

THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION AND LEARNING ORIENTATION ON FIRM PERFORMANCE OF MSMEs IN WEST SUMATRA

Yulia Hendri Yeni
Andalas University, Indonesia

ABSTRACT

Previous studies consider different effect of relationship among EO, its antecedents and consequences. Investigation EO in a variety context such as different regions, cultures, economies and environments becomes a research priority to fully understand the nature and role of entrepreneurship. A majority study conducted in Small Medium Enterprises (SMEs) in developed countries with in western environment. This paper therefore, considers the effect of entrepreneurial orientation (EO), learning orientation (LO) and performance of Micro Small Medium Enterprises (MSMEs) in Indonesia. A quantitative approach is used to test three hypotheses. Empirical survey data collected from 144 owners of embroidery firms located in West Sumatera. Partial least square is employed to test the direct and indirect effects of EO and LO on firm performance. The paper provides evidence that EO is associated with LO and firm performance. In addition the result indicates LO is associated with performance. This research also suggests the relationship between EO and performance is mediated by LO. Regarding improving the performance, owners are suggested to implement EO and LO.

JEL Classification:

Keywords: Entrepreneurial orientation, learning orientation, firm performance, MSMEs, PLS

Corresponding Author's Email Address: yuliyeni@yahoo.com.au

INTRODUCTION

SMEs are generally recognized as the engine for economic growth, employment and recovery in most economies (Lowe et al 2010). In Indonesia, there are a large number of micro size firms. Certainly, MSMEs play a significant role in enhancing Indonesian economic growth. In West Sumatera, the majority of firm sizes are micro (84,42%) and small (14,85%). Dominant number of micro size firms need more consideration to strengthen them. Therefore, it is important to improve performance of MSMEs specifically to be exist in global market such as Asean Economic Community.

In SMEs context, there are abundance of studies suggest the contribution of strategic orientations on improving performance of (Hakala 2011). These orientations relate to market orientation (MO), customer orientation (CO), learning orientation (LO), technology orientation (TO) and entrepreneurial orientation (EO). The orientations are also expected will improve MSMEs' performance. However, there is a lack of research on interrelationships among elements of orientations, specifically the effect of EO, LO on performance of MSMEs.

The characteristics of MSMEs, such as the limitations of finance and marketing knowledge result in problems of implementing the strategic orientation that is used by large size firm (Gilmore et al 2001; Moriaty et al 2008; Reynolds 2002). In publish literature, the implementation of strategic orientation in term of EO and LO in MSMEs is still in discussion and not served by established theory. This paper seeks to address that gap by exploring the effect of EO and LO on performance. Four proposed research questions are: what is the relationship between EO and MSMEs' performance?, what is the relationship between LO and MSMEs' performance?, what is the role of LO in the relationship between EO and MSMEs' performance?, and what is the relationship between EO and LO?

The results of this research will provide important references to entrepreneurial marketing literature for the following reasons. First, this research provides the evidence from MSMEs. Second, this research conducted in developing countries within Asia culture such as Indonesia. Third, this research focuses on creative industry such as embroidery firms. Fourth, this research examines relationship between EO and LO that are remain understudied. Fifth, this research investigates the mediating effect of LO in the relationship between EO and performance.

LITERATURE REVIEW

Entrepreneurial Orientation

EO has been examined as a focus of entrepreneurship literature (Covin et al 2006). There are a variety of EO definitions. EO is also defined as the processes, practices and decision-making activities employed by entrepreneurs that lead to new entry and support entrepreneurial opportunities (Lumpkin & Dess 1996; 2001). Shane and Venkataraman (2000) signify EO as priorities chosen by the company in identifying and processing market opportunities. More recent study describes EO as a certain firm-level characteristics and management-related preferences and beliefs with regards to an organisation's overall business operations, its response to customers' needs and product offerings and interactions with competitors (Covin et al., 2006). This research utilized the definition proposed by Morris et al (1994) that consider EO as individual or organizational willingness to accept new opportunities and responsibility to have an influence on change. It is easier to describe to the respondents of this research.

A number of literature have been widely discuss the dimensionality of EO. Lumpkin & Dess (2001) argue EO consists of five dimensions such as autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. On the other hand Callaghan (2009) differentiate four dimensions of EO into: innovation, risk taking, aggressive competitiveness, pioneering and independence. However, this study follows opinion of Runyan et al. (2008) that suggest EO represents visible entrepreneurial tendencies toward innovativeness, proactiveness, and risk taking. These three dimensions is employed to operationalized the construct of EO (Covin & Slevin, 1989; Lumpkin & Dess 1996, Miles & Arnold, 1991; Miller 1983; Naman & Slevin, 1993; Wang 2008; and Altinay & Wang, 2011).

The three dimensions of EO are important factors to outform the competition and drives decision-making and behaviour to create new products, service, production method and step into new markets (Stevenson & Jarillo, 1990). Innovativeness concerns with tendency or willingness to seek creative and experiment solutions of problems (Covin & Slevin, 1989). Similarly, innovativeness focus on creativity and experimentation through the introduction of new products/services as well as technological leadership via R&D in new process (Miller, 1983; Covin & Slevin, 1989). Therefore, this dimension relate to supporting an idea that may promote to new product or process. Risk taking focuses on the degree willingness to make large and risky resource commitments (Lumpkin & Dess, 1996; Miller 1983). And proactiveness relates to shapping environment by an opportunity seeking and forward looking perspective by offering new products, technologies, administrative techniques rather than merely reacting to market change (Lumpkin & Dess, 1996). Similarly, proactiveness considers how organization anticipate and act on future by seeking new opportunities (Lumpkin & Dess, 1996; Miller & Friesen, 1978; Venkatraman, 1989,)

Learning Orientation

The definition of LO is extensive discussed in literature. According to Baker & Sinkula (1999). LO refers to acceptance of learning in organization which is represented by basic attitude towards learning (Rhee et al. 2009). LO represents the propensity of organization to learn and adapt by providing knowledge and skill training to the organization members (Mavondo et.al 2005). In more detail Hurhey and Hult (1998) emphases the effect of LO, which is known as the ability to enhance set of values of organizations, toward creating innovative ideas. LO is also defined as the generation and development of new insights changing behaviors (Huber, 1991; Slater & Narver, 1995). Shortly, LO concerns about adaptation and changing of value, attitude, behavior in relation to creating innovation. LO is, therefore, a source of competitive advantage (Farrell 2000).

LO operationalized as a multi-dimensional construct. Sinkula et al. (1997) conceptualized LO in three-dimensions of Commitment to Learning, Shared Vision, and Open Mindedness. Commitment to learning refers to the organization's consideration to acquiring new knowledge (Tajeddini, 2009). Sinkula et al. (1997) define commitment to learning as a value of organization that motivate a climate of learning. Similarly, commitment to learning represents the degree of organization values to promote a learning culture (Keskin 2006). Calantone et al. (2002), therefore conclude organization commitment to learning is important for survival. Shared vision focuses on internal communication that motivates all organization members having a sense of purpose and direction to learn (Baker & Sinkula, 1999; Sinkula et al., 1997). Shared vision will increase in the quality of learning (Calantone et al. 2002). Open mindedness reflects willingness to critically evaluate daily operations of organizations and to accept new ideas (Keskin 2006; Sinkula et al. 1997).

HYPOTHESES DEVELOPMENT

EO and Performance

The relationship between EO and firm performance has been highlighted theoretically (Covin & Slevin, 1991; Lumpkin & Dess, 1996) and empirically (Cassia & Minola 2012; Covin & Slevin, 1989; Lumpkin & Dess, 2001; Wang 2008; Wiklund & Shepherd, 2003). Most studies have discussed a high degree of EO has a positively effects on performance (Covin & Slevin, 1991; Eggers et al., 2013; Hult et al., 2004; Kraus, 2013; Lumpkin & Dess, 1996; Madsen, 2007; Soininen et al., 2012; Wang 2008; Wiklund, 1999; Wiklund & Shepherd, 2005). Previous studies have shown that firms which have an EO tend to be more successful (Lee & Peterson, 2000). However, EO has been studied predominantly in its relation to firm performance in western environment (Covin & Slevin, 1991). It is rarely in MSME context in Indonesia. Therefore, the following hypothesis is forwarded:

H1: EO has a positive influence on MSMEs' business performance

LO and Performance

The effect of LO toward firm performance in a variety context has received considerable attention of researchers (Barker & Sinkula 1999). Numerous studies have linked LO and firm performance (Baker & Sinkula, 1999; Zahra et al., 2000). Hurley & Hult (1998) find LO positively effect on the development of the firm and the achievement of superior performance. Eventhough, the effect of LO on performance also has been discussed using different firm performance (Baker & Sinkula, 1999; Calantone et al., 2002), most studies find The relationship between a learning organization and business performance has been found to be positive (Baker & Sinkula, 1999) in a variety environment.

As mentioned before, LO focuses on continuous learning and continuous improvement of efficiency (Baker & Sinkula, 1999; Hult et al., 2004). Therefore, LO directly relate to performance (Baker & Sinkula, 1999; Hult et al., 1999; Zahra et al., 2000). Thus, it is hypothesized that:

H2: LO has a positive influence on MSMEs' business performance

EO, LO and Performance

There is an extensive literature considers direct effect of each EO and LO with Performance in a variety context, such as in US service industries, non profit organizations, Chinese state owned companies and export venture (Barret et al 2005; Kropp et al 2006; Liu et al 2003). In general, previous studies have considered a positive effect of both orientation with performance. A number of empirical previous studies conducted in western environment and mostly in medium large size firms suggest a strong positive relationship between EO and a company's performance, however there is a missing link of LO in the examination of that association (Wang 2008). Wiklund & Shepherd (2005) explain the relationship among EO, LO and Performance may be more complicated than one simple direct effect. The study of Hakala (2011), Liu et al. (2002), Wang (2008) find LO mediates the relationship between EO and Performance. Hence, the following hypothesis is proposed:

H3: The positive influence of EO on MSMEs' business performance is mediated by LO

The relationship between EO and LO have rarely discussed by researchers and scholars. However, Ma'atoofi & Tajeddini (2010) examine 82 small firms in Tehran and find the significantly relationship between EO and the dimension of LO namely: commitment to learning, share vision and open mindedness. Therefore, it is the relationship between EO and LO. In addition, Hakaka (2011) explain LO focusses on the development and uses of knowledge and support the activities of EO. Considering and adapting previous studies to the MSME context, this study proposes the following hypothesis:

H4: EO has a possitive influence on LO

RESEARCH METHOD

A survey-based study to 144 owners of MSMEs is conducted to test four hypotheses. The self-reported data collected from judgment sampling of MSMEs owners located in four cities of Padang, Bukittinggi, Payakumbuh, and Pariaman, and four regencies of Lima Puluh Kota, Agam, Padang Pariaman, and Pesisir Selatan. These places have been chosen as they are popular with embroidery craft and represent a large number of MSMEs in West Sumatera.

A large proportion (73%) of respondents are 31-50 years. As expected, most respondents (81%) are female. Over 50% of respondents have completed senior high school. More than 40% respondents are involve actively in embroidery association and 56% respondents have taken marketing training. Based on firm size, 70% of respondents are from medium size firms and 43% respondents are small size firms. The majority of length of operation of firms are more than 5 years (82%). More than 27% firms have marketed their product to Malaysia, Singapore and Thailand.

The measurement employed in this research are using adopted various measures that previously used in different context. The primary variables and constructs considered in this study include: 1) entrepreneurial orientation (EO), 2) learning orientation (LO), 3) performance (OP). All constructs are measured using five point Likert scale ranging from 1= strongly disagree to 5= strongly agree. EO measure are adopted from popular contribution of Covin & Slevin (1989). EO is operationalized and measured by 10 items using three dimensions namely: Innovativeness (4 items), Proactiveness (2 items) dan Risk Taking (2 items). Eleven items of LO are adapted from Sinkula et al. (1997) and utilized by Baker & Sinkula (1999) and Wang (2008). This three dimensions of LO, namely commitment to learning (4 items), shared vision (4 items), and open-mindedness (3 items). Five items of Firm Performance adapted from Lumpkin & Dess (1996); Avlonitis & Salavou (2007); Wang (2008); and Benito et al (2009), namely sales growth, profit growth, new product, new market and customer growth.

A sample of 144 respondents is analyzed using a partial least square. A two step procedure is conducted in analyzing a data (Anderson & Gerbing 1988). Firstly, assessment of measurement model. The objective of assessment is show how the constructs are measured (Hair et al., 2014). Assessment of measurement model consists of validity and reliability assessment. Convergent validity and discriminant validity are used to assess the validity of measurement. Secondly, assessment of the structural model which represents how the constructs are related to each other and hypothesized in the research model (Hair et al. 2013).

RESULTS

Assessment of Measurement Model

This research measured three constructs: EP, LO, OP (Performance). Each construct was measured using a number of dimensions and indicators. Validity such as convergent and discriminant validity and reliability assessments were undertaken to ensure each construct exhibited good psychometric properties.

The first assessment is convergent validity which shows how measure correlates positively with alternatives measure of the same construct (Hair et al 2014). This assessment follows a criteria of 0.5 average variance extracted (AVE) and up to 0.70 outer loading (Chin 1998). However, 0.50-0.70 will be acceptable if AVE and communality bigger than 0.50. The output of initial convergent validity indicates that AVE and Communality of Open Mindedness (dimension of LO): 0.481 and Proactiveness (dimensions of EO):0.466 are lower than 0,5. Then the assessment of outer loading represents that EO4 (indicator of innovativeness): 0.162 and LO11 (indicator of open mindedness): 0.369 have to discarded and reestimate. After removal of discarded two indicators and reestimation of validity, AVE and Communality, of all indicators as reported in Table 1 are bigger than 0.50.

TABLE 1. OUTER MODEL – REESTIMATION

	AVE	Composite Reliability	R Square	Communality
CL	0,621446	0,867805	0,720984	0,621446
EO	0,514607	0,808575		0,514606
IV	0,611470	0,825214	0,899426	0,611470
LO	0,520939	0,896570	0,113755	0,520939
OM	0,671965	0,802319	0,524169	0,671965
OP	0,699613	0,920529	0,232294	0,699613
PR	0,692714	0,817101	0,419965	0,692714
RT	0,691814	0,813623	0,078703	0,691813
SV	0,662781	0,886967	0,824566	0,662781

In addition all indicators of measurement demonstrated high loadings, in the range of 0.638 – 0.968. Therefore, it concludes that all constructs exhibited acceptable convergent validity.

The measurement of research is also indicate the adequate of discriminant validity as reported as laten variable correlation in Table 2. According to Fornell & Lacker (1981) the inter construct correlation of each construct is less than the square root of AVE (which appears diagonally in Table 2).

Besides validity asesment, composite reliability for all indicators and constructs are also tested. Table 1 shows the composite reliability values are, above the recommended critical value of 0.70, ranging from 0.81 to 0.92 (Hair et al., 2010). The result indicated that composite reliability is confirmed.

TABLE 2. LATEN VARIABLE CORRELATION

	EO	LO	OP
EO	0,7174		
LO	0,3373	0,7218	
OP	0,4213	0,3625	0,8364

Assessment of Structural Model

The objectives of asesment of structural model which is call as inner model testing is to see whether four hypotheses are supported by the data or not. The results of structural model asesment also involve examining the model's predictive capabilities and relationship between construct (Hair et al. 2013). In inner model testing, this research firstly evaluate R-Square of dependent construct. The result shows that R-Square of LO= 0.1138 and OP= 0.2322. It indicates that EO is able to explain 11.38% of LO and 23,22% of OP. The rests of LO and OP are explained by other independent variables that are not discussed in this research, such as: market orientation, technological orientation, etc. Next step is testing of significant value of path relationship among laten variables that demonstated by Table 3.

TABLE 3. INNER MODEL

	Original Sample (O)	T Statistics (O/STERR)
EO -> OP	0.337367	3.602700*
EO -> LO	0.337275	3.381986*
LO -> OP	0.248740	2.536918*

*) Significant at α 0.05 (T-value greater than 1.96)

Source: Analysis of survey data

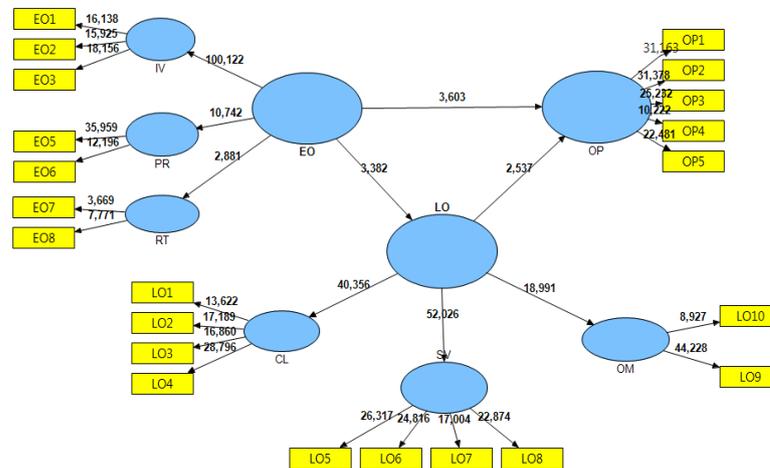
Table 3 shows that all values of original sample are bigger than 0. It indicates that the correlation among construst are positive. T statistics demonstrates the value of path coffisients of corelation among constructs. The result of all path coffisients are greater than 1.96 ensures that significant level of all assosiation among construct. The result of hyphteses testing also can be seen in Figure 1.

In detail testing of 4 hypotheses can be seen in Table 4. EO, LO that are tested in structural model have an impact on OP (performance). T Statistics (|O/STERR|) relationship EO-OP : 3.603 and LO-OP: 2.537 are above 1.96. Therefore, H1 and H2 are supported. Similarly, H4 which explores the relationship EO-LO is supported, because the value of T Statistics (|O/STERR|) (3.382) bigger than 1.96. Regarding testing of the influence of LO in the relationship between EO and OP (H3), the result shows the path coefficient value of direct influence EO and OP is 3.603 , EO-LO= 3.382 and LO-OP= 2.537. The indirect influence of EO-OP is $3.382 * 2.537 = 8.5801$. Therefore, H3 is supported because the path coefficient value indirect influence bigger than direct influence.

TABLE 4. SUMMARY OF HYPOTHESES TESTING

Hypotheses	Statements	Results
H1	EO has a positive influence on MSMEs' business performance	Supported
H2	LO has a positive influence on MSMEs' business performance	Supported
H3	The positive influence of EO on MSMEs' business performance is mediated by LO	Supported
H4	EO has a possitive influence on LO	Supported

FIGURE 1. ASESSMENT STRUCTURAL MODEL



CONCLUSION

This paper explores four research questions. Four conclusion are made from the findings. First, this research concludes that EO links significantly and positively with MSME's performance. In other words, a high level of EO includes innovativeness, proactiveness and risk taking leads to improve MSME's performance. This finding is consistent with Covin & Slevin (1991); Lumpkin & Dess (1996;2001); Wang (2008); Wiklund & Sherpherd (2005). Second, the research finding demonstrates a high level of LO leads to strengthening performance. Because, LO has positive influence on performance. This finding supported by Baker & Sinkula (1999); Hult et al (1999) and Zahra et al. (2000). Third, LO positively influence the relationship between EO and MSME's Performance. It is in line with the studies of Hakala (2011; Liu et al (2002) and Wang (2008). Last, this finding shows the existence of positive and significant influence of EO toward LO. In other words, through concentrating on innovativeness, proactiveness and risk taking the firms lead to strengthen Commitment to Learn, Share Vission and Open Mindedness. This finding related to prious studies (Hakaka, 2011; Ma'atoofi & Tajeddini 2010). In general, these findings imply the importance of EO and LO in improving performance of sales volume, profit growth, new product success, new market and customer satisfaction. These findings suggest MSME's owners have to implement entrepreneurial orientation interm of Innovatines, proactiveness and risk taking. It also important for owners to develop learning Orientation and focus on Commitment to Learn, Share Vission and Open Mindedness. However, some limitations of this study have considered for future research. This study focuses on MSME size of embroidery industry and employsa cross sectional research design. It is also suggest the future research to use other statistical tools to examine the model.

ENDNOTES

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APPENDIX. MEASURE

ENTREPRENEURIAL ORIENTATION

Inovativeness

1. In general, the top manager of my company favor a strong emphasis on R&D technology leadership, and innovations
2. Many new lines of products or services has your company marketed during the past 3 years
3. Changes in product or service lines have been: quite dramatic

Proactiveness

4. In dealing with its competition, my company: Typically responds to actions which competitors initiate
5. In dealing with its competition, my company: is very often the first business to introduce new products or service, administrative techniques, operating technologies, etc
6. In dealing with its competition, my company: typically adopts a very competitive, "undo-the-competition" posture.

Risk Taking

7. In general, the top managers of many have : a strong proclivity for high-risk projects (with chances of very high returns)
8. In general, the top managers of my company believe that : owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives

LEARNING ORIENTATION

Commitment to Learning

1. Managers basically agree that our organization's ability to learn is the key to our competitive advantage.
2. The basic values of this organization include learning as key to improvement.
3. The sense around here is that employee learning is an investment, not an expense.
4. Learning in my organization is seen as a key commodity necessary to guarantee organizational survival

Shared Vision

5. There is a commonality of purpose in my organization.
6. There is total agreement on our organizational vision across all levels, functions, and divisions.
7. All employees are committed to the goals of this organization.
8. Employees view themselves as partners in charting the direction of the organization.

Open Mindedness

9. We are not afraid to reflect critically on the shared assumptions we have made about our customers.
10. Personnel in this enterprise realize that the very way they perceive the marketplace must be continually questioned.
11. We continually judge the quality of our decisions and activities taken over time

Organizational Performance

1. In the last three years, our product volume increasing significantly
2. In the last three years, our profit increasing significantly
3. In the last three years, our new product can be success in the market
4. In the last three years, we can entry new market place (regional, national, international)
5. In the last three years, our customer number increasing that can see from the satisfy customer with replied buying