

THE ROLE OF ENTREPRENEURIAL ORIENTATION AS A MEDIATING EFFECT OF THE CHARACTERISTICS AND CULTURE OF SMALL-SCALE INDUSTRIES ON THE PERFORMANCE OF SMALL-SCALE INDUSTRIES IN PASURUAN

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Abstract: Many of small-scale clothing industries in East Java that develop from a home scale. Gradually these industries turned into a business-oriented craft industry and then managed to penetrate the market in Jakarta, Bandung, Surabaya, and some major cities in Sumatra, Kalimantan and Sulawesi. Not simply to meet the local needs, but most crafters have successfully exported their products to Japan, America, the Netherlands and European markets. Based on the explanation above, this study aims to clarify how the factors of organizational culture of small-scale business levels and the characteristics of small-scale business affect entrepreneurship and performance. In this research, the analysis used to test the above-mentioned hypotheses was the analysis of Structural Equation Modeling (SEM) using Sobel Test approach to examine the mediation among variables. This study used the technique of proportional cluster random sampling, in addition proportional based on the Master of the regency/ city. This study employed a sample of 135 small-scale clothing business situated in Pasuruan City. These research findings that entrepreneurial orientation mediates the relationship between the characteristics of small-scale industries and the culture of small-scale industries on the performance of these small-scale industries. The results of this study can provide an input for the actors of small-scale business and the regional government of Pasuruan to make policy related to the model for the development of small-scale industries.

Keywords: Home Scale Industries, Entrepreneurial Orientation, Development Industries.

1. INTRODUCTION

The economic crisis can be a positive boost for the output growth of Small-Scale Business. These positive effects are obtained through the labor market (*labor market effects*) due to the growth in the number of business units, the number of new workers and entrepreneurs, especially in Small-Scale Business, due to the large number of

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workers in the formal sector in either Large-Scale Business or Medium-Scale Business affected by layoffs. Due to the pressure to maintain life, many former employees who then perform any economic activity that can be done with the capital and other resources they own at the time, including opening their own Small-Scale Business or working in others' Small-Scale Business that can still operate (Tambunan, 2002: 13).

Another positive encouragement from the supply side is the emergence of Large-Scale Business that wishes to do business with either the Small-Scale Business and the Medium-Scale Business. As a result of the increased overhead cost and production cost caused by the depreciation in the exchange rate of rupiah against US dollar causing import prices in rupiah become very high, forcing the Large-Scale Business to reconsider its business strategy, which one of the amendments is to perform a strategic alliance with either Small-Scale Business or Medium-Scale Business, for an example, through the subcontracting system (Tambunan, 2002: 13).

Small-scale industries are part of the driving forces for the economy of Indonesia. They require special attention to grow and develop among the giants of economic actors. There are at least three reasons underlying the need in developing small industries today. First, industries absorb more workers and use local natural resources. Moreover, since many of these industries are located in rural areas, the growth of small-scale industries will lead to a positive impact on employment, reduction in poverty, equity in income distribution and economic development in rural areas. In short, the development of small-scale industries is a strategy to survive (*survival strategy*) rural communities amid economic turmoil and financial crisis. Second, industries play an important role in non-oil exports, which in 1990 reached USD 1,031 million, or was ranked second only to the export of various industries. Third, the urgency to build a strong foundation for the structure of the economy. (Mulyadi, 2001: 493).

Fostering and empowering Small-Scale Business have been carried out frequently, by institutions of the government or of the private sector that concern with the development of small-scale business. However, the efforts to foster Small-Scale Business often overlap and are carried out separately. Different perceptions about this Small-Scale Business in turn make the efforts to foster Small-Scale Business still fragmented or sector-oriented, where each fostering institution puts an emphasis on their own sector or field of fostering. As a consequence, the following effects occur: (1) ineffective direction of the fostering attempts, (2) the absence of a uniform indicator of success, because each fostering institution attempts to reach targets and objectives in accordance with the criteria that they have set on their own.

Many of small-scale clothing industries in East Java that develop from a home scale. Gradually these industries turned into a business-oriented craft industry and then managed to penetrate the market in Jakarta, Bandung, Surabaya, and some major cities in Sumatra, Kalimantan and Sulawesi. Not simply to meet the local needs, but most crafters have successfully exported their products to Japan, America, the Netherlands and European markets.

Based on the explanation above, uncertainty still exists in the factors that affect or interact with entrepreneurship in creating performance. This study aims to clarify how the factors of organizational culture of small-scale business levels and the characteristics of small-scale business affect entrepreneurship and performance.

2. PREVIOUS RESEARCH

Previous studies have focused on the internal and external environment of an organization as a determinant factor of entrepreneurship. This study focuses on the characteristics of an organization that is also seen as having an effect on entrepreneurship. Organizational characteristics according to the research by Antoncic (2000: 44) have indicators such as openness of communication, control mechanisms, organizational support and management as well as organizational values.

Mohr and Spekman (2004: 47) also affirm that strategic planning has not been widely implemented by small enterprises because they have neither staff nor time to engage in strategic planning. Davidsson et al. (2001: 277) in his study also notices that simple strategies such as changing the composition of sales or market position of a company will be more widely applied than the combined strategies that are more complicated in nature. Therefore, Covin and Slevin (2001: 102) suggest that entrepreneurs or Small-Scale Business owner-managers to consider their formal or informal business plans as a process. These business plans are intended to understand and respond to the context of the business operating environment. The capability to understand strategically is useful for understanding the context of the business environment and serves as a medium of interactions between a company and its environment. By having the capability to understand strategically, a company may be more sensitive in identifying weaknesses and strengths in its planning process within the scope of the Small-Scale Business market that is usually uncertain and complex.

Miller (1983) states that entrepreneurial orientation positively affects performance in relation to the strengths of parties that are able to exploit the opportunities that arise. Mowery and Silverman (1999) deliver the same view that entrepreneurial orientation contributes to the performance that is defined as a pluralistic measure which is a combination of several components that include growth and financial performance, so that the courage to take risks, innovation, a proactive and aggressive stance to compete will make a company able to beat its competitors.

There has been no consensus on the appropriate performance measurement for small-scale industries and research tends to investigate variables that are easy to collect information rather than focuses on important variables. (Cooper (1995) in Mowery and Silverman (1999)). Some researchers use growth as the most appropriate measurement for small-scale industries. (Brown, 1996; Brush & Vanderwer, 1992; Chandler & Hanks, 1993; Fombrun & Wally, 1980; Tsai, Mac Millan & Low, 1991). They argue that growth is a more accurate and easier indicator of performance to achieve than accounting measures. In the present study, business performance uses

measures as research on entrepreneurship that have been conducted (Zahra, 1991) growth include: (1) sales growth, employee growth, sales growth compared with competitors as well as market growth, (2) profitability

3. HYPOTHESES

The hypotheses to be tested in this study include

1. Characteristics of Small-Scale Industries significantly affect Performance of Small-Scale Industries through Entrepreneurial Orientation.
2. Culture of Small-Scale Industries significantly affect Performance of Small-Scale Industries through Entrepreneurial Orientation.

4. RESEARCH METHOD

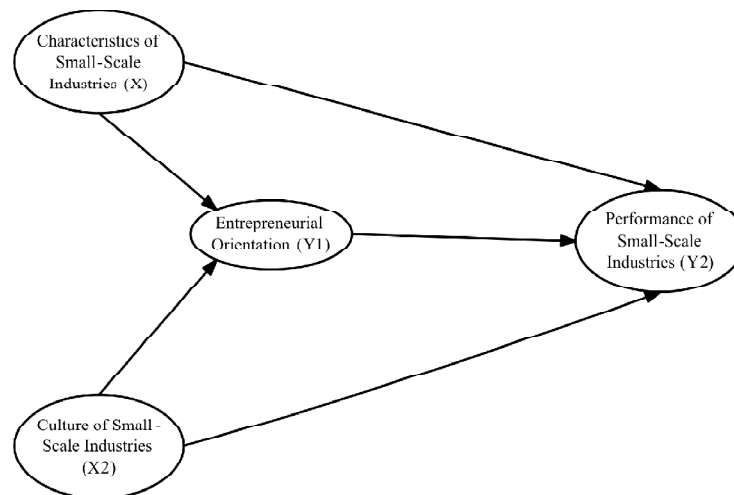
4.1. Data Analysis

In this research, the analysis used to test the above-mentioned hypotheses was the analysis of Structural Equation Modeling (SEM) using Sobel Test approach to examine the mediation among variables. This study examines the effects of the Characteristics and the Culture of Small-Scale Industries on the Performance of Small-Scale Industries through Entrepreneurial Orientation as a mediating variable. The analytical tool used was the Structural Equation Modeling (SEM).

4.2. Research Scope

Basically, this is a study that investigate factors that influence the success of business in small-scale business, especially the small-scale business engaged in clothing

Figure 1: The Research Model



industries; in this study it is called Small-Scale Clothing Business. Kertlinger (2000) states that a research design means the plan and structure of investigation arranged in such a way that researchers will find answers to research questions.

This study was limited in terms of the scope to test and analyze the effects of individual characteristics of entrepreneurs, entrepreneurship and the culture of small-scale industries on the ability to run business as well as to attain business success in order to reveal the factors that determine the success of the Small-Scale Clothing Business. This study employed primary data and secondary data collected cross-sectionally.

4.3. Sample

The sample was composed of some members selected from the population which were then used to draw conclusions related to the population under study (Wibisono, 2000). This study used the technique of proportional cluster random sampling, in addition proportional based on the Master of the regency/ city. This study employed a sample of 135 small-scale clothing business situated in Pasuruan City and this sample is expected to be more able to represent the population.

4.4. Data Source

The data of this study were obtained from Small-Scale Business entrepreneurs in Pasuruan City in 2014.

5. RESULTS FOR HYPOTHESIS TESTING

Here are the complete testing results for the mediation of Entrepreneurial Orientation on the effects of the Characteristics of Small-Scale Industries on the Performance of Small-Scale Industries:

Table 1
The Mediation of Entrepreneurial Orientation on the Effects of the Characteristics of Small-Scale Industries on the Performance of Small-Scale Industries

<i>Relation among Variable</i>	<i>Coefficient</i>	<i>P-value</i>	<i>Explanation</i>
Characteristics of Small-Scale Industries (X1) → Entrepreneurial Orientation (Y1)	0.427	0.005	Significant
Characteristics of Small-Scale Industries (X1) → Performance of Small-Scale Industries (Y2)	0.052	0.647	Insignificant
Entrepreneurial Orientation (Y1) → Performance of Small-Scale Industries (Y2)	0.495	0.001	Significant
Characteristics of Small-Scale Industries (X1) → Entrepreneurial Orientation (Y1) → Performance of Small-Scale Industries (Y2)	0.211	0.034	Significant

Origin: Primary Data Processed, 2014
 Presented in a graph as follows:

Figure 2: The Structural Model Based on the SEM for the Mediation of Entrepreneurial Orientation

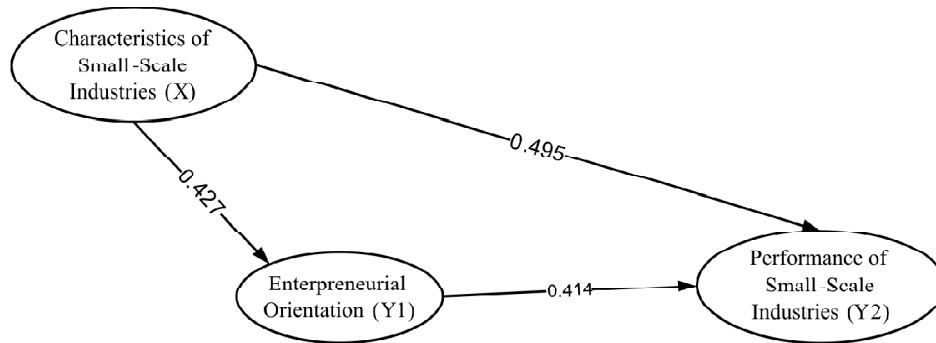
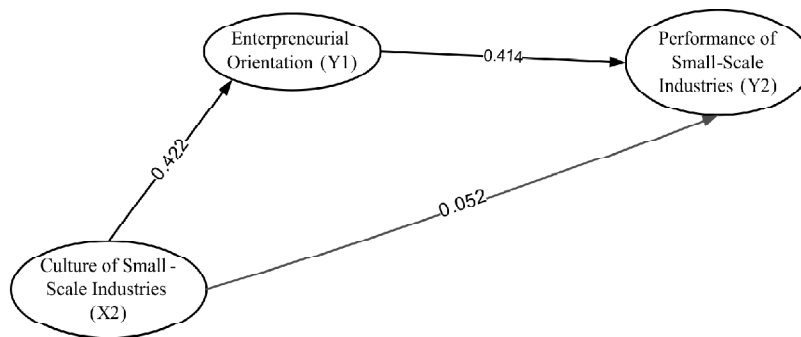


Table 2
The Mediation of Entrepreneurial Orientation on the Effects of the Culture of Small-Scale Industries on the Performance of Small-Scale Industries

<i>Relation among Variable</i>	<i>Coefficient</i>	<i>P-value</i>	<i>Explanation</i>
Culture of Small-Scale Industries (X2) → Entrepreneurial Orientation (Y1)	0.422	0.004	Significant
Culture of Small-Scale Industries (X2) → Performance of Small-Scale Industries (Y2)	0.414	0.001	Significant
Entrepreneurial Orientation (Y1) → Performance of Small-Scale Industries (Y2)	0.495	0.001	Significant
Characteristics of Small-Scale Industries (X1) → Entrepreneurial Orientation (Y1) → Performance of Small-Scale Industries (Y2)	0.211	0.034	Significant
Culture of Small-Scale Industries (X2) → Entrepreneurial Orientation (Y1) → Performance of Small-Scale Industries (Y2)	0.209	0.031	Significant

Origin: Primary Data Processed, 2014
 Presented in a graph as follows:

Figure 3: The Structural Model Based on the SEM for the Mediation of Entrepreneurial Orientation



The results of SEM analysis related to the indirect effects of the Characteristics of Small-Scale Industries (X1) on the Performance of Small-Scale Industries (Y2) through Entrepreneurial Orientation (Y1) using the Sobel Test generate the Sobel test coefficient of 0.211 with a significance value of 0.034. Since the significance value is <0.05 ($0.034 > 0.05$), it can be concluded that there is a significant indirect effect between the Characteristics of Small-Scale Industries on the Performance of Small-Scale Industries through Entrepreneurial Orientation. This means that the higher the value of the Characteristics of Small-Scale Industries, the higher the Performance of Small-Scale Industries, if the value of Entrepreneurial Orientation is also high. This findings also indicates that the higher the Characteristics of Small-Scale Industries, the higher the Performance of Small-Scale Industries, if the value of Entrepreneurial Orientation also increases. It means that the variable *Entrepreneurship* is significant for mediating the effects of the Characteristics of Small-Scale Industries on the Performance of Small-Scale Industries.

The results of SEM analysis related to the indirect effects of the Culture of Small-Scale Industries (X1) on the Performance of Small-Scale Industries (Y2) through Entrepreneurial Orientation (Y1) using the Sobel Test generate the Sobel test coefficient of 0.209 with a significance value of 0.031. Since the significance value is <0.05 ($0.031 > 0.05$), it can be concluded that there is a significant indirect effect between the Culture of Small-Scale Industries on the Performance of Small-Scale Industries through Entrepreneurial Orientation. This means that the higher the value of the Culture of Small-Scale Industries, the higher the Performance of Small-Scale Industries, if the value of Entrepreneurial Orientation is also high. This findings also indicates that the higher the Culture of Small-Scale Industries, the higher the Performance of Small-Scale Industries, if the value of Entrepreneurial Orientation also increases. It means that the variable *Entrepreneurship* is significant for mediating the effects of the Culture of Small-Scale Industries on the Performance of Small-Scale Industries.

This study builds on the theories of management, entrepreneurship clearly describes the management theories. Henry Fayol's initial thoughts on management state that managers carry out a number of functions such as planning, organizing, staffing, budgeting, coordination and control (Cunningham and Lischeron, 1991.51).

Management theories which explain that an entrepreneur (entrepreneur) is a person who organizes or manages a business with risks for a profit (Cunningham and Lischeron, 1991.51) describe another aspect of an entrepreneur in addition to the aspects related to risk-taking, entrepreneurial functions that include supervising, controlling, and directing of a company. The concept of entrepreneurship can be defined by comparing it with the management concept such as diversification, capabilities, organizational learning and organizational innovation (Antoncic, 2000, 17).

The diversification strategy that can be seen as a reflection of an organizational strategy which tries answering questions related to an organization's business is supposed to be where most of the diversification is driven by synergies or the needs

of the organization of the existence of products/ markets related to resources. Referring to the concept of entrepreneurship in relation to the strategy diversification is a change in the focus of diversification, especially in the terminology of product introduction of new markets (Antoncic, 2000, 17).

Entrepreneurial orientation is the desire of an organization to promote and to support creativity, flexibility and risk considerations. Lumpkin and Dess (2001: 432) distinguish between entrepreneurial orientation and entrepreneurship. They stated that entrepreneurial orientation shows entrepreneurial processes and answers the question of how an activity (job) is executed, on the contrary the term *entrepreneurship* has something to do with the contents of the entrepreneurial decision by asking what to do. The finding showed that the entrepreneurial orientation mediates the relationship between the characteristics of small-scale industries and the culture of small-scale industrial on the performance of the small-scale industries. The results of this study can provide an input for the actors of small-scale business and the regional governments of Pasuruan to make the policy related to the development model of small-scale industries.

6. CONCLUSIONS

Based on the analysis given the previous section, the following can be summarized. First, the Characteristics of Small-Scale Industries (X1) indirectly affects the Performance of Small-Scale Industries (Y2) through Entrepreneurial Orientation (Y1). Second, the Culture of Small-Scale Industries (X1) indirectly affects the Performance of Small-Scale Industries (Y2) through Entrepreneurial Orientation (Y1).

These research findings contribute to the field of management science especially that relates to entrepreneurial strategies of organizations mainly related to organizational culture, that entrepreneurial orientation mediates the relationship between the characteristics of small-scale industries and the culture of small-scale industries on the performance of these small-scale industries. The results of this study can provide an input for the actors of small-scale business and the regional government of Pasuruan to make policy related to the model for the development of small-scale industries.

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