

Entrepreneurial Orientation and Market Orientation in Business Performance of SMEs: An Exploration of the Impact on E-Commerce Adoption

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ABSTRACT

In the industrial era of 4.0, digital and physical changes are inevitable, as well as for Small and Medium Enterprises (SMEs). The majority of SMEs in Jambi Province have not conducted digital technology as marketing strategy for the expansion of their market share. The purposes of this research were: (1) analyzing the impact of entrepreneurial orientation on SMEs' business performance, (2) analyzing the influence of market orientation with e-commerce adoption towards SMEs' business performance (3) interpreting the e-commerce adoption and market orientation impacts on SMEs' business performance. The research design uses the mix method of qualitative and quantitative. The data was collected in form of primary and secondary data. The data analysis technique used Structural Equation Model (SEM) by using SmartPLS3 program. Samples of this study consist of 250 SMEs who had already used digital e-commerce technology in Jambi Province. The result of data analysis indicated that there was a significant influence of entrepreneurial orientation, market orientation and e-commerce adoption on SME's business performance in Jambi Province. We believe that entrepreneurial orientation, market orientation and e-commerce adoption model in this study will have positive implication in both managerial and academic aspects.

Keywords: business performance, e-commerce, entrepreneurial orientation, market orientation, SMEs.

1. INTRODUCTION

Business performance is the benchmark for the success of businesses (Westerberg and Joakim, 2008). The orientation of entrepreneurship is one among the factors that affect the business performance of SMEs (Octavia et al., 2012; Ibrahim, 2013; Ginta, 2014). Mahmood and Hanafi (2014) found that entrepreneurial orientation and business environment are the factors affecting business performance. Other factors such as management skills and business strategy as well as environmental factors also become the antecedent towards the improvement of business performance in Small and Medium Enterprises (SMEs). Many research results provided a conclusion about the difficulty of SMEs to develop rapidly among others: (1) The difficulty of market access, (2) The lack of access to capital and banking, (3) The limitation of technological mastery, (4) The difficulties of raw materials and (5) The limitation of network. However, these limitations for some SMEs do not become a barrier to success in business. Based on interviews with some successful SMEs, the strong willingness to progress and innovation capability are some important requirements for SMEs to succeed.

The development of such high technology today (in the Era of Industrial Revolution 4.0) demands the Small and Medium Enterprises (SMEs) to be able to adapt to such changes and developments. In 2018, the number of SMEs in Indonesia reached 62.92 million business units or 99.92% of the total business units in the country. The SME's

contribution to GDP in Indonesia reached 60% as well as the manpower absorption of 116.73 million people or 97.02% of the total workforce. More than 36% of SMEs in Indonesia are still offline, only 37% have very basic online capabilities such as computers or broadband access, and only about 18% have intermediate online capabilities i.e. using website or social media. Meanwhile, only less than one-tenth or 9% was advanced online business with e-commerce capabilities (<http://liputan6>, 2019).

The development of business in Jambi Province is still dominated by Small and Medium Enterprises (SMEs). In 2017, the number of SMEs in Jambi Province reached 19.27% spread in 11 regencies or cities. Merangin Regency, Bungo Regency and Tebo Regency were three areas with SMEs numbers close to 10% in this Province.

The overall percentage can be seen in Figure 1 as follow:

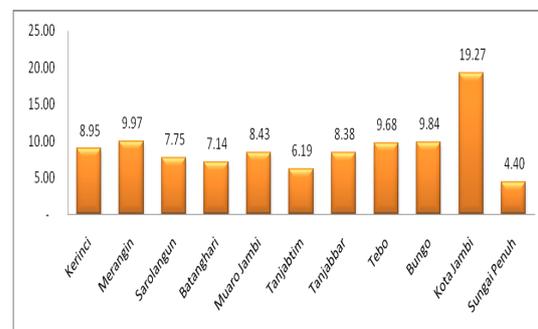


Figure 1. The Percentage of SMEs in Jambi Province, 2017

SMEs are organizations that involve the overall economic factors, which are demanded to be more flexible, adaptive and innovative, so that they have great opportunity to use e-commerce (Rao et al, 2003). Abebe (2014) researched that SMEs who involved in entrepreneurial orientation in their organizations are more able to improve their business performance through the ability to adopt e-commerce and digital technology. Nowadays, the SMEs' ability to use internet technology is still weak and this become one among the factors why many SMEs avoid the use of e-commerce strategy. The majority of Small Business Enterprises (SBEs) have not benefited from the development of digital technology. In fact, the economic potential of SMEs in Indonesia is very high. The government programs to introduce SMEs with online transactions has not been balanced with intensive mentoring to SMEs to be able to adopt e-commerce as their marketing channel strategy.

Another factor that need to be considered is that not all SMEs' products can be marketed through e-commerce especially for those that are damaged quickly and not durable if they have to be marketed to a remote sales location. In addition, privacy and security factors also need to be considered (Juste and Milyung, 2016). The most important thing to note is the company's image and brand as a key factor in the success of utilizing internet media (Jahanshai et al, 2014). The following researches by Shemidan Procter, 2018; Sulivan and Kim, 2018; Ghobakhloo et al, 2015, concluded that for SMEs there are most important factors to increase sales by using e-commerce, that are trust and commitment as well as innovation. The country's culture is also an important factor in the utilization of e-commerce (Hallikanean and Laukkanen, 2018).

The global economic continues to conduct a massive transformation in technology, so SMEs must also adapt to the changes. The involvement of SME digitally can increase economic growth by 2%. In fact, SMEs predictably can have a revenue growth between 23%-80%, if they are skilful in utilizing digital technology. Currently, SMEs that use internet services are close to 4 million, while in 2020 the government predicts it to be 8 million. Moreover, the growth of internet users in Indonesia is high, which was about 143.26 million in 2016. It is predicted in 2030, that Indonesia will become the fifth economic power after China, United States, India and Japan, when the digital economy is applied. This fact suggests that the use of e-commerce could increase SMEs' revenues, but these opportunities have not been utilized by them as they are still faced with various obstacles or weaknesses. This research will answer the major research problem i.e. whether utilizing digital technology using e-commerce can improve SMEs' business performance. Furthermore, this research will also reveal the impact of entrepreneurial orientation on SMEs' business performance, through e-commerce adoption by SMEs as marketing strategy.

2. RESEARCH METHOD

The methods used in this research combined the qualitative and quantitative approach. The qualitative approach was conducted by using Focus Group Discussion (FGD) and literature studies. The quantitative approach was conducted through surveys, interviews and observations. A quantitative approach was used to analyse the relationship model among entrepreneurial orientation, e-commerce implementation and SMEs' business performance. The population in this research is Small and Medium Enterprises (SMEs') that have been utilizing digital e-commerce technology in Jambi Province. Samples of the research was amounted to 250 SMEs.

The analysis tool was SEM by using PLS (Partial Least Square) software. The measurement of SEM with Smart PLS consists of outer model and inner model. The evaluation of structural models or inner models aims to predict the relationship between latent variables by observing the magnitude of the variance percentage described by the value of R-Square and the T-statistics value in Path Coefficients.

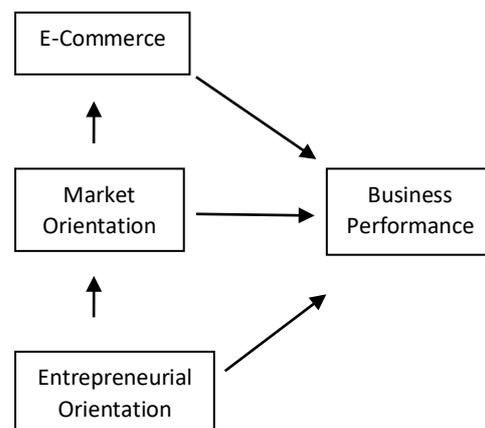


Figure.2: Research Model

3. RESULTS AND DISCUSSION

Respondents in this study were divided into several segments. 42% of respondents were less than 31 years old. The average level of education was 46% for senior high school level. 55.2% of respondents had more than 10 years of business experience. 56.4% of current respondents' job positions were the owners and business founders. The type of business of 60.4% respondents were in fashion business and most had the employees averagely about 5-10 people.

Table 1. Measurement Value

	AVE	Composite Reliability	Cronbach's Alpha
E-Commerce	0.646	0.942	0.931
Business Performance	0.606	0.884	0.835

Entrepreneurial Orientation	0.527	0.908	0.886
Entrepreneurial Market	0.384	0.870	0.836

The AVE for e-commerce and business performance and entrepreneurial orientation is above 0.5. This means that all two variables met the defined measurement criteria. Meanwhile, entrepreneurial market variables value is below 0.6. The cut-off point result indicates the marginal variable. The next stage of data analysis needs to be done.

Research construct is stated to be reliable if the composite reliability value is greater than 0.7. Based on the data, it can be observed that all variables suit the measurement value. The values of Cronbach's Alpha revealed that all variables in this study had reached the measurement criteria for reliability test. It can be said that the entire variables in the study met the criteria of reliability composite value, which is greater than 0.7. So, it can be concluded that the research constructs had good reliability. Moreover, those all variables met the score of reliability. The higher the score, the greater the degree to which the firm is entrepreneurial oriented (Covin and Slevin 1989). The lower the score, the greater the degree to which a firm is conservatively oriented.

Table 2. Total Effect

	Original Sample	Stdev	T-Stat	
EC → BP	0.275	0.123	2.232	Supported
MO → EC	0.744	0.039	18.841	Supported
EO → BP	0.474	0.065	7.245	Supported
EO → MO	0.693	0.039	17.334	Supported
MO → BP	0.512	0.128	3.978	Supported

The standard deviations of all variables were less than 1. It described that the respondents had a various assessments on the Entrepreneurial Orientation (EO), Market Orientation (MO) and E-Commerce (EC) Adoption to Business Performance (BP) among SMEs in Jambi Province. The regression construct with formative to evaluate the outer model showed the significance value of T-statistics greater than 1.96.

3.1 E-Commerce Adoption to Business Performance

Computer technology is also used for sales, in which one among the internet facilities to make online sales is known as e-commerce terms. Online sales or e-commerce is an application and business process that connects the stores and consumers through electronic transactions and can assist the store in marketing the product maximally. Based on this research results, there was a positive influence of e-commerce variables on business performance, with t-value

of 2.232 in the e-commerce variable, which means that e-commerce significantly affected business performance.

E-commerce is not merely a mechanism of selling goods or services through the internet media, but more of a business transformation that changes the ways of companies in conducting their business activities. By utilizing e-commerce information about the products or services, SMEs sales generation can be conveyed widely. In SMEs, the adoption of e-commerce also has an impact on the increase of sales turnover and can facilitate consumers in accessing products and prices. Mazarol (2015) researched that digital technology, specifically the Information and Communication Technology (ICT), and their application to e-commerce, e-business and e-marketing had a significant impact on business at global level. In this system, there are several advantages in form of the information about types of SMEs and products sold, as well as the information that can be accessed quickly and accurately, so that the buying and selling process will be easier. The results of this study showed a positive influence of e-commerce on the improvement of business performance, so that it is highly recommended for SMEs who have not used e-commerce to apply this technology to their business. For SMEs who are currently using e-commerce should further improve the service to enhance the business performance more optimally. There is a need of assistance to SME actors in the utilization of digital technology. Thus, Mazarol (2015) suggested that the ability of ICT adoption and its use that have significant influence on SMEs' performance and competitiveness is likely to depend on the firm's ability to adequately train employees in the use of such systems.

3.2 Entrepreneurial Orientation to Business Performance

The entrepreneurial orientation and its relationship to business performance has been an interesting topic of research in decades. Richard *et al* (2009) reviewed that prior studies had empirically examined the independent effect of entrepreneurial orientation on performance, its contingent relationships with the external environment and organizational factors such as strategy, strategic processes, financial resources and knowledge-based resources. Lumpkin and Dess (1996) defined entrepreneurial orientation as a process, training and decision-making action that leads to the way of something new. The result showed that there was a positive influence of entrepreneurial orientation variable towards business performance. A positive t-value of 7.245 in the entrepreneurial orientation variable gives a meaning that entrepreneurial orientation significantly affected the business performance. Previous empirical research also supports the premise of a positive relationship between entrepreneurial orientation and business performance. This is in line with the research results of Octavia (2006) which stated that entrepreneurial orientation and market orientation have positive relationships with organizational performance. Al-Mahmun (2017) reviewed that

entrepreneurial activities lead to the discovery of potential opportunities and initiating economic function by forming a new venture. The role of entrepreneurship becomes an important component of economic development and is significantly important by using many ways such as: identifying and exploring business, updating a business or creating new business.

In the SME context, the entrepreneurial orientation demonstrates a strong connection to SMEs' performance. This is because SMEs have the ability to respond quickly to threats and business opportunities. This capability becomes the primary capital of SMEs to continuously maintain and improve their performance. Theoretical link between entrepreneurial orientation and business performance can be inferred from the literature (Richard, et al, 2015).

In addition, SMEs are very creative in existing market opportunities, so that they can continue to survive in a variety of conditions. This advantage is not owned by large corporations. Thus, it can be said that SMEs are able to survive in business competition when they have entrepreneurial behaviour such as pro-activation or being able to quickly respond to threats and take advantage of available market opportunities, dare to take the risks on business odds, and continue to innovate on the products and services provided to customers. Therefore, the behavioural orientation of entrepreneurship (autonomy, persistence, risky courage, competitive courage and innovation) is what affects the company's performance.

3.3 Market Orientation to Business Performance

Market orientation is a business perspective that makes consumers as a focus of attention in the whole Company's activities, (Cravens and Piercy, 2006). This is in line with the opinions of Kohli and Jaworski (1993) that the market orientation is: (i) studying market developments; (ii) sharing information with all members of the company; and (iii) adapting to the market changes that occurred.

In this study, data analysis result indicated a positive influence of market orientation on business performance. A positive t-value of 3.978 in the market orientation variable means that market orientation significantly affected business performance. Some research results have proven a strong link between business performance and market orientation (Matsuno et al., 2002). The result of these study that tested the causal relationship between market orientation and organizational performance concluded that market orientation has an influence on organizational performance (Jaworski and Kohli, 1990; Matzuno et.al, 2002). The research results of Ahmedova (2015) also found a significant influence of marketing orientation on the company's financial performance.

In SMEs, market orientation provides a better understanding of the environment. SMEs that adopt market orientation can meet the needs of customers in a better way (Grainer and Padanyi, 2005). The characteristics of companies that implement market orientation can be seen

from how much they understand to meet the needs of current and future customers and use their ability to offer solutions that are superior to the needs of competitors (Slater and Narver, 2000). The capability of SMEs to understand customers, competitors, to perform good coordination among overall management functions in order to gain profit, can make SMEs able to achieve maximum business performance. Moreover, Azis and Omar (2011) reviewed that market orientation is important to firms because of it has a positive association with business performance and it is seen as a form of innovative behavior among SMEs. Those all empirical studies have supported this research, so that all hypotheses in this study has been completely proven.

4. CONCLUSION AND SUGGESTION

4.1 Conclusion

1. Entrepreneurial orientation, market orientation and e-commerce adoption have significant influences on the improvement of SMEs' business performance
2. Entrepreneurial orientation and market orientation are business perspectives that make consumers as focus of attention in the whole organization activities including SMEs in Jambi Province, Indonesia.
3. To implement the entrepreneurial orientation and market orientation by e-commerce adoption will improve the business performance of SMEs in Jambi Province.

4.2 Suggestion

1. SMEs in Jambi Province must be managed well to increase its competitiveness. SMEs should be strengthened for being entrepreneurial-oriented and market-oriented as well as e-commerce-adopted, so they can have a culture to understand the needs of customers and transmit them to everyone in the company in order to be customer-oriented. Longitudinal studies would help to explain better the casual relationship among entrepreneurial orientation, market orientation, e-commerce adoption, and business performance.
2. There must be the role of governments, academics and related institutions to assist SMEs in adapting to the utilization of technology. There should be programs that are geared towards reinforcement from the technological side. The program is not only related to providing the equipment, technical and management assistance, but also related to strengthening the motivation of SMEs Entrepreneurs to develop in particular orientation to meet the wishes from the market.

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