. Based on the dimensions often used by other studies, this study will use these four dimensions.

Many previous studies have discussed the topic of these entrepreneurial variables. Shows a positive effect of entrepreneurial orientation on financial performance and the growth rate of micro and small enterprises [7]. Entrepreneurial competence also shows a mediating effect between creativity, innovation, autonomy, and performance from micro-enterprise. Tests

show that creativity and innovation are important and unique resources that affect business performance through entrepreneurial competence [8].

In Indonesia itself, not much research has been done on entrepreneurial orientation and entrepreneurial competence. Moreover, there is very little research on this topic conducted on SMEs in Jambi. There are only a few studies that examine the influence of entrepreneurial competence as a mediator of entrepreneurial orientation. Therefore, this study aims to determine the effect of entrepreneurial orientation on business performance through the entrepreneurial competence of Culinary SMEs in Pasar Jambi.

### ***Related Work***

Many previous studies have discussed the topic of these entrepreneurial variables. Many studies examine the effect of good orientation and its dimensions, competence, and business performance, whereas most of the research shows positive results between each variable. However, there are variations in how each researcher takes competence as a dependent variable and mediation.

One of them is a study conducted on 337 MSMEs registered in Lahore, where a positive relationship was found between entrepreneurial orientation and entrepreneurial competence on entrepreneurial performance. Entrepreneurial competence is proven to be a mediator between entrepreneurial orientation and entrepreneurial performance. This result is thought to be because entrepreneurs need the right entrepreneurial orientation to improve their business performance. Financial companies also have a better entrepreneurial orientation which then develops their entrepreneurial competencies. Relationship between entrepreneurial orientation and entrepreneurial competence had positive effect means that the development of entrepreneurial orientation greatly increases the development of entrepreneurial competencies, which entrepreneurs can use to complete tasks under competitive pressure [9].

Research on 300 micro and small enterprises in Mexico aimed to analyze the effect of firm size on the relationship between entrepreneurial orientation, financial performance, and firm growth. Shows a positive effect of entrepreneurial orientation on financial performance and the growth rate of micro and small enterprises [7].

In addition, research in Klaten Regency on 182 furniture businesses to analyze the effect of entrepreneurial competence entrepreneurial orientation on the performance of the furniture industry shows a positive influence of entrepreneurial orientation and entrepreneurial competence on performance where entrepreneurial competence, which consists of aspects of business initiation, planning, and organization, and technology and entrepreneurial orientation shows a positive influence on performance [9].

## **2. LITERATURE REVIEW**

### ***Entrepreneurial Orientation***

There are several definitions put forward by previous research. Orientation can refer to how individuals identify opportunities and threats and utilize existing resources to the maximum extent possible.

Entrepreneurial orientation is an organizational capability and a valuable resource in identifying, analyzing, and pursuing new opportunities in a way that cannot be easily imitated [5].

Entrepreneurial orientation is a practice, process, and decision-making that leads to new entry (entering new and existing markets) and has three aspects, namely innovation, being proactive, and daring to take risks) [10]. Entrepreneurial orientation is also a set of behaviors that include a willingness to take risks, innovation, proactiveness, autonomy, and competitive aggressiveness [11].

Entrepreneurial orientation refers to the process by which companies recognize an opportunity and act creatively to regulate transactions between factors of production to create surplus value [12].

### ***Entrepreneurial Competency***

Entrepreneurial competence involves a person's abilities and skills that can be used in running his business. So entrepreneurial competence can be in the form of knowledge, expertise, nature, mindset, and managerial ability.

Entrepreneurial competence refers to the unity of knowledge, skills, and abilities [9]. Competence can also be interpreted as a construct that shows managerial philosophy, organizational behavior, personal managerial abilities, and the nature of an entrepreneur [13]. Entrepreneurial competence is also defined as the main characteristics consisting of motives, traits, self-image, knowledge, skills, and social roles that affect the sustainability and growth of the business [14]. Entrepreneurial competencies are considered individual skills, traits, and self-image [15].

In addition, competence can also be interpreted as a set of attitudes, knowledge, and related skills that an entrepreneur needs to possess through managerial development and training, enabling them to produce better performance and maximize profits in business management. These entrepreneurial competencies consist of time management, marketing, business ethics, decision making, leadership, and financial management [16].

### ***Business Performance***

Business performance can refer to the results of business operations in a certain period. Business performance is a measure of business success because it directly reflects the results of all business operational activities. Business performance is how far a business reaches its financial and non-financial goals [17]. Moreover, business performance is the result of the business activities of the business as measured by its resources [18].

Business performance is also considered the company's ability to achieve sales and profit targets and a non-financial perspective on competitors [19]. Performance is the level of achievement of business achievements from a certain period [20]

Business performance has several indicators: profitability, growth, market value, customer satisfaction, employee satisfaction, environmental performance, and social performance [21]. So, business performance is the overall ability and business results in meeting the company's financial and non-financial objectives, such as profitability, revenue, and market satisfaction.

The approach to be taken is to use the theory of Resource-Based View (RBV). This theory said that resources must be valuable, rare, least imitable, and organizational or abbreviated as VRIO [5]; this model can be achieved if individuals have certain abilities and competencies within themselves, in this case, are competencies and entrepreneurial orientations [22]. Based on the above explanations, the following hypotheses were proposed.

### ***Entrepreneurial Orientation and Business Performance***

To become an entrepreneur, we need to be proactive rather than reactive to face the complexities and uncertainties of the market in the future. Creativity and innovation are important in developing an entrepreneurial orientation.

The similarity and consensus between researchers on these two variables showed a positive relationship. This equation is likely to occur because entrepreneurs need the right entrepreneurial orientation to improve business performance. It turns out that financial institutions have a better entrepreneurial orientation so that they show better business performance [9].

**H1:** Entrepreneurial orientation has a positive influence on the business performance of Culinary MSMEs in Pasar Jambi.

### ***Entrepreneurial Orientation and Entrepreneurial Competence***

Competence is a set of knowledge and expertise that an individual can then use to run his business. So entrepreneurial competence can improve business performance because the right skills and experience allow entrepreneurs to face challenges and opportunities during difficult business times, especially during the Covid-19 pandemic.

Entrepreneurial competencies are characteristics such as knowledge of something specific, motivation, traits, self-image, social roles, and skills that lead to businesses' birth, sustainability, and growth [14]. Entrepreneurial competence is also the ability of MSME owners or managers to carry out their work and responsibilities smoothly, bringing their MSMEs to success and have better performance [23].

**H2:** Entrepreneurial orientation positively influences the entrepreneurial competence of Culinary MSMEs in Pasar Jambi.

### ***Entrepreneurial Competence and Business Performance***

Entrepreneurial orientation can increase entrepreneurial competence; this relationship is thought to be because entrepreneurial orientation provides the right focus for business development so that in order to develop a business, a person will continue to learn and develop his skills which then leads to the development of his entrepreneurial competence.

The development of entrepreneurial orientation leads to the development of entrepreneurial competencies, which can then be used for entrepreneurs to face business challenges [24]. In a study which was conducted on 337 MSMEs in Pakistan, showed a positive relationship between entrepreneurial orientation and entrepreneurial competence [9].

The dimensions of entrepreneurial orientation show a positive relationship to entrepreneurial competence. Moreover, the willingness to take risks has the most significant influence compared to the dimensions of creativity and innovation, proactive and autonomous.

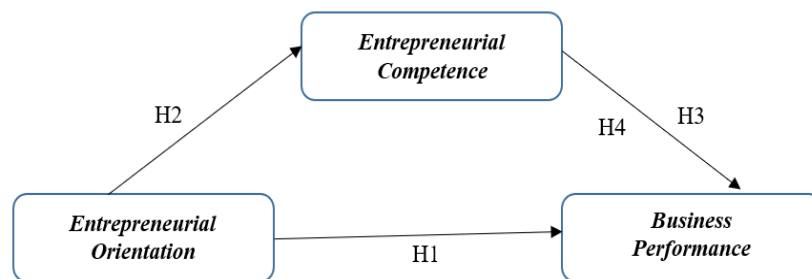
**H3:** Entrepreneurial competence positively influences the business performance of Culinary MSMEs in Pasar Jambi.

### ***The Mediating Effect of Entrepreneurial Competence***

Entrepreneurial orientation is a factor of entrepreneurial competence that enables good business performance. So far, there is still a lack of research that raises the indirect effect of entrepreneurial competence on entrepreneurial orientation and business performance.

Developing an entrepreneurial orientation and its aspects play an important role in developing entrepreneurial competencies. Moreover, small businesses have a tendency to be willing to take risks which has the most significant relationship with entrepreneurial competence. And businesses also need to be more creative and autonomous in order to be competent and able to survive in a dynamic environment [2].

**H4:** Entrepreneurial orientation positively influences the business performance of Culinary MSMEs in Pasar Jambi through entrepreneurial competence.



**Figure 1** Research Model  
Source: Author(s) own compilation

### **3. METHODOLOGY**

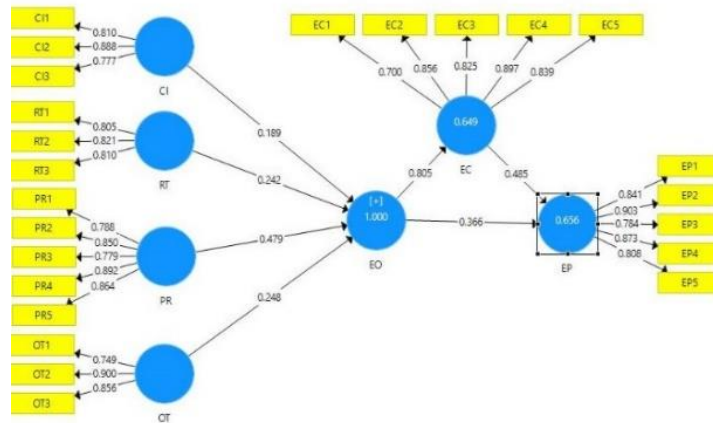
The population in this study is a culinary business located in Jambi. Purposive sampling is a research sample determination technique with certain considerations to make the data obtained more representative. The entrepreneurial orientation variable is measured in 4 dimensions, namely "creativity and innovation (3 items), willingness to take risks (3 items), proactive (5 items), and autonomous (5 items)" and entrepreneurial competence as mediating variable with Likert scale [25] [6].

### **4. DATA ANALYSIS**

Researchers have used various multivariate analysis tests based on the literature above and the conceptual framework. Initially, a measurement model is developed using Partial Least Square program. After the measurement model, a structural model is developed to test the hypotheses and model fitness. Lastly, mediation analysis is done to find the indirect effects based on the structural model results.

**Analysis of Measurement Model**

Based on figure 2, which shows that the loading factor in this study has a value above or equal to 0.7, with the highest value by EP2, with a value of 0.903, and the lowest value by EC1 with a value of 0.700. Based on these results, the indicators in this study have met the requirements so that they can be said to be valid



**Figure 2** Loading Factor  
 Source: Author(s) own compilation

Based on Table 1, which has been presented, the test results show that the average variance extracted (AVE) in this research has a value above 0.5, so it can be said to be valid. Moreover, autonomous has the highest AVE value of 0.702, and entrepreneurial orientation has the lowest AVE value of 0.503.

**Table 1** Average Variance Extracted

Variable	Average Variance Extracted
Entrepreneurial Orientation	0.503
Creativity and Innovativeness	0.683
Risk Taking Propensity	0.659
Proactiveness	0.699
Autonomy	0.702
Entrepreneurial Competency	0.682
Business Performance	0.682

Source: Author(s) data analysis

The reliability test results are said to be reliable if the value of each indicator of Cronbach's alpha is greater than 0.6 and composite reliability has a value greater than 0.7. The following Table 2 shows the value of Cronbach's alpha, which is more than 0.6. So, it can be said that the research construct is reliable.



**Table 2** Cronbach's Alpha

Variable	Cronbach Alpha value
Entrepreneurial Orientation	0.923
Creativity and Innovativeness	0.766
Risk Taking Propensity	0.742
Proactiveness	0.891
Autonomy	0.785
Entrepreneurial Competency	0.883
Business Performance	0.897

Source: Author(s) data analysis

Table 3 shows the value of composite reliability, which is more than 0.6. So, it can be said that the construct of this research is reliable.

**Table 3** Composite Reliability

Variable	Composite Reliability
Entrepreneurial Orientation	0.933
Creativity and Innovativeness	0.866
Risk Taking Propensity	0.853
Proactiveness	0.920
Autonomy	0.875
Entrepreneurial Competency	0.914
Business Performance	0.925

Source: Author(s) data analysis

### *Analysis of Structural Model*

This study uses data analysis testing by testing the outer and inner models. The inner model consists of the coefficient of determination ( $R^2$ ), cross-validated redundancy ( $Q^2$ ), goodness of fit (GoF) test, path coefficient, and hypothesis testing.

The value of the coefficient of determination ( $R^2$ ) is used to assess the variance of the effect between the endogenous variables and the exogenous variables studied. The higher the value of  $R^2$ , the research model used can be said to be good. Below is presented Table 4, which shows the coefficient of determination test ( $R^2$ ) results from this study.

**Table 4** Coefficient of Determination ( $R^2$ )

Variable	$R^2$ Value
Business Performance	0.644

Source: Author(s) data analysis

The result of the Cross-Validated Redundancy ( $Q^2$ ) test value is an assessment of the predictive relevance of the inner research model. The relationship variables in the study can be said to be relevant if the value of Cross-validated Redundancy ( $Q^2$ ) is greater than 0. Table 5 shows the results of the Cross-validated Redundancy ( $Q^2$ ) test, which shows a value of 0.451. This can be interpreted that the relationship of the variables used in this study is relevant.

**Table 5** Cross-Validated Redundancy ( $Q^2$ )

Variable	$Q^2$ Value
Business Performance	0.451

Source: Author(s) own compilation

Based on Table 4, it can be seen that the value of the coefficient of determination ( $R^2$ ) is 0.644. Then, the value of GoF in this study is as follow:

$$GoF = \sqrt{0.644 \times 0.659} = 0.651$$

Based on the results of the GoF calculation above, where the results of the GoF calculation in this study are 0.651. So, it can be said that the model used in this study has high suitability for the research model.

**Table 6** Path Coefficient

	Path Coefficient	t-statistics	p-value
<b>EO - EP</b>	0.366	2.300	0.022
<b>EO - EC</b>	0.805	23.903	0.000
<b>EC - EP</b>	0.485	2.963	0.003

Source: Author(s) own compilation

**Table 7** Specific Indirect Effect

	Path Coefficient	t-statistics	p-value
<b>EO - EC -EP</b>	0.391	2.876	0.004

Source: Author(s) own compilation

Tests that have been carried out on the entrepreneurial orientation variable on business performance The path coefficient value between the entrepreneurial orientation variable and business performance shows a value of 0.366, which indicates a positive relationship between the entrepreneurial orientation variable and business performance. Entrepreneurial orientation helps businesses to become more competitive. Where an orientation consisting of creativity and innovation, being proactive, willing to take risks, and being autonomous is an attitude needed by an entrepreneur.



The results of tests on entrepreneurial orientation variable on the entrepreneurial competence of culinary SMEs in Jambi prove that H2 is accepted because the entrepreneurial orientation has a t-statistics of 23.903 and a p-value of 0.000. Furthermore, the path coefficient value is 0.805, which means the direction of this study shows positive results. The entrepreneurial orientation attitudes possessed by culinary SME business owners will align with the development of their entrepreneurial competencies. Because attitudes such as creativity, proactiveness, autonomy, and risk-taking make them learn and at the same time learn the competencies needed to develop their business [26].

Relation of entrepreneurial competency towards business performance has a t-statistics of 2.963 and a p-value of 0.003, and a path coefficient value of 0.485 which means the direction of this study shows positive results. So, through the data above, it can be said that the entrepreneurial orientation variable has positive significant effect on the business performance of culinary SMEs. The competencies possessed by entrepreneurs will be a tool for entrepreneurs to continue developing their businesses.

The mediating effect of entrepreneurial competency has a t-statistics of 2.876, a p-value of 0.004, and the path coefficient value is 0.391, which means the direction of this study shows positive results, and entrepreneurial competency is proven to have a mediating effect. This positive relationship is suspected because it is suspected that the increase in the business performance of culinary SMEs occurs due to the orientation of entrepreneurs in the form of expertise in the form of entrepreneurial competence, where entrepreneurial competence is indirectly a manifestation of their orientation.

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