

The Effect Of Entrepreneurial Orientation, Management Capability, Environmental Dynamic To The Business Strategy And Performance Of Small And Medium Industries (SMIS) (Study On The Small And Medium Industries Of Sasirangan In South Kalimantan)

Maskur^{1*} Endang Siti Astuti² Suhadak² Zainul²

1. Student at Doctoral Program of Business Administration, Faculty of Administration Science, Brawijaya University, East Java, Indonesia
2. Lecture of Business Administration, Faculty of Administration Sciences, Brawijaya University Malang, East Java, Indonesia

* E-mail of the corresponding author: maskursariman@yahoo.co.id

Abstract

This study aims to examine and explain the effect of entrepreneurial orientation on the business strategy and performance of SMIs, the effect of management capabilities to business strategy and performance of SMIs as well as the influence of environmental dynamics of the business strategy. The subjects were the business actors in the three districts which are located in Province of South Kalimantan: Banjarmasin City, Banjarbaru City and Martapura City that do business on Small and Medium Industries (SMIs) of Sasirangan. There were 86 employers as the samples and population in this study. Technical analysis in this study employed descriptive analysis and inferential statistics, namely the Generalized Structured Component Analysis (GSCA). The results showed that there were seven hypotheses; in detail 6 hypotheses have significant effect and 1 hypothesis produces not significant effect. The hypotheses that produce significant influence on the entrepreneurial orientation are the management capabilities, environmental dynamics and business strategies on the performance of SMIs and entrepreneurial orientation and dynamics of the environment on the business strategy. The hypothesis that does not produce significant effect is the management capability on the business strategy.

Keywords: SMIs, performance of SMIs, business strategy

1. Introduction

Small and medium industries (SMIs), also well known as small and medium enterprises (SMEs), are form of entrepreneurship. Entrepreneurship business reaches all activities in private sector business from big and small business, governmental institution, and state-owned enterprises. The development of the small and medium industries is undoubtedly very important in several countries, both developed and developing countries. This is because SMIs play an important role in economic development. The development of SMIs in Indonesia itself has increased by an average growth of 3.19 percent annually in the time of 1998-2012; this development indicates that the role of SMIs in economic development continues to increase significantly and has become the backbone of economic development due to the large concentration of businesses activities in this sector. The development of SMIs in Indonesia has experienced significant improvements, including the business actors of SMIs in South Kalimantan province, particularly sasirangan industry.

There are several factors that may affect the size of the production value of a business, which are the capability of business management to follow the changes in the environment, the values of entrepreneurship, finance, and other external factors such as macro economic environment, government policies and regulations, not excepting the availability of physical infrastructure which is significant on the economic growth. Storey (1994) emphasized the personal attributes of the owner or manager of that any kinds of entrepreneurial orientation form in the business has a strong influence in the formulation and implementation of business strategies in order to improve or enhance its competitive position. McGrath (1999) suggested that the companies with entrepreneurial orientation may potentially produce variations of performance which are more profitable in the long term, if it is integrated with its strategies.

In addition to the entrepreneurial orientation, the management capability is one of competences that must be mastered by the business actors, the management capabilities include innovation, bold decision making and proactive (Gurbuz & Aykol, 2009). According to Wai and Kuan (2011), the entrepreneurship is the key to how the

decision-making process is done properly with precise calculations and logical reasoning, in other words, solid management is the key to success. In the era of globalization, the competitive advantage of one company is determined by the business environment factors (external); the environment is considered as an unpredictable and dynamic condition and it keeps changing, and it may create both opportunities and challenges for the companies (Miles et al., 2000; Porter, 2005; Hashim et al., 2001).

Business environment that focuses on the dynamics of the environment could be conceptualized as a rapidly changing environment and discontinuous on market demand, competitors, technology and regulation, so that the information is often inaccurate or unavailable (Bastian & Muchlish, 2012). Furthermore, Hashim et al. (2001) identified the presence of uncertainty of the environment and high competitive intensity; so in order to face the dynamics of the environment it may encourage the company to act as an entrepreneur. This is demonstrated through the implementation of innovation and the courage to take risks in business activities (Gurbuz & Aykol, 2009). This explanation is supported by (Bastian & Muchlish, 2012; Mohd et al., 2013; Jiao et al., 2013) who explain that there is a relationship between the business environment, business strategy and corporate performance.

The development of SMIs sasirangan in the province of South Kalimantan, within 2011 and 2012, showed a very promising progress, and by the year 2012 there had been approximately 101 SMI business units; besides to increase the opportunity of the domestic markets for sasirangan industries, it is also beneficial for each region of province of South Kalimantan particularly city of Banjarmasin continually strives to make sasirangan industry as a competitive advantage possessed by the local community. Given the importance of the implementation of entrepreneurial orientation in achieving competitive advantage and business success, then SMIs need to develop the entrepreneurial orientation in their business activities, and also how to use this orientation as the basis of the formulation and implementation of strategies in the business competition. Zhi and Jintong (2012) indicate that the company with entrepreneurial orientation becomes antecedents for the implementation of business strategy, when applying the entrepreneurial management through innovations, dare to take risks and being proactive in any business activities, then they tend to be more appropriate to apply a strategy to deal with the increasingly dynamic business environment and turbulence. Based on the results of empirical studies, the majority of owners of SMIs do not have the management capability, due to the low educational background. Most SME owners do not have education background even from higher education, but they only have their own experience and the legacy of their parents. In general, the planning on doing business is only for the short term purposes and the majority of the business is carried out only to meet the financing needs of daily life of the owners and the employees.

Some of empirical studies found that the management capability is significantly influential to the business performance in small industry and manufacturing (Chi et al., 2011; Wai & Kuan, 2011; Dani et al., 2013). This is also confirmed by Chi et al. (2011) who explain that the management capability, if supported by a wide range of good and proper knowledge, it will be able to improve the performance of the small businesses and manufacturings. Ursic and Mulej (2005) however expressed a different opinion that management capability does not significantly affect on the business performance directly. Business strategies have a significant effect on the performance (Parnell, 2010; Hashim et al., 2001; Mohd et al., 2013; Hsu, 2012; Li & Tan, 2013), not in line that Xiaoying et al., (2008); Zhi & Jintong (2012) who state that the business strategy is not significantly influential on the business performance.

Based on several studies mentioned above, it can be concluded that this study is different with the previous studies, such as research Teck (2012) who has examined two variables which are variables business strategy and business performance of SMEs, Hashim et al. (2001) who has examined three variables, namely variables of dynamics of the environment, variabel business strategy and variable business performance of SMEs, Dani et al., (2013) who examined four variables, namely variable entrepreneurial orientation, variable management capabilities, variable business performance and variable business performance. In this study, researchers examined five variables, namely variable entrepreneurial orientation, variable management capabilities, variable dynamics of the environment, variable business strategy and variable performance of SMIs.

A review of previous studies related to the study found the difference in the results or research gap, among other the studies that examined the effect of entrepreneurial orientation on the business performance, the study that evaluated the effect of business performance on the management capabilities, the study that examined the effect of the dynamics of the environment on the performance, and the study that examined the effect of business strategies on the business performance..

2. Research Method

This study employed quantitative approach (positivism) as the data were gathered through the survey which was presented in the form of numbers. The data were then analyzed statistically. This study was also a cross-sectional research because, in the same time, the assessment was also conducted based on the perception and information from the owners or entrepreneur respondents. The data analyzed in this study were based on the research instruments which were distributed directly to all respondents amounted of 86 respondents, but only 83 inquiries from the respondents or 96.51% from all the data were reliable to be analyzed in this study. The data in this research were then analyzed by using descriptive analysis and inferential statistics, namely the Generalized Structured Component Analysis (GSCA). Before the tests of the hypotheses using gesca software, it was necessary to do a test of linearity with SPSS software to determine the linearity of the relationship between the two variables. The variables in this study consist of three exogenous variables, namely: entrepreneurial orientation, management capabilities and dynamics of environment; and for the endogenous variables are namely business strategy and performance of SMIs.

3. Finding and Discussion

Test results of test of linearity showed that the overall relationship between the two variables in this study was linear. Furthermore, the hypothesis testing was conducted through GSCA analysis technique which showed that one of the seven hypotheses that produced no significant effect. To determine whether a structural model was good, it can be seen from the FIT and AFIT in Table 1 as follows:

Table 1. Goodness of Fit Model

Fit Model	
FIT	0.598
AFIT	0.583

Source: data processed, 2014

Based on Table 1, it can be seen that the model was good as it was proven by the inner goodness of fit model values obtained FIT = 0.598. It indicates that the model can explain the influence of several variables (model on the conceptual framework) to variable performance of 59.8%. AFIT (Adjusted Fit) served to show a comparison of the models. If the model has the largest AFIT, it was considered as a good model to choose. As presented in Table 1, it was known that AFIT in this study has a diversity of models that can be explained by a model study by 58.3%. Based on these results, the AFIT generated by the model is good. Furthermore recapitulation hypothesis testing is shown in Table 2 as follows:

Table 2. The result of hypothesis testing

No	Influences among variables	Estimate	SE	CR	Information
1	Entrepreneurial orientation -> Business strategy	0.215	0.051	4.22*	Significant
2	Entrepreneurial orientation -> performance of SMIs	0.250	0.030	8.30*	Significant
3	Management capability -> Business strategy	0.275	0.168	1.63	Not Significant
4	Management capability -> performance of SMIs	0.029	0.007	4.28*	Significant
5	dynamics of environment -> Business strategy	0.378	0.011	34.46*	Significant
6	dynamics of environment -> performance of SMIs	0.073	0.028	2.64*	Significant
7	business strategy -> performance of SMIs	0.571	0.032	17.99*	Significant

CR* = significant at .05 level

Source: data processed, 2014

In Table 2 it is known that there are six of seven hypotheses gave significant influence, namely entrepreneurial orientation on the business strategy, entrepreneurial orientation on the performance of SMIs, management capability on the performance of SMIs, dynamics of environment on the business strategy, dynamics of

environment on the performance of SMIs, and business strategy on the performance of SMIs. There is one hypothesis that produced no significant influence that was the management capability on the business strategy. Here are the results of the testing of the direct effect, indirect effect and the total effect as it is shown in Table 3 below.

Table 3. The result of the testing of the direct effect, indirect effect, and the total effect

Influences among variables	Direct Effect	Indirect Effect	Total Effect	Information
Entrepreneurial orientation > Business strategy > performance of SMIs	0.250*	0.123*	0.373*	Significant
Management capability > business strategy > performance of SMIs	0.029	0.157	0.186	Not Significant
dynamics of environment > business strategy > performance of SMIs	0.073*	0.216*	0.289*	Significant

Information: *= significant at α 5%

Source: data processed, 2014

Based on Table 2 and 3, it is known that the direct influence of entrepreneurial orientation (X1) on the business strategy (Y1) was of 0.215 and CR = 4.22 * (significant), and the direct influence of business strategy (Y1) of the performance of SMIs (Y2) of 0.571* and CR = 17.99* (significant). For direct influence entrepreneurial orientation (X1) on the performance of SMIs (Y2) of 0.250* and CR = 8.30 * (significant). The number of coefficient of indirect effect of entrepreneurial orientation (X1) on the performance of SMIs (Y2) through the mediation of business strategy (Y1) is 0.123 (significant) and the total effect of 0.373. Because all significant direct path coefficient (hypothesis 1 and 7), the indirect effect entrepreneurial orientation (X1) on the performance of SMIs (Y2) through the mediation of business strategy (Y1) is proven significant. This proves the hypothesis 1 and 2 are received.

The direct influence of management capability (X2) on the business strategy (Y1) was of 0.275 and CR = 1.63 (not significant), while the direct influence of business strategy (Y1) on the performance of SMIs (Y2) was amounted to 0.571* and CR = 17.99 * (significant). For the direct influence of management capability (X2) on the performance of SMIs (Y2) was amounted to 0,029* and CR = 4.28 * (significant). The number of coefficient of indirect influence of management capability (X2) on the performance of SMIs (Y2) through mediation business strategy (Y1) was 0.157 (not significant). Due to the direct influence of management capability (X2) on the business strategy (Y1) was not proven as significant, then the hypothesis 3 is rejected, while the direct influence of management capability (X2) on the performance of SMIs (Y2) was proven to be significant, the hypothesis 4 is accepted.

The influence of the dynamics of environmental (X3) on the business strategy (Y1) was of 0.378* and CR = 34.46* (significant), while the direct influence of business strategy (Y1) on the performance of SMIs (Y2) was amounted to 0.571* and CR = 17.99* (significant). For direct influence of the dynamics of environmental (X3) on the performance of SMIs (Y2) was of 0.073* and CR = 2.64* (significant). The indirect number of coefficient influence of the dynamics of environmental (X3) on the performance of SMIs (Y2) through the mediation of business strategy (Y1) was 0.216 (significant) and the total influence was of 0.289. Because all of the coefficient of direct path the indirect influence of the dynamics of environmental (X3) on the performance of SMIs (Y2) through the mediation of business strategy (Y1) was proven to be significant. This proves that the hypotheses 5 and 6 are accepted.

Based on Tables 2 and 3, the diagram model for the testing of hypotheses in the form of path diagram is presented on Figure 1 as follows:

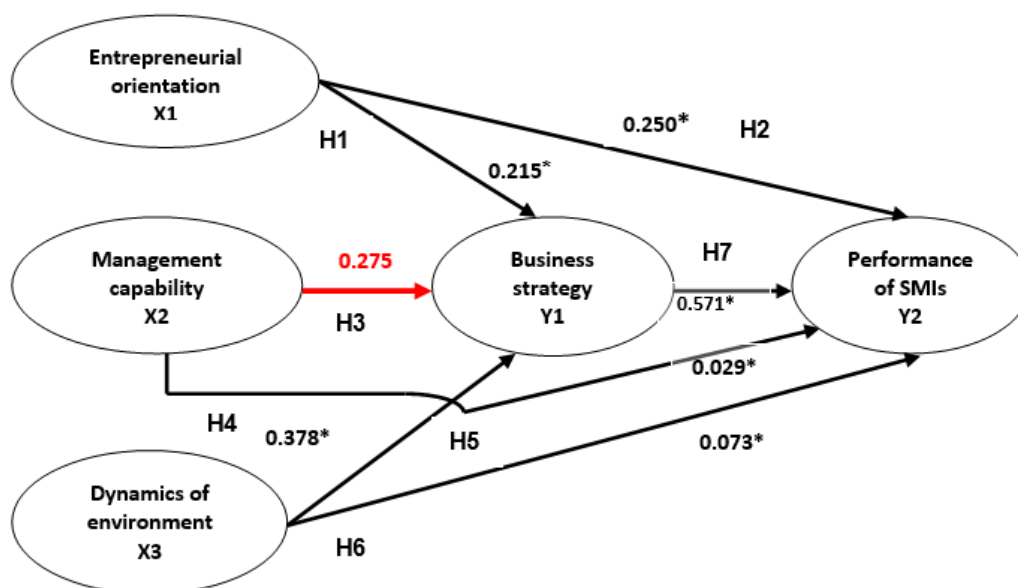


Figure1. Diagram Model for the Result of the Testing of Hypotheses

Info :

-  Significant
-  Not Significant

The result of the H1 testing indicates the entrepreneurial orientation (H1) has significant direct effect which is positive to the business strategy. The results obtained from GeSCA that path coefficient of 0.215 and CR = 4.22* (significant) with positive signal. These results can be interpreted that the entrepreneurial orientation which is adopted by the owners of the SMIs Sasirangan may improve the precision of the business strategy. In the measurement of business strategy variables, the indicator specifies strategies focus through the items in the sale of certain groups with the loading rate of 0.937 to become dominant indicator; this has not however been implemented properly owners of the SMIs Sasirangan. This condition can be seen from the empirical facts indicated with the mean of 4.61. These findings describe the desire of the owners of SMIs to gain competitive advantage in a highly competitive and uncertain requires an adequate ability of the owners of SMIs Sasirangan itself in order to overcome any obstacles in his business and strive to realize the success of the business through the implementation of business strategy.

The results of the H2 testing showed that entrepreneurial orientation (H2) has significant direct effect which is positive to the performance of the SMIs. The results obtained through GeSCA that path coefficient was of 0.250 and CR = 8.30* (significant) with positive signal. These results indicate that the application of entrepreneurial orientation owned by the owners of the SMIs Sasirangan may improve the performance of SMIs. The entrepreneurial orientation has indirect effect on the performance of the SMIs through business strategy with the coefficient of 0.123* (significant) and the total effect was 0.373. This means that the application of appropriate entrepreneurial orientation employed by the proper application of the business strategy will improve the performance of SMIs. These findings indicate that the implementation of actions such innovation, risk-taking and proactive as forming variables of entrepreneurial orientation may increase sales growth, profit growth and capital growth which are the part the variables of the performance of SMIs. These results reflect that well-managed entrepreneurial orientation will improve much the performance of SMIs Sasirangan in the province of South Kalimantan.

Test results the H3 testing showed that management capability does not have significant positive effect on the business strategy. The results obtained through GeSCA that path coefficient was 0.275 with CR = 1.63. The insignificant results based on GeSCA proved that the implementation of management capability owned by the businessman does not give significance to the business strategy. In other words, the proposed hypothesis related

to management capability fails to be accepted. This means despite the fact that the owners of the SMIs sasirangan have management capability, it is not necessarily able to lead into the right business strategy in their business. These findings indicate that the implementation of the ability of planning, organizing, directing, and monitoring as constructing variable of management capability does not support the application of a low-cost strategy, differentiation and focus strategy as forming variable of business strategy. The results of measurement on the management capability were more reflected by the directions of completing the job on time with a loading value of 0.908, but the empirical facts have not been implemented properly by the owners of the SMIs sasirangan as the results of the measurement on the owners of the SMIs sasirangan which was shown with a mean of 4.61 is the preferred control in practice which is to change the direction of work in order to achieve better corporate purposes. While the business strategy is more reflected by the indicator that specifies sales strategies focus to a specific group with a value of 0.937.

The results of H4 testing demonstrated the management capability (H4) has significant positive impact on the performance of SMIs. The results obtained through GeSCA that path coefficient was 0.029* and CR = 4.28* (significant) with positive signal. The results from GeSCA proved that if the owners of the SMIs sasirangan have good management capability, the performance of their business will be better as well. These findings indicate that the implementation of management capabilities that include planning, organizing, directing, and monitoring as constructing variable of management capability may be used directly to increase sales growth, profit growth and capital growth as forming factors of variable of the performance of SMIs. The most dominant forming variable of the management capabilities is completing work on time. In addition to the biggest influential forming variable of the performance of the SMIs is an indicator of profit growth; as the increase in the profits is calculated as higher than the increase in capital used.

The results of H5 testing showed that the dynamics of environmental (H5) has significant direct effect that is positive on the business strategy. The results obtained through GeSCA that path coefficient was 0.378* and CR = 34.46* (significant) with positive signal. These results can be interpreted that the dynamics of the environment support the implementation of business strategies and it is more effective to run. These results can be interpreted that the higher the dynamics of environment faced by the owners of the SMIs sasirangan might encourage them to implement their business strategy so that it will make their business running more efficiently and precisely. Thus the owners of SMIs sasirangan may choose and implement the right strategy to compete with environmental considerations which play significant role in determining the choice of business strategy. For the positive relationship between the two variables shows that the higher the dynamics of the environment faced by the owners of the SMIs sasirangan the uncertainty and the intensity of competition as forming variables of the dynamics of the environment may trigger low-cost strategy, differentiation and focus strategy as forming business strategy to play an important role in dealing with the environment which is conceptualized as a rapidly changing environment and discontinuous on the market demand, competitors, technology and regulation.

Test results of H6 testing showed that the dynamics of the environment (H6) has significant positive effect on the performance of the SMIs. The results obtained through GeSCA that path coefficient was 0.073* and CR = 2.64* (significant) with positive signal. These results indicate that the conducive dynamic of environment may improve the performance of the SMIs better. The dynamics of the environment has indirect effect on the performance of SMIs through business strategy with coefficient of 0.216* (significant) and the total effect of 0.289. These results indicate that the conducive dynamic of environment supported with the appropriate application of business strategy will increase the performance of SMIs. These results indicate that the conducive dynamic of environment supported with the proper application of business strategy will increase the performance of SMIs. Indicators of environmental uncertainty and the intensity of competition as forming variable of the dynamics of the environment can be used directly to increase sales growth, profit growth and capital growth as forming variable of the performance of SMIs.

The results of H7 testing showed that business strategy has significant direct influence which is positive on the performance of SMIs. The results obtained through GeSCA that path coefficient was 0.571* and CR = 17.99* (significant) with positive signal. These results can be interpreted that the proper application of the business strategy done by the owners of the SMIs sasirangan can improve the performance of their business. It shows that the proper application of low-cost strategy, differentiation and focus strategy as forming variable of business strategy will increase the sales growth, profit growth and capital growth as the indicating variable of the performance e of SMIs. These findings enrich the theory by Pearce and Robinson (2007) who define that strategic management as a set of decisions and actions that resulted in the formulation and implementation of plans designed to achieve the goals of the companies. The flow process of strategic management is to form a sequence or flow of decisions and actions that may lead to the formation of a strategy or some effective

strategies to achieve organizational or corporate goals (Jauck & Glueck, 1988).

4. Conclusions

Based on the hypothesis testing, the results of discussions and research findings, there are several conclusions stated that if the entrepreneurial orientation is conducted properly, it may improve the business strategy becomes more precised and effective. This is proven that entrepreneurial orientation directly affects the implementation of business strategy. This means that the owners of SMIs sasirangan entrepreneurs may generate particular business strategy in running their business. The owners of SMIs sasirangan who implement innovation, risk-taking and proactive can identify business opportunities well, and then they generate a competitive advantage by implementing effective business strategy. Entrepreneurial orientation has significant positive effect on the business strategy.

Management capability has indirect effect on the business strategy. This means that the management capability owned by the owners of SMIs does not support the business strategy. This means the management capability owned by businessmen does not give significance to the implementation of business strategies in the operating the business; management capability does not have significant positive effect on the business strategy.

The results of description showed that the owners of SMIs sasirangan in terms of education background, the majority have lower education level background, and few of them earned higher education this condition leads to limited management capability in running their business, especially in implementing the right and efficient business strategy in their business. In this case, the level of education acts as a strategic decision makers in running their business. The dynamics of environmental was proven to encourage the entrepreneurs to apply effective business strategy. This means that the dynamics of environment directly affects the implementation of business strategy. It is understood that the higher the dynamics of environment faced by the owners of SMIs sasirangan trigger them to implement their business strategies accurately. The dynamics of environment have significant positive directly on the business strategy.

The implementation of entrepreneurial orientation owned by the owners of the SMIs sasirangan may improve the performance of their business it means that the entrepreneurial orientation has direct impact on the performance of SMIs, and the indirect effects of the entrepreneurial orientation on the performance of the SMIs through business strategy. These results imply that if the entrepreneurial orientation is well-managed, it will improve the performance of SMIs sasirangan in the Province of South Kalimantan. The entrepreneurial orientation has significant direct positive effect on yej performance of the SMIs. The companies with entrepreneurial orientation in managing their business may improve their business performance. This means that entrepreneurial orientation directly influences the performance of their business.

Management capabilities owned by businessman is proven to improve the performance of the SMIs, meaning that the management capabilities is proven to have direct affects on the performance of SMIs. This shows that the implementation of management capabilities that include planning, organizing, directing, and monitoring as forming variables of management capabilities can be used directly to increase sales growth, profit growth and capital growth as forming the variable of the performance of SMIs. Management capability has positive significant effect on the performance of SMIs.

The dynamics of environment applied by the owners of the SMIs is shown to support the achievement of the performance of SMIs. This means that the dynamics of the environment in the form of environmental uncertainty and the intensity of competition directly influence the performance of SMIs. These results indicate that the conducive dynamic of environment may boost better performance of the SMIs. The dynamics of environment have positive significant effect on the performance of SMIs. Business strategy applied by the owners of the SMIs sasirangan directly influences on the improvement of the performance of the SMIs, meaning that the business strategy is proven can improve the performance of SMIs. It is understood that the application of appropriate business strategies conducted by the businessmen would boost the increase of the performance of SMIs.

5. Suggestions

There are some suggestions which proposed based on the research findings that have been described in the previous description. First, the advice to the researchers, it is suggested that prospective researchers should increase the area of research, given that the number of actors of SMIs Sasirangan is growing so that the number of respondents also need to be expanded as well. The owners of SMIs sasirangan in terms of education level

have lower education background, of which it is recommended for the future researcher simplify the statement in items and interview and field observation so it is easily understood by respondents, and it is advisable to reduce the number of items on each indicator. Second, suggestions for the owners of SMIs Sasirangan, among others, the owners of SMIs sasirangan should improve their management capability especially for particular actors of relatively new or growing SMIs. The owners of SMIs Sasirangan need to innovate, and be brave enough to take risks and proactive as part of their entrepreneurial character in improving the performance and effectiveness of the implementation of entrepreneurial orientation. Third, suggestions for both local and central governments, it is suggested that the local and central governments, especially that related to the departments in charge of SMIs provide practical guidance in conducting periodical training in relation to empowering the ability of the management to the owners of SMIs Sasirangan by inviting experts of particular disciplines, and the government should hold seminar with the concern on the entrepreneurship by presenting a successful business people both from the center or other areas periodically in order to motivate the entrepreneurial spirit. This activity should involve local agencies in tourism to urge tourism or travel agency promote sasirangan as superior and typical products and culture of South Kalimantan by inserting visiting schedule to the industrial centres of sasirangan, so that the visitors who come to this province will understand the characteristics of this region.

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