# ORIENTATION OF ENTREPRENEURS AND BUSINESS PERFORMANCE OF MSME IN PANDEGLANG DISTRICT, PANDEGLANG REGENCY

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Received: 9<sup>th</sup> February 2020 Approved: 30<sup>th</sup> April 2020

#### **ABSTRACT**

MSME (Micro, Small, Medium Enterprises) has an important role in the business activities of an area. For this reason, it is necessary to know the general condition of MSMEs and it is also necessary to know whether entrepreneurial orientation influences MSME business performance in Pandeglang District, Pandeglang Regency. Many factors affect MSME business performance including the Entrepreneurial Orientation (EO), with specific dimensions of entrepreneurial orientation over three dimensions, namely, innovativeness, proactiveness, and risk-taking ability and how it affects the performance of MSMEs. This research is targeted to be able to identify the general condition of MSME. Entrepreneurial orientation influences MSME business performance in Pandeglang district Pandeglang regency, Banten Province. The results of the research are expected to be useful for the relevant department in assisting and fostering MSMEs as well as providing an overview for MSMEs actors in improving their business performance.

**Keywords**: Entrepreneurial Orientation, MSME performance

## 1. INTRODUCTION

Micro, small and medium enterprises (MSME) in Indonesia have an important and strategic role in national economic development. In addition to playing a role in economic growth and employment and increasing public income, MSME also plays a role in MSME gross domestic product according to the Indonesian Chamber of Commerce (Kadin), the contribution of MSME sector to gross domestic product increased by 57.84% to 60.34% in the last five years. This increase in gross domestic product is an indication of the increased performance of MSME activities. Many factors affect MSME business performance including the Entrepreneurial Orientation (EO).

MSMEs in Pandeglang sub-district, amounting to 83 MSMEs that have been registered and have permits in Pandeglang District, are community business activities that are very dominant in improving the regional economy because most of the working-age population is active as entrepreneurs, whose population varies depending on age distribution and education level. The obstacles faced by MSMEs at this time are quite heavy because there are many imported products with very competitive prices and quality that can threaten the sustainability of MSME businesses. Therefore, EOs that involve innovation and proactivity and dare to face challenges or take risks must be owned by the MSMEs to improve business performance. The aspects of MSME business performance can combine financial and non-financial performance measures, including sales growth, employment growth, profits, market share growth and owner / manager satisfaction. The role of local government and related agencies is very important in efforts to create MSMEs that have the abilities to do business. However, in reality, the phenomenon that occurs is the problem of the Micro, Small and Medium Enterprises (MSMEs) in Pandeglang Subdistrict get less attention from the local government, even though the products they produce can compete with foreign products

MSME has an important role in the business activities of an area. For this reason, it is necessary to know the general condition of MSMEs and to know whether entrepreneurial orientation influences MSME business performance in Pandeglang Regency. Based on the controversy over the results of research on the effect of entrepreneurial orientation on company/business performance, it is still interesting to study further, so it is expected to be able to explain the efforts of micro and small businesses in developing their businesses. Hence, the formulation of the research problem: how to build an entrepreneurial orientation model for micro, small and medium entrepreneurs in their efforts to improve business performance. In accordance with the measurement of entrepreneurial orientation seen from 3 dimensions namely innovation, proactivity, readiness to take risks and the performance of MSMEs.

#### 2. LITERATURE REVIEW

According to (Holt, 2009) there is no consensus regarding the real definition of Micro, Small and Medium Enterprises (MSMEs) as the terms, 'Small' and 'Medium' are relative and they differ from industry to industry and country to country. In addition, there is no single definition that can reflect differences between companies, regions and countries due to various levels of development.

Based on Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs):

a. Micro Business is a productive business owned by individuals or an individual business entity that meets the criteria for Micro Business as stipulated in this Law.

- b. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly of medium-sized businesses or large businesses that meet the Business criteria Small as referred to in this Act.
- c. Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly with a Small Business or large business with a net worth or annual sales proceeds as regulated in this Law.

Criteria for MSMEs according to Law No. 20 of 2008 are presented in Table 2.1. following;

Table 1. MSME Criteria

		Criteria				
	Information	ASSET	OMZET			
1	Micro Enterprises	Max. Rp. 50 million	Max Rp. 500 million			
2	Small Enterprises	>Rp. 50 million – Rp. 500	>Rp. 500 million – Rp. 2,5			
		million	billion			
3	Medium Enterprises	>Rp. 500 million – Rp.10	>Rp.2,5 billion - Rp.50 billion			
		billion				

Source: www.depkop.go.id

Entrepreneurs are people who combine resources, workers, materials, and other assets to produce greater value than before (A.A Gib 1996 in Meutia 2013). Business performance is an effort in producing or increasing company value. Performance according to Beal (2000), including: profitability (ratio of profit from sales, ratio of profit on capital, and return on assets), growth (sales growth and profit growth), total amount of profit, and market share.

Entrepreneur Orientation (EO) is defined as the process, structure and behavior of companies that are characterized by innovation, proactivity, and risk taking. It is a psychological construction that reflects the intentions and inclinations of key organizational players towards entrepreneurial tasks and behavior (Lechner & Gudmundsson, 2014). Of the three dimensions that integrate EO construction, innovation is the biggest aspect that has a positive relationship with company growth (Rauch, Wiklund, Lumpkin, & Frese, 2009). Entrepreneurial orientation is a characteristic and value adopted by the entrepreneur itself which is an unyielding nature, dare to take risks, speed and flexibility (Debbie Liao and Philip Sohmen, 2001) In general, entrepreneurial orientation refers to top management strategies in relation to innovation, proactivity and risk taking (Lumpkin and Dess, 1996; Miller, 1983; Khandwalla, 1977; Covin and Slevin, 1989 in Fairoz (2010)). Entrepreneurial orientation will encourage entrepreneurs to build key business networks through social capital to improve business performance. Business networks are identified as opportunities to distribute products and market inflation to anticipate any competition. (Meutia2013)

Innovativeness reflects the tendency of companies to engage in new ideas and creative processes that can produce new products, services or technological processes (Wiklund, 1999 in Fairoz, 2010). Proactivity refers to the extent to which a company is a leader or follower and is associated with a relative aggressive attitude against competitors (Davis et al., 1991 in Fairoz (2010).) Moreno and Casillas (2008) stated that the innovation strategy in new products and new processes has a positive and significant effect on the level of company growth. High innovation shows a positive relationship with sales growth, while proactivity related positively to the level of sales, sales growth, and gross profit (Kreiser et al., 2002).

Proactive is a perspective looking for future opportunities that involves introducing new products or services to face competition and act as an anticipation of future demand to create change and shape the environment. (Lumpkin and Dess, (1996). Lechner and Gudmundsson (2014) argue that proactive companies can develop competitive advantage with the first step, plan new demands and markets, and charge high prices. Thus, the positive relationship between proactivity and company performance is clear.

Risk taking is the extent to which companies are willing to make a large and risky commitment of resources (Stewart et al., 1998 in Fairoz (2010). Economic growth in the current era is so rapid from all aspects of both socio-cultural and technological aspects. Top management with high levels of EO proactively find out about possible changes in the environment to take calculated risks to opportunities arising from new technologies, new market sectors, or new modes of operation (Hu & Zhang, 2012). If the company has a risk-taking orientation, they can reach a favorable agreement. Therefore, the tendency of risk taking is positively related to success (Jalali et al., 2014).

Previous research Ferreira et al. (2007) proves that entrepreneurial orientation has a positive and significant effect on organizational resources for sustainable competitive advantage in the growth of small companies. Based on a survey of small and medium enterprises (SMEs) in north-east China, it was found that entrepreneurial orientation (EO) had a positive effect on business performance (Zhang, Y., & Zhang, X. 2012) while the results of the study (Effendi et all 2013) business orientation has no effect on business performance. (Meutia 2013) Entrepreneurial orientation influences business performance.

#### 3. RESEARCH METHODS

This research uses explanatory description method, which is describing a qualitative approach to obtain MSME potential data by conducting interviews. Meanwhile, a quantitative approach to collecting data from respondents' profiles, human resources, capital and administration as well as data collection from entrepreneurial orientation variables by measuring

aspects of innovation, proactivity and risk taking and business performance variables by measuring sales growth is carried out by distributing questionnaires to MSMEs. Scattered in Pandeglang sub-district, Pandeglang Regency Banten Province and processed with multiple regression analysis. With a frequency distribution table display and graph as a result of data processing. Meanwhile, to find out about the measurement of entrepreneurial orientation with the dimensions of innovation, proactivity, readiness to take risks, and the performance of MSMEs. Research data will be obtained through distributing questionnaires to SMEs in Pandeglang sub-district arranged according to a Likert scale, from the Strongly Disagree, Disagree, Neutral, Agree and Strongly agreed statements which are rated 1 to 5 used to measure perceptions the MSME actors about innovation, proactivity, readiness to take risks, and MSME performance. Each instrument is arranged in the form of a sentence statement with five alternative answers related to the research indicators. The questionnaire items are arranged in the form of statements that will measure innovation, proactivity, readiness to take risks, and MSME performance in measuring entrepreneurial orientation.

The population used is in the Pandeglang sub-district Pandeglang district as many as 83 active MSMEs. To determine the sample size in this study is to use the Slovin formula model, obtained as many as 45 MSME actors. Data analysis techniques used descriptive analysis by determining the average count to determine the average personal response or the opinions of the MSMEs about innovation, proactivity, readiness to take risks, and MSME performance and conduct an influence test using the regression formula.

## 4. RESULTS AND DISCUSSION

By using a questionnaire that leads to respondents' statements on innovation, proactivity and readiness to take risks on the performance of MSMEs. From the respondent's biodata, the outputs are as follows,

## 1. Profile of Respondents:

- a. The average age of respondents of MSMEs is productive age doing business, which is 41 years
- b. Of the 45 respondents in the sample, MSME entrepreneurs have 30 male or 66.67% male and 15 or 33.33% female. The majority of respondents are male
- c. Of the 45 respondents in the sample, 62.22% of MSME entrepreneurs who had prior experience of self-employment were students, namely 32.22% of those who tried their own entrepreneurship. This means that the majority of MSMEs are his family, his parents have a profession of traders
- d. From the education of MSMEs the Pandeglang Regency is as follows: junior high school as much as 33.33%, senior high school as much as 53.33%, Diploma as much as 2.22%

- and scholars as many as 5 people or 11.11%. Judging from the level of education of the MSMEs, the majority graduated from basic education
- e. Of the 45 respondents, consisting of 82.22% owners and financiers 8.89 are owners only and 8.88% are managers.
- f. From 45 MSMEs, the majority of founding age is < 5 years as much as 66.67%, between 5-10 years as much as 8.89%, between 11 and 15 years as much as 11.11% and between 15-20 years as much as 6.67% and > 20 years as much as 6.67%
- g. The MSME body is dominated by individual companies, which is 98.8%, with a CV / Firm only 2.2%
- h. The current number of employees, the average number of employees owned by MSMEs is < 5 people as much as 75.56%, between 5 9 people as much as 22.22% and employees > 20 people only 2.22%.

## 2. Human Resources

- a. The maximum number of employees in a business is 15 people (culinary business in the form of restaurant), the number of employees is 10 people (Concrete Iron and Paving Block Manufacturing, Bamboo Matting, 9 employees are *emping melinjo* entrepreneurs). Other types of business are carried out ≤ 5 employees.
- b. The sexes that do business are dominated by men with 66.7%
- c. From the education of MSMEs the Pandeglang Regency is as follows: Junior High School as much as 33.33%, Senior High School as much as 53.33%, Diploma as much as 2.22% and scholars as many as 5 people or 11.11%.

# 3. Capital field

- a. The source of capital comes from own capital as much as 86.67%, the remaining 8.89% is borrowed from private banking institutions
- b. Current capital amount
- c. Nearly 88.89% of the respondents only have capital of up to 50 million
- d. Average sales turnover per year for the last 3 years
- e. Maximum turnover for the past three years is Rp. 500,000,000, with the remaining 95.5% between Rp. 500 million to 2.5 billion
- f. Average sales growth per year for the past 3 years
- g. The average only increased by 10%, namely 84.44%, the remaining 11.16% were those that rose between 10 to 20%
- h. Average profit growth for the past 3 years
- i. The average rose 10% as much as 82.22% of respondents experienced it, the remaining 11.18% experienced an increase in profit growth between 10 to 20%.

## 4. Administration

- a. Types of financial statements that are made

  The most widely used is the income statement that is as much as 68.89%
- b. The accounting system used is 91% manual
- c. As many as 57.77% of respondents did not have NPWP Even those who have NPWP do not understand how to calculate it. They also ask for help from others to calculate filling in the form and only be able to pay it.

# 5. The role of local government

- a. As many as 51.1% said the government had never had an MSME empowerment program, the rest said sometimes there was
- b. The MSME empowerment program that is considered the most effective is a mentoring program, respondents deliver 42.22%
- c. The government provides a special location in providing assistance in product marketing which is as much as 80%
- a. The results of the description of the measurement of entrepreneurial orientation in viewing the performance of MSMEs obtained from questionnaires are as follows:

Table 2. Descriptive Analysis of Respondents' Answers to the innovation variable

No	Average	Percentage of Frequency of Answers (%)				Total	
110	Avelage	1	2	3	4	5	10tai
Inovation 1	4.62	0	0	13.33	13.34	73.33	100
<b>Inovation 2</b>	3.96	0	8.89	4.44	73.33	13.34	100
<b>Inovation 3</b>	3.98	0	4.44	13.34	68.89	13.33	100
Average	4.19						

Source: Data processed

From the Innovation indicator has an average score towards strongly agree, which is 4.19, which means it describes the innovations made by the MSMEs in managing the business well. Innovations carried out in this study include:

- 1. Looking for new ideas and new technologies in the production process
- 2. Support the emergence of new product ideas
- 3. Support creativity for the emergence of new products

Table 3. Descriptive Analysis of Respondents' Answers to Proactivity

No	Average	Percentage of Frequency of Answers (%)				Total	
-10	11,010,00	1	2	3	4	5	
Proactive 1	4.00	0.00	2.22	11.11	73.33	13.33	100
<b>Proactive 2</b>	4.00	0.00	4.44	8.89	73.33	13.33	100
<b>Proactive 3</b>	4.04	0.00	0.00	13.33	75.56	11.11	100
Average	4.01						

Source: data processed

From the proactive indicators having a good average score of 4.01, it means that MSMEs are very proactive in managing their business. In this study proactive in terms of:

- 1. In the face of competition the company always takes the initiative to find new opportunities,
- 2. The company takes anticipatory action on requests in the future,
- 3. Companies usually become the pioneers in introducing new products

Table 4. Descriptive Analysis of Respondents' Responses to Risk Readiness

No	Average	Percentage of Frequency of Answers (%)				Total	
		1	2	3	4	5	
Risk Readiness 1	3.67	4.44	6.67	15.56	66.67	6.67	100
Risk Readiness 2	3.76	4.44	4.44	13.33	71.11	6.67	100
Risk Readiness 3	4.07	0.00	0.00	8.89	82.22	8.89	100
Average	3.83						

Source: Data processed

From the indicators of readiness to take risks, the average score is good, that is 3.83. Risk readiness in managing a business in this study includes:

- 1. Dare to take the risk of not selling to produce new products
- 2. Prefer to run a safe business with little risk
- 3. Take an aggressive attitude to maximize the utilization of potential opportunities

Table 5. Descriptive Analysis of Respondents' Responses to MSME Performance

From the MSME performance indicators it has an average good score of 3.95. The performance of MSMEs in managing business in this study includes:

- 1. The company's sales growth is achieved as expected
- 2. The company is satisfied with the company's growth
- 3. The company's sales growth is estimated to be greater than the average growth of competitors
- 4. Performance of sales growth increases because of entrepreneurial-oriented companies

By using regression analysis to find out how the contribution of each dependent variable which in this case is the Innovation, Proactive and Readiness variables taking risks on the independent variable, namely MSME Performance, the SPSS program uses the following values:

Table 6. Test results for the coefficient of determination of each variable

Correlation	Test Result				
Between	Correlation	<b>Determination</b> (%)			
Innovation- Performance	0.720	51,84			
Proactivity- Performance	0.680	46.24			
Risk Readiness - Performance	0.673	45,29			

Source: Data processed

From the results of the analysis, it can be seen that the three independent variables namely Innovation, Proactivity and Readiness to take risks have a significant influence on innovative contributions to the performance of MSMEs by 51.84%. Proactive contribution to MSME Performance was 46.24% while contribution to readiness to take risks to MSME performance was 45.29%. Of these three variables, the biggest contribution is the innovation variable, meaning that the business performance of MSMEs in Pandeglang sub-district is strongly supported by the ability to find new ideas that are creative in producing new products. This is in accordance with the opinion of Fahrul (2010) that the most important factor determining the level of orientation entrepreneurship depends on the innovation of the owner / manager. Owners / managers who have creative abilities, adequate technical skills, and industry experience are supported to be innovative.

The results of testing the influence of initiatives, proactivity and readiness to take risks on the performance of MSMEs can be seen in the table below:

Table 7

Model	F	Sign
Regression	28,950	0,000

The results of the multiple regression test showed that the three independent variables namely Innovative, Proactive and the readiness to take risks together affected MSME performance, as evidenced by the Anova test results in the F test of 28.95 with a significance of 0.00. This means that together with these three variables have a significant influence. While partially it can be seen in the table

Table 8. Coefficient

Model	Unstandarized Coefficient	t	sign.
1.Constant	2,720		
Innovative	0,316	2,362	0,023
Proactive	0,459	3,235	0,002
Risk Preparation	0,304	2,832	0,007

From the table above, it can be seen that all three variables have a significance value below 0.05, that is, an innovative variable has a t-value of 2.362 with a significance of 0.023, a proactive variable has a t-value of 3.235 with a significant 0.002 and the risk-taking readiness variable has a t-count of 2.832, with a significant in the amount of 0.007. This means that partially the three independent variables have a significant influence on the performance of MSMEs.

The multiple regression equation is Y = 2.720 + 0.316 X1 + 0.459 X2 + 0.304 X3, where each increase of one innovation value will increase the performance of MSMEs by 0.316 times assuming the value of the proactive variable and the value of the variable readiness to take a fixed risk. Likewise, for proactive variables where each increase of one proactive value will increase the performance of MSME by 0.459 times, while for the variable willingness to take risks has a forecast value increase of 0.304 times causing MSME performance to increase. It can be seen from the multiple regression equation of the three variables, which are innovative,

proactive and willingness to take a positive influence on the performance of MSMEs in Pandeglang sub-district, Pandeglang district, Banten province.

#### 5. CONCLUSION

After conducting research and observations on the data that has been processed from 45 MSMEs entrepreneurs in Pandeglang sub-district, Pandeglang Regency, the following conclusions can be drawn: the majority of MSMEs in Pandeglang sub-district that are sampled are companies in the category of micro enterprises, 9% small businesses and 2% businesses medium engaged in various business fields of entrepreneurship orientation 45 MSMEs in Pandeglang sub-district can be seen from the following research results:

- MSMEs performance has an average good score of 3.95. The performance of MSMEs in managing business in this study includes the company's sales growth achieved in line with the expectations of MSMEs satisfied with the company's growth of 10%, which is 84.44% MSMEs, the remaining 11.16% is that up between 10 to 20%
- Innovation has an average score towards strongly agreeing to 4.19, which means innovations made by MSMEs in managing good business, the tendency of MSMEs to have an effort to give birth to new ideas and creative processes that can produce products, services or processes new technology
- o proactivity has a good average score of 4.01, which means that MSMEs are very proactive in managing their business. MSMEs in Pandeglang sub-district have the ability to look for opportunities in the future which involve the introduction of new products or services to face competition and act as an anticipation of future demand to create change and shape the environment.
- o readiness to take risks has a good average score of 3.83 which means close to good. Most MSMEs of Pandeglang sub-district are not aggressive enough to face the opportunities that exist in creating new products and still feel safe with existing products. This may be due to capital limitations because most of the MSMEs of Pandeglang sub-district are still classified as small companies.
- Entrepreneurial Orientation, which consists of components of innovation, proactive and readiness to take risks, has a significant effect on the performance of MSMEs. The biggest contribution is the innovation variable, which means that the business performance of MSMEs in Pandeglang sub-district is strongly supported by the ability to find new ideas and ideas that are creative in producing new products.

This data and information are expected to be used to identify MSME development problems. The results of this study are expected to be one of the information for related agencies to make a policy to conduct training or assistance for the progress and development of MSMEs towards independent MSMEs.

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