

INFLUENCE OF ENTREPRENEURIAL ORIENTATION, MARKET ORIENTATION AND ABSORPTIVE CAPACITY ON BUSINESS PERFORMANCE

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ABSTRACT

MSMEs became the backbone of the Indonesian economy in 1998 during the crisis, so there is a need for special attention to aspects that can improve the performance of MSMEs. This research was conducted at Pasar Lama Tangerang MSMEs engaged in the food & beverage sector by examining several factors that affect MSME performance, namely entrepreneurial orientation, market orientation and absorptive capacity. In previous studies, there were differences in results from several researchers regarding the determinants of performance, so this study will fill the gap. The theoretical reference used in this study is RBV (Resource Based View) which explains that company success occurs when companies apply the VRIN principle (Valuable, Rare, Inimitable and Nonsubstitutable). The brief definition of the four research variables, namely market orientation is the ability of individuals to understand customers and face competitors. Then, entrepreneurial orientation is the ability of individuals to innovate, act proactively and take risks. Furthermore, absorptive capacity is an individual's ability to identify new things and apply them to business. Furthermore, MSME performance is the quality of services provided by businesses to achieve competitive advantage. The purpose of this study was to determine the effect of entrepreneurial orientation, market orientation, and absorptive capacity on the performance of MSMEs. The time horizon used in the study used cross section. The research questionnaire was made with google form and distributed directly to 85 respondents who were culinary MSMEs in the Tangerang Old Market. Sampling was carried out using non-probability sampling techniques with a purposive sampling approach. The data collected will be analyzed using the PLS-SEM method with the SmartPLS 4 software analysis tool. The bootstrapping results of this study indicate that entrepreneurial orientation, market orientation, and absorptive capacity each have a positive and significant effect on MSME performance.

Keywords: Market, Entrepreneur, Absorptive Capacity, Performance, RBV

1. INTRODUCTION

[1] explains that entrepreneurs are those who have a soul and use expertise to start a business as a solution to solving various problems in their environment. The performance of MSMEs is important to be considered by every business actor. MSMEs are known to have supported the Indonesian economy during the monetary crisis in 1998. MSMEs have good resilience when facing the monetary crisis at that time. MSMEs can turn the wheels of the Indonesian economy from the threat of high unemployment [2]. The monetary crisis is a country's financial crisis which is an obstacle for the country to grow on the economic side. Therefore, it is necessary for MSME players to continue to maintain their business performance so that it can be sustainable, which contributes to the Indonesian economy [3]. [4] stated that MSMEs were the main support during the monetary crisis in 1998. MSMEs are also able to boost creativity that is in line with efforts to sustain. Good MSMEs will continue to develop elements of tradition and culture of the local community.

[5] stated that based on the Central Statistics Agency (BPS), the number of people who were unemployed in Indonesia in February 2022 was 8.40 million. The percentage of the Open Unemployment Rate (TPT) in the February 2022 period had a percentage of 5.83 percent of the total working-age population, which amounted to 208.54 million people. The need for real efforts to reduce the unemployment rate is the provision of new jobs. SMEs can be a place for people who are unemployed or are looking for a decent job. Therefore, public awareness of entrepreneurship is needed to maximize business performance by expanding the business, such as opening branches that can provide increasingly widespread employment. [6] states that culinary MSMEs are the fastest to recover after Covid-19.

[7] states that according to KEMENPAREKRAF, culinary MSMEs are known to be a significant contributor to Indonesia's creative economy GDP. Data from KEMENPAREKRAF states that the culinary SME sector contributed IDR 455.44 trillion, which is 41% of the total GDP of the overall creative economy of IDR 1,134 trillion in 2020 which was able to absorb 9.5 million employees. This states the need for the presence of culinary SMEs in Indonesia. [8] reports that culinary SMEs are businesses that will never lack customers. Business actors who carry out the right strategy to deal with competitors and maximize service to customers will create value for these customers. In addition, food is a basic human need. The need for food, especially ready-to-eat food, will continue to be in demand by customers. This happens because of the increase in welfare and the busyness of society. Many people today need ready-to-eat food for practical reasons, where they can simply buy it and then consume it immediately.

Research conducted by [9] on 1008 business actors in 28 countries during the 2013-2015 period revealed that entrepreneurial orientation has a positive and significant effect on business performance. Business actors who master market orientation will apply market information to meet current and future customer needs and can face competitors with strategies that have been designed by business actors [10]. Absorptive capacity can also improve business performance. [11] state that absorption capacity refers to the ability of business actors to explore, understand, transform, and assimilate knowledge obtained from external sources. absorption capacity is seen from three dimensions, namely: Exploratory learning, transformative learning, and exploitation learning [11]. Therefore, absorption capacity is known as a company's way of identifying and acquiring external knowledge that can improve SME performance [11].

The MSME sector will be of more concern to researchers because MSMEs can sustain the Indonesian economy in the midst of the 1998 monetary crisis. The presence of MSMEs is also needed to reduce the percentage of unemployment and poverty in Indonesia. Based on this background, this thesis is entitled "The Effect of Entrepreneurial Orientation, Market Orientation and Absorptive Capacity on MSME Business Performance in Pasar Lama Tangerang".

The existence of a background, identification, and limitation of the problem, there are five points in the problem formulation, as follows: Does entrepreneurial orientation affect the business performance of culinary MSMEs in Pasar Lama Tangerang?, Does market orientation affect the business performance of culinary MSMEs in Pasar Lama Tangerang?, Does absorptive capacity affect the business performance of culinary MSMEs in Pasar Lama Tangerang?

In this research, the Resources Based View (RBV) theory is used which explains that different market positions are effectively generated to leverage heterogeneous corporate resources that are valuable, rare, inimitable and non-substitutable (VRIN: Valuable, Rare, Inimitable and Nonsubstitutable) to achieve and maintain a competitive advantage in the market [12].

In RBV, company resources refer to all assets, capabilities, organizational processes, company attributes, knowledge, and other factors controlled by the company that can be used to understand and implement strategies to achieve competitive advantage in the market [12]. In the Resource Based View (RBV) theory, firm resources refer to all tangible and intangible entities available to the firm (financial, physical, legal, human, organizational, informational, and relational) that enable it to efficiently and/or effectively produce market offerings to various market segments [12].

Resource Based View (RBV) helps identify the basic things that become the company's resources and capabilities to function as a source of sustainable competitive advantage [13]. Resource Based View (RBV) relates to the business environment through a review of the company's internal environment. The essence of this theory is that when a company's capabilities generate competitive advantage, it will add value to customers, introduce new products, or expand market share. [13] explain that business growth is triggered by applying entrepreneurial knowledge, configured as a resource to recognize opportunities; and managerial knowledge, reconstructed as a resource to exploit opportunities.

Entrepreneurial orientation as the processes, practices, and decision-making activities that lead to a tendency to act independently, a willingness to innovate and take risks, and a tendency to be aggressive towards competitors and relatively proactive towards market opportunities [9].

Market orientation is a set of entrepreneurial processes that refer to the behavior to enter a market or enter an established market with new or existing goods or services [14]. While, [15] define absorptive capacity as the ability of a business to ascertain the value of potential external information, integrate it, and then apply it for meaningful purposes. More, [16] defines business performance as the company's efforts to improve customer relationships, the quality of a service, customer engagement that increases the visibility and reputation of the company.

[9] research on 1008 family entrepreneurs in 28 countries during 2013-2015 revealed that there is a positive and significant effect of entrepreneurial orientation on business performance in family companies. Then, research conducted by [14] in his research on 171 MSME players in Ethiopia explained that the five dimensions of entrepreneurial orientation, namely: risk taking, proactive action, competitive aggressiveness and autonomy which are indicators of entrepreneurial orientation, each have a positive and significant effect on business performance. Furthermore, research by [17] on 218 family business owners in Spain found that there is a positive and significant effect of entrepreneurial orientation on business performance.

Research conducted by [14] in his research on 171 MSME players in Ethiopia explained that market orientation has a positive and significant effect on business performance. The research is supported by [18] research on 319 respondents who served as managers at the Pakistan Center of Philanthropy (PCP) company in Pakistan revealed that there is a positive and significant effect of market orientation on business performance. Furthermore, [19] in their research on 405 SMEs in the service and retail sectors in Thailand found that there is a positive and significant effect of market orientation on business performance. The study became the strongest influence when the absorptive capacity variable was added.

[15] in their research on 226 MSME actors in Sri Lanka explained that absorptive capacity has a positive and significant effect on business performance. Then, [20] in his research on non-star hotel entrepreneurs in Riau Islands stated that there was a positive and significant effect of absorptive capacity on business performance. Furthermore, the results of research by [17] on 218

family business owners in Spain revealed that absorptive capacity has a positive and significant effect on business performance.

Market orientation is known to improve business performance, business actors who have market orientation capabilities will be able to face competitors with competitive strategies and serve customer needs according to what each customer needs. Then entrepreneurial orientation also contributes to improving business performance, so that business actors who have the ability of entrepreneurial orientation will always innovate the products or services produced in terms of appearance (packaging) and taste. Business actors who master entrepreneurial orientation will act proactively by taking initiative, working hard and also taking full responsibility for every job they carry out.

In addition to market orientation and entrepreneurial orientation, one important factor that cannot be avoided is that business actors must master absorptive capacity. Business actors who master absorptive capacity will be able to absorb a lot of knowledge from both internal and external sources. Business actors with good absorptive capacity will be able to identify, assess, assimilate, and then utilize, new knowledge and be able to adopt or even outperform competitors who can create a company's competitive advantage.

Therefore, this study uses market orientation, entrepreneurial orientation and absorptive capacity as independent variables to test their influence on business performance as the dependent variable. The research model formed in Figure 1 is as follows:

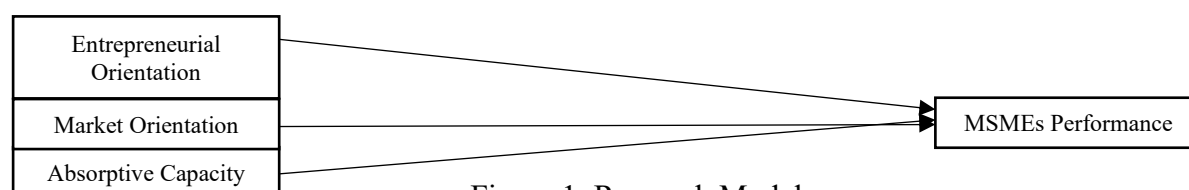


Figure 1. Research Model

Based on this model, the following hypothesis is formulated:

- H1: Entrepreneurial orientation has a positive effect on the MSMEs performance.
- H2: Market orientation has a positive effect on the MSMEs performance.
- H3: Absorptive Capacity has a positive effect on the MSMEs performance.

2. RESEARCH METHOD

[21] explain that research design is a framework for measuring, collecting, and analyzing the data obtained. [22] reveals that the research design is divided into two, namely: conclusive and exploratory research designs. This study uses a conclusive research design that is quantitative in nature. The research time horizon is divided into two, namely: cross sectional study and longitudinal study. This study uses a cross-sectional time horizon because the data obtained with one study only for approximately 1 month with a survey technique that uses a questionnaire distribution method to the intended respondents [21]. The sampling technique used in this study is non-probability sampling. [23] non probability sampling is a sampling technique that does not provide equal opportunities for each element or member of the population to be selected as a sample. the approach used is purposive sampling. This study criticizes the sample, namely, MSMEs in the culinary sector who run a business in Pasar Lama Tangerang for at least 2 years and with an income below or equivalent to IDR 25 million. The sample size used amounted to 85 people. The data obtained from the questionnaire will be given a weight of 1-5 in the form of a

Likert scale. The data made will be analyzed using the PLS-SEM method which the data will be processed using SmartPLS version 4 software.

First, processing is carried out on the outer model to test validity and reliability. Convergent validity is viewed from the outer loadings and Average Variance Extracted (AVE) values [24]. An indicator is declared valid in convergent validity if it produces a value > 0.7 on outer loadings, but in early stage research, a value of 0.5-0.69 is still tolerable [25]. Then the required AVE value is > 0.5 [26]. [27] explains that discriminant validity is reviewed from the results of the cross loadings value which is by comparing the outer loadings of indicators on their own constructs with the outer loadings of indicators on other constructs, if the construct itself is greater, the data obtained can be declared valid in discriminant validity. Reliability analysis. [26] requires that a construct can be declared reliable if it produces a Cronbach alpha and composite reliability value above 0.7, respectively, but it would be better if it ranges from 0.8-0.9.

Then, the inner model is used to test a formulated hypothesis. The strength of the correlation between variables is tested first before testing the hypothesis by looking at the R-square (R^2) value. [25] state three criteria for assessing R^2 , the first (0.75 - 1) is substantial / strong, the second (0.5-0.74) is moderate / moderate, the third (0.25-0.49) is weak. Then analyze the effect size (f^2). [26] The criterion for assessing f^2 is if it is 0.02 (small effect). However, if the value is 0.15 (medium effect). If the value is 0.35 (large effect), and if it is below 0.02, (no effect). Then the GoF (Goodness of Fit) value. According to [28] the assessment criteria if the GoF value of 0.01 is called GoF small, if the GoF value is 0.25 it is called GoF medium, and if the GoF value is 0.36 it is called GoF large. Then test the path coefficients. The path coefficient value has a range from -1 to +1, if above the number 0, the effect is positive, if below the number 0, the effect is negative [26]. Finally hypothesis testing. [26] states that the cut off value used for t-statistics is 1.96 and p-values 0.05 where the hypothesis will be accepted if the t-statistics value > 1.96 and p-values < 0.05 . And the hypothesis will not be accepted if the t-statistics value < 1.96 and p-values > 0.05 .

3. RESULTS AND DISCUSSIONS

By analyzing the data collected from questionnaire. This study uses 85 respondents, the majority of whom are male, then the majority are between 23 - 40 years old, then the majority run a food business, then the majority have a Bachelor's degree (S1) and the majority have a monthly income between IDR 5 million - IDR 9.99 million. The validity test results based on convergent validity with AVE and Outer Loadings > 0.5 and discriminant validity stated that all indicators used by the variables of entrepreneurial orientation, market orientation, absorptive capacity, and MSME performance are valid because the variables against their own indicators are greater in value than the variables against other indicators. Then reliability shows that all indicators used by the variables of entrepreneurial orientation, market orientation, absorptive capacity, and MSME performance are reliable with Cronbach's alpha and composite reliability above 0.7.

The R^2 test results obtained a result of 0.507 which explained that entrepreneurial orientation, market and absorptive capacity influenced the performance of MSMEs moderately.

The f^2 test results obtained results of 0.037; 0.062; 0.054 in each independent variable on MSME performance which explained that entrepreneurial orientation, market and absorptive capacity each had a small effect on MSME performance.

GoF obtained a result of 0.551 which indicates that the overall performance of the prediction model in terms of the level of fit between the inner model and the outer model has a large level of feasibility because it is above 0.36.

Path coefficients obtained results of 0.247; 0.277; 0.261 which shows that entrepreneurial orientation, market and absorptive capacity positively affect MSME performance.

This hypothesis is statistically accepted based on the results of the original sample value of 0.247 > 0, which means that the effect is positive. Then the t-statistics value of 2.001 is greater than 1.96 and the p-values of 0.045 are smaller than 0.05, which means significant. The results of this study are in line with the results of research conducted by [9]; [14]; [17]; [15] which explain that entrepreneurial orientation has a positive and significant effect on MSME performance. However, the results of this study are not in line with the research of [18]; [20] who found that entrepreneurial orientation has no significant effect on business performance. Entrepreneurial orientation has an influence in improving the performance of MSMEs. A good entrepreneurial orientation allows SMEs to maximize their performance. This refers to the readiness of MSME actors to innovate more on the products they sell so that they have good selling points in the eyes of customers. Being proactive is also one of the keys to success for MSMEs because by taking initiatives quickly for every event or new thing in the business, it will produce a good competitive advantage in the business being run. MSMEs must dare to take risks related to the courage to innovate continuously and dare to face uncertain situations and dare to act immediately in the face of every new thing which can ultimately improve the performance of MSMEs.

This hypothesis is statistically accepted based on the results of the original sample value of 0.277 > 0, which means that the effect is positive. Then the t-statistics value of 2.079 is greater than 1.96 and the p-values of 0.038 are smaller than 0.05, which means significant. The results of this study are in line with the results of research conducted by [14]; [18]; [19] which explain that market orientation has a positive and significant effect on the performance of MSMEs. However, the results of this study are not in line with the research of [29] which found that market orientation has no significant effect on business performance. Market orientation is a complex matter where there are many aspects that can influence such as the strategies used by competitors and customers. Many MSME players pay attention to the strategies applied to competitors and also pay attention to customer needs well. Paying attention to competitor strategies is one of the benchmarks for the success of the business currently being run, then customers who are well served will automatically be loyal to MSMEs and serve customers according to what customers currently need. This can maximize the performance of MSMEs.

This hypothesis is statistically accepted based on the results of the original sample value of 0.261 > 0, which means that the effect is positive. Then the t-statistics value of 2.241 is greater than 1.96 and the p-value of 0.025 is smaller than 0.05, which means it is significant. Increased absorptive capacity can improve the performance of culinary MSMEs in Pasar Lama Tangerang. The results of this study are in line with the results of research conducted by [15]; [20]; and [17] which explain that absorptive capacity has a positive and significant effect on the performance of MSMEs. However, the results of this study are not in line with the research of [30] which found that absorptive capacity has no significant effect on business performance. Absorptive capacity has an influence in improving the performance of MSMEs. The ability of high absorption capacity needs to be owned by MSME actors. Absorption capacity is a guarantee for the success of MSME actors in the business world with their skills in absorbing various new information sourced from internal and external sources. Assimilating and adapting to production technology is urgently needed at

this time, in order to maximize production and be able to serve customer demand quickly so that it can be ascertained that MSME actors who have good skills in absorption capacity can make their MSME performance increase rapidly.

4. CONCLUSIONS AND SUGGESTIONS

The results of data processing, theoretical references and previous research references state that:

- a. Entrepreneurial orientation has a positive and significant effect on the business performance of culinary MSMEs in Pasar Lama Tangerang.
- b. Market orientation has a positive and significant effect on the business performance of culinary MSMEs in Pasar Lama Tangerang.
- c. Absorptive Capacity has a positive and significant effect on the business performance of culinary MSMEs in Pasar Lama Tangerang.

Based on the conclusions that have been made, the following recommendations are formulated:

- a. Based on entrepreneurial orientation, MSMEs are expected to increase the value/benefit of the products they sell, and then maintain to keep doing the things needed for entrepreneurship such as continuing to innovate, act proactively, and have the courage to take risks.
- b. Based on market orientation, MSMEs are expected to increase their attention to the strategies used by competitors to serve as a reference in formulating strategies, then maintain good relations with customers by continuing to study and observe what current customer needs are.
- c. Based on absorptive capacity, MSMEs are expected to increase their absorption of new knowledge and insights to organize the businesses that have been established, then maintain their ability to develop business strategies.
- d. Based on the performance of MSMEs, it is hoped that MSMEs will increase promotion of the products sold so that businesses are increasingly recognized by many people, then maintain an increase in net profit margins every year.
- e. For further research, it is expected to add new variables that affect the performance of MSMEs, increase the research sample area, and also increase the respondents used in the study so that the research results can be generalized properly.

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