Entrepreneurial Orientation in Micro and Small Enterprises of Traditional Food Centers in Bandung, West Java

Margo Purnomo1; Erwin Permana2; Achsanul Qosasi3; Achmad Fajri Febrian4; Asep Miftahuddin5

1,2,4 Business Administration Department, Universitas Padjadjaran Jln. Raya Bandung Sumedang KM 21, Jatinangor 45363, Indonesia
3 Fakultas Ekonomi dan Bisnis, Universitas Airlangga Surabaya Jln. Airlangga No. 4 - 6, Kota Surabaya 60115, Indonesia
1 purnomo@unpad.ac.id; 2 win.buyung@gmail.com; 3 achsanul.qosasi@stiebamadura.ac.id; 4 achmad16012@mail.unpad.ac.id; 5 asep17012@mail.unpad.ac.id

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ABSTRACT

The research objective was to analyze the determinant factors of Entrepreneurial Orientation (EO) in the Micro and Small Enterprises (MSEs) of the traditional food centers in Bandung. It used the EO dimension at the organizational level. Five dimensions were used to measure the EO level, namely risk-taking, innovativeness, competitive aggressiveness, proactiveness, and autonomy. The questionnaire’s was distributed to eight MSEs in Bandung. The sample size is 100 employee Structural Equation Model (SEM) analysis techniques with Partial Least Square (PLS) was used to test the samples. This research shows that the EO level in the micro and small enterprises in the traditional food centers in Bandung is at a moderate level. Although EO of MSEs in the traditional food centers in Bandung is at the moderate category, the results of testing on the EO model find out that each EO dimension forms a significant EO construct. The four dominant and recommended dimensions forming an EO construct in MSEs are risk-taking, innovativeness, competitive aggressiveness, and proactiveness. Among the four dimensions, risk-taking is the dominant dimension. It indicates that courage in taking risks in MSEs is a natural characteristic of the EO in the traditional food centers in Bandung.

Keywords: entrepreneurial orientation, micro and small enterprises, traditional food

INTRODUCTION

Entrepreneurial Orientation (EO) has become a trending topic. It has been discussed theoretically and empirically in many business studies for at least the last five decades. The EO construct is firstly analyzed and reported in Mintzberg (1973) and Khandwalla (1977). The articles have mainly discussed the idea that the entrepreneurial company usually tend to take more significant risk than the non-entrepreneurial company. Furthermore, entrepreneurial companies usually tend to be more pro-active in term of developing new business opportunities that can be taken from the market.

Empirically, EO has been studied to investigate the entrepreneurs’ activities in many kinds of organizations. EO is a powerful measurement tool to measure which indicators are most important in business development. The results have shown that the EO has been considered as an important proactive way of decision-making. It can support any kinds of entrepreneurial activities which is adopted by the organizations directly or indirectly (Stambaugh, Martinez, Lumpkin, & Kataria, 2017). In that term, EO is usually as the conservative concept that can measure the entrepreneurship of Small and Medium Enterprises (SMEs) (Cuevas-Vargas, Parga-Montoya, & Fernández-Escobedo, 2019; Mohamad & Chin,
The EO is the observation that an entrepreneurial company differs from others. It shows the propensity for taking more risk than other companies. It also proactively seeks new opportunities and focuses on the innovative process to generate new solutions. It has autonomy actions regardless of the existing barriers and the propensity for competitive aggressiveness to enter the market (Lumpkin & Dess, 1996). Based on the description and empirical gap mentioned, this article tries to analyze the level of EO using the five dimensions. Each dimension of EO reflects the degree to which the enterprises are driven by the identification and exploitation of opportunities in the market.

METHODS

The research design applies a quantitative method. The research is conducted on the MSEs of traditional food centers in Bandung. Bandung is the capital of West Java which has many sources of cultural heritage. One of them is a variety of traditional foods that have their respective characteristics. However, not every traditional food is always available. Not only, the animals are increasingly diminishing, but plants are also beginning to become scarce. For example, daun semanggi is not easy to be found now. It is because of the lack of rice fields in urban areas. Thus, the foods that use such raw materials are not easily found in Bandung and become scarce. Based on the initial interviews, some other reasons that cause these foods scarce are an unpredictable season; fewer people who master the technique of making these foods; the lack of animal and plants preservation; and the shifting of people consumption to modern food or foreign culinary. Considered these situation, EO on the Small and Medium Enterprises (SMEs) has the important role in term of survival (Lumpkin & Dess, 1996), improving business performance (Boohene, 2018), build the organization agility (Purnomo, 2014), improving the new product development (Aloulou, 2019), and innovation and profitability (Allameh & Khalilakbar, 2018). The population of the sample of this study is from the MSEs from eight traditional food centers in Bandung, West Java.

The EO questionnaires are adopted from Lumpkin and Dess (1996). It is measured by proactiveness, innovativeness, risk-taking, autonomy, and competitive aggressiveness. The researchers also consider the EO questionnaires in MSEs (Lechner & Gudmundsson, 2014; Ayuso & Navarrete-Báez, 2018; Oni, Agbobli, & Iwu, 2019). The researchers conduct the pre-test by having a personal interview with the eight owners of the traditional food center. They represent each of the centers before the data collections are officially started. There are several objectives of the pre-test. First, it measures the level of comprehension of the respondents to the questions. Second, it corrects and modifies the format and items of the questions by adjusting to the requirements and the contexts of the fields. After the questions are revised, 152 questionnaires are distributed to the employees.
of the MSEs in the eight traditional food centers. The sample distribution can be seen in Table 1.

Table 1 Sample Distribution

<table>
<thead>
<tr>
<th>No</th>
<th>MSEs in the Traditional Food Centers</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sentra Telur Asin Derwati</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Sentra Ikan Pindang Cijawura</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Sentra Opak Cigondewah</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Sentra Roti Kopo</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>Sentra Tahu Cibuntu</td>
<td>26</td>
</tr>
<tr>
<td>6</td>
<td>Sentra Tempe dan Oncom Situsaeur</td>
<td>12</td>
</tr>
<tr>
<td>7</td>
<td>Sentra Gorengan Tempe Leuwi Panjang</td>
<td>15</td>
</tr>
<tr>
<td>8</td>
<td>Sentra Kerupuk Palembang Madesa</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

In the meeting with the respondents, the researchers explain the research objective and the questions to be filled by the respondents. Each respondent will receive the questionnaire in an envelope. The questionnaires are picked up by the researchers two days later, after it is distributed. The researchers also confirm about the anonymity of the respondents when retrieving the filled questionnaires back. Data are collected by a single respondent in each business. Around 100 questionnaires are returned and filled in completely. This indicates that the response rate in this study is 65.7%.

This study uses Structural Equation Model (SEM) analysis techniques with Partial Least Square (PLS). PLS is used to test the data obtained from 100 respondents statistically based on Chin, Mills, Steel, and Schwarz (2014). Data are analyzed with SmartPLS 3.0 (Sarstedt, Ringle, Smith, Reams, & Hair Jr, 2014). SmartPLS 3.0 is used by considering that it is developed based on the modeling and bootstrapping path. Moreover, it is recommended by Tenenhaus, Vinzi, Chatelin, and Lauro (2005). The research model is shown in Figure 1. Looking at the data analysis, the researchers further confirm the results of the analysis. It is done by inviting eight traditional food business owners involved in the pre-test before the questionnaire are distributed.

Figure 1 Bootstrapping Results of SmartPLS Software
RESULTS AND DISCUSSIONS

PLS is analyzed based on three stages, namely analyzing the outer model, analyzing the inner model, and testing the research hypothesis. First, the researchers analyze the outer model according to Chin (1998) and Ghozali (2014). Then, the construct reliability testing is measured by the composite reliability and Cronbach’s alpha. The construct is reliable if it has a composite reliability value above 0,70 and Cronbach’s alpha above 0,60. The sufficiency value of Average Variance Extracted to measure the validity is 0,5 (Ghozali, 2014). Table 2 shows the result of analysis of the outer model. Based on the criteria in Table 2, the results of all the outer model criteria can be fulfilled. It can be stated that the research data has good validity and reliability. Therefore, it can be continued to the inner model analysis.

Second, the researchers analyze the inner model. The analysis of the inner model is to ensure that the model is built firmly and accurately. According to Ghozali (2014), robust regression is a regression method used when data have an abnormal error distribution, or several outliers are affecting the model. Outliers are data that deviates too far from the other data in a data set. The existence of data outliers can analyze a series of data biased (not reflecting the actual phenomenon). The method used in PLS is an important tool to analyze data influenced by outliers to produce a resistant model to outliers. Inner model evaluation can be seen from several factors. Those are the determination coefficient (R²), Predictive Relevance (Q²), and Goodness of Fit Index (GoF). Table 3 shows the data of the output R² through the SmartPLS3 software.

According to Chin (1998), the value of R squared is 0,67 (strong), 0,33 (moderate), and under 0,19 (weak). The EO model in this research is in the moderate category. It is between the range of 0,324 to 0,553 of R-squared. Next, to analyze the Q², the researchers use Equation (1).

\[ Q^2 = 1 - \left( 1 - R^2 \right) \times \left( 1 - R^2 \right) \times \cdots \times (1 - R^2) \]

\[ Q^2 = (1 - (0.324 \times 0.324)) \times (1 - (0.399 \times 0.399)) \]

\[ Q^2 = (1 - (0.553 \times 0.553)) \times (1 - (0.400 \times 0.400)) \]

\[ Q^2 = (1 - (0.395 \times 0.395)) = 0.6296 \] (1)

The Q² is done to determine predictive ability with a blindfolding procedure. According to Chin (1998), if the obtained value is 0,02, the model has a small predictive ability. Moreover, if the value is 0,15, the model has a moderate predictive ability. Then, the value of 0,35 means that the model has a strong predictive ability. The calculation of the Q² value is 0,6296. It shows that the model has a strong predictive ability. Next, the value of GoF in SEM with PLS is calculated manually (Tenenhaus et al., 2005) with Equation (2).

\[ GoF = \sqrt{AVE^2 \times R^2} \]

\[ GoF = \sqrt{0.6296^2 \times 0.4142^2} = 0.267 \] (2)

Table 2 The Results of Cronbach Alpha, Composite Reliability, and Average Variance Extracted

<table>
<thead>
<tr>
<th></th>
<th>Cut-off-Value</th>
<th>EO</th>
<th>CA</th>
<th>Inn</th>
<th>RT</th>
<th>Au</th>
<th>Pro</th>
<th>Ex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cronbach Alpha</td>
<td>&gt;0,6</td>
<td>0,7</td>
<td>0,5</td>
<td>0,6</td>
<td>0,6</td>
<td>0,8</td>
<td>0,8</td>
<td>All aspect met the requirements</td>
</tr>
<tr>
<td>Composite Reliability</td>
<td>&gt;0,7</td>
<td>0,8</td>
<td>0,6</td>
<td>0,7</td>
<td>0,8</td>
<td>0,9</td>
<td>0,9</td>
<td></td>
</tr>
<tr>
<td>Average Variance</td>
<td>&gt;0,5</td>
<td>0,5</td>
<td>0,5</td>
<td>0,5</td>
<td>0,6</td>
<td>0,7</td>
<td>0,8</td>
<td>Extracted</td>
</tr>
</tbody>
</table>

Note:

Table 3 The Value of R² in Output Software

<table>
<thead>
<tr>
<th></th>
<th>R-Squared</th>
<th>R-Squared Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Aggressiveness (CA)</td>
<td>0,324</td>
<td>0,311</td>
</tr>
<tr>
<td>Innovativeness (Inn)</td>
<td>0,399</td>
<td>0,388</td>
</tr>
<tr>
<td>Risk taking (RT)</td>
<td>0,553</td>
<td>0,545</td>
</tr>
<tr>
<td>Autonomy (Au)</td>
<td>0,400</td>
<td>0,389</td>
</tr>
<tr>
<td>Proactiveness (Pro)</td>
<td>0,395</td>
<td>0,383</td>
</tr>
</tbody>
</table>
According to Tenenhaus et al. (2005), GoF value is considered to be small if the value is 0.10, moderate if it is 0.25, then GoF is strong if it is 0.38. Based on the calculation, the GoF value is 0.267. Thus, the model has a moderate value. The model represents a real phenomenon, but it needs to be reviewed more deeply why the GoF value generated is moderate.

Third, the researchers analyze the structural model, which is testing the research hypothesis. The structural model in SEM-PLS is carried out by a bootstrapping process. It produces t-statistical values. If the t-statistic value is greater than t-table with a confidence level of 95% (>1.96), the effect is significant. To find out how much influence between variables, the researchers measure the value of the loading factor from the original sample (O) output. This can be seen in the path coefficients results on the SmartPLS output in Table 4.

Based on Table 4, the researchers find out that the five constructs relationships have t-statistics value above 1.96. Those are proven to have positive and significant impacts. Therefore, proactiveness, innovativeness, risk-taking, autonomy, and competitive aggressiveness can explain the EO constructs with the reflective confirmatory factor. Loading factor in this research is measured based on the original sample (O). The value is above 0.5. The impact percentage between EO constructs and those five dimensions of the EO is more than 5% significance (Ghozali, 2014).

According to the PLS analysis, the EO of the MSEs in the traditional food centers in Bandung is in the moderate category. Even so, in MSEs, entrepreneurs as the business owner are usually the main decision-makers and strategists. They are responsible for the development and implementation of the entire company. EO, as the strategic orientation of entrepreneurs, describes the subjective orientation and entrepreneurial attitude in MSEs (Arzubiaga, Maseda, & Iturralde, 2019). According to entrepreneurs personal goals, the strategic orientation has a significant impact on the company’s strategic behavior (Hernández-Perlines & Ibarra Cisneros, 2017; Alayo, Maseda, Iturralde, & Arzubiaga, 2019; Stanley, Hernández-Linares, López-Fernández, & Kellermanns, 2019). Each dimension forming EO in the traditional food centers in Bandung by referring to Lumpkin and Dess (1996) are explained.

First, risk-taking is a dimension with the highest t-statistic value (9.585). It is greater than the standard PLS value of 1,962 with a significance level of 5%. Based on the confirmation of the results of eight MSEs owners, it is known that risk-taking is related to the ability of MSEs in traditional food centers in Bandung to take risks for the procurement of raw materials. The prices are very volatile and unpredictable. To maintain the business continuity of MSEs, they dare to take the risk of borrowing capital from loan sharks, buying large quantities of raw materials, or selling fast at low prices. This is in line with Lumpkin and Dess (1996). They agreed that the firms with EO were often typified by risk-taking behavior, such as incurring heavy debt or making large resource commitments in obtaining high returns by managing opportunities in the marketplace. The risk-taking ability of MSEs ensures coordinated flows of goods, information, and funds in a complicated situation (Chaudhuri, 2017; Mishra & Mishra, 2019) and recessions (Alcalde-Heras, Iturrizoz-Landart, & Aragon-Amonarriz, 2019). The previous researchers that support risk-taking as the most dominant dimension forming the EO construct are Beltrame, Floreani, Grassetti, Mason, and Miani (2019), Rank and Strenge (2018), and McCarthy, Puffer, & Lamin (2018).

Second, innovativeness reflects the firm’s tendency to engage in and support new ideas, novelty, experiment, and creative processes. Those may result in products, services, or technological processes (Lumpkin and Dess, 1996). The innovativeness dimension has a t-statistic value of 6.478. The observation and confirmation of the results of data analysis on MSEs in the traditional food centers in Bandung show that innovation is reflected in several efforts. For example, it can be maintaining the continuity of procurement and renewal of raw materials, experimenting with substitute raw materials, innovating raw material processing and production processes, and experimenting with new products. The result is in line with Kaushal, Kumar, Negi, and Raj (2017), Alhnity, Mohamad, and Ishak (2016), and Beltrame et al. (2019). They saw innovativeness as the second dominant dimension in forming the EO construct.

<table>
<thead>
<tr>
<th>Constructs relationships</th>
<th>Origin Sample (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T-Statistics (O/STDEV)</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO → CA</td>
<td>0.569</td>
<td>0.601</td>
<td>0.092</td>
<td>6.233</td>
<td>0.000</td>
</tr>
<tr>
<td>EO → Inn</td>
<td>0.632</td>
<td>0.661</td>
<td>0.096</td>
<td>6.478</td>
<td>0.000</td>
</tr>
<tr>
<td>EO → RT</td>
<td>0.744</td>
<td>0.734</td>
<td>0.078</td>
<td>9.585</td>
<td>0.000</td>
</tr>
<tr>
<td>EO → Au</td>
<td>0.633</td>
<td>0.622</td>
<td>0.184</td>
<td>3.420</td>
<td>0.001</td>
</tr>
<tr>
<td>EO → Pro</td>
<td>0.628</td>
<td>0.619</td>
<td>0.140</td>
<td>4.647</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Third, competitive aggressiveness refers to the firm’s responsiveness directing toward achieving competitive advantage (Lumpkin & Dess, 2001). The competitive aggressiveness dimension has a t-statistic value of 6,233. This indicates that the aggressiveness of MSEs in competing amid uncertain business has been strong. The correlation from the results of the PLS to the phenomena in the field shows that MSEs in the traditional food centers in Bandung always try to be aggressive by adopting strategies to compete in the market. The results of data analysis also show that MSEs are trying to emulate techniques from other companies that have successfully increased their competitive position. This result is in line with Lumpkin and Dess (2001), Kozubiková, Vojtovič, Rahman, and Smrčka (2016), Kljucnikov, Belás, and Smrčka (2016), and Kozubiková and Zoubková (2016).

Fourth, proactiveness refers to anticipating and acting on future needs. Furthermore, Eishima and Anderson (2017) explained that it referred to how firms related to market opportunities in the process of new entry. It was done by seizing initiatives and acting opportunistically to shape the environment, to influence trends, and create demand. The proactiveness dimension has a t-statistic value of 4,647. Based on the results of the data analysis, it is known that MSEs in the traditional food centers in Bandung tend to anticipate the trends in consumers’ needs during the holiday and religious holidays. Another thing done is to proactively create a new product variant developed from conventional traditional food products, so that it creates new demands. For example, product developers from conventional raw materials (Cireng) become Cilor, Cimol, cheese Cireng, and meat-filled Cireng. Being proactive is acting as anticipation of problems, needs, or changes in the future. This is important for MSEs because the proactiveness keeps the company to have the forward-looking horizon by innovative activities or to conduct new activities. Indeed, proactiveness concerns the importance of initiatives in the entrepreneurial process as stated by Lumpkin and Dess (2001), Lee and Peterson (2000), and Rank and Strege (2018).

Fifth, autonomy refers to the independent actions of individual or teams in bringing ideas and carrying it through to completion. In general, it means the ability to be self-directed in the pursuit of opportunities (Lumpkin & Dess, 1996). In an organizational context, it is directed to action taken from organizational constraints. Thus, the factors such as resource availability, actions by rivals, or internal organizational considerations, are not sufficient to externalize the autonomous entrepreneurial processes that lead to the new entry. Throughout the process, the organizational player remains free to act independently, to make decisions, and to proceed. The autonomy dimension has a t-statistic value of 3,420. The PLS test results show that MSEs in traditional food centers in the Bandung have given the authority to employees to make their decisions in taking opportunities on the market. Support from MSEs owners also shows an attitude of autonomy by giving employees the freedom to implement ideas and work independently. Previous researchers that support the findings of the autonomy dimension as the last construct that forms the EO construct are Febrian, Maulina, and Purnomo (2018) and Lee and Peterson (2000).

Overall, this research shows the characteristics of EO construct in MSEs in the traditional food centers in Bandung. The dominant dimensions are risk-taking, innovativeness, competitive aggressiveness, and proactiveness. On the other hand, the autonomy dimension is the less dominant dimension of EO. The characteristics of the EO are consistent with Lumpkin and Dess (1996) and Lumpkin and Dess (2001). Related to the autonomy dimension, some researchers suggest that autonomy is an antecedent of entrepreneurial behavior, not an essential component of the EO component in Asia MSEs (Yu, Lumpkin, Praveen Parboteeah, & Stambaugh, 2019). For the proactiveness dimension, it is following the idea that it is an essential dimension of EO in the EO construct (Mason, Floreani, Miani, Beltrame, & Cappelletto, 2015).

CONCLUSIONS

The EO is the organizational driving force for entrepreneurial activity. In this research, the researchers examine EO on MSEs. Although EO of MSEs in the traditional food centers in Bandung is in the moderate category, the results of testing on the EO model find that each EO dimension forms a significant EO construct. The four dominant and recommended dimensions forming an EO construct in MSEs are risk-taking, innovativeness, competitive aggressiveness, and proactiveness.

Moreover, EO is the process of creating an entrepreneurial company that requires an antecedent dimension and other consequences to investigate the complex problems of the EO dimension. Therefore, this research proposes a more comprehensive framework by measuring the influence of EO on other dimensions related to creating MSEs competitiveness. This article has implications for policymakers and practitioners of MSEs. Entrepreneurial activities and MSEs play an essential role in economic growth and prosperity. Given this importance, every public policy supporting the development of MSEs, especially in the traditional food industry, should consider the four dominant dimensions. It can be applied to the EO construct in the context of MSEs.

The overall results provide an overview of future research based on the EO model. Moreover, it can provide new knowledge in the existing EO literature and strategic entrepreneurial concepts for new research. However, this research has a limitation in term of the sample used. Thus, future researchers need to have a large sample from several areas to see the actual phenomenon and have high accuracy.
REFERENCES


