

Conference Paper

Entrepreneurial Orientation and Organizational Commitment in SMEs as Form of Business Performance Improvement

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Abstract

Small and Medium Enterprises (SMES) play an important role in economic growth throughout the world. The objective of this study is to determine and analyze the impact of entrepreneurial orientation and organizational commitment in SMES as a form of improvement in business performance in Indonesia. This study uses a quantitative approach with the survey method of 6,708 SMES who have a business license. This study will be taken 200 samples, with a random backup technique of 10%, spread across 17 districts. Analysis of technical data in this study uses structural equations modeling (SEM) using AMOS Software. The results of the study is similar with the empirical data received. The result of the entrepreneurship orientation tests is partially proved positive and significant effect on the organizational commitment performance. Entrepreneurial orientation variables are not proven as positive and significantly in improving the SME performance. Organizational commitments are not proven as positive and significant effect on SME performance. Entrepreneurial orientation does not prove to be an intermediary between organizational commitment variables in SME performance.

Keywords: Entrepreneurial Orientation, Organizational Commitment, SMEs Performance

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1. Introduction

The role of Small and Medium Enterprises (SMEs) is so large in Indonesia's economic growth, especially the contribution to gross domestic product. One of the factors that support the existence of SMEs is increasingly responsible and developing in Indonesia is its existence spread all over the homeland and control most business activities in Indonesia. SMEs play a vital role in economic growth worldwide. They substantially contribute to economic growth by creating jobs (Chandler, 2012);(Neumark, Wall, & Zhang, 2011);(de Wit & de Kok, 2014). The concept of entrepreneurship at different

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levels, from individuals to groups and organizations is used. First, entrepreneurship thought used by unknown persons, because it is associated with the introduction and development of the product or service. Many theorists say that entrepreneurship and organizational commitment are used by small businesses because they are responsible for economic growth and job creation in the market. Recently, the more entrepreneurial concept is applied at the corporate level (Groves K, 2008). Some of the Entrepreneurship researchers have discussed several studies to describe the attitudes of entrepreneurs and entrepreneurship and some of them have shown in entrepreneurship to different levels of analysis. The SMEs sector is an important part of the national economy and development because since they were quite large. The growth of the SMEs sector currently visible encouraging.

Today's competitive world, increasing interdependence, rapid technological development, unstable environment, and many other factors have caused organizations, become entrepreneurs to get success (Dess & Lumpkin, 2005). Many studies have been conducted with a focus on identifying the determinants of the performance of SMEs to help small business owners improve entrepreneurial growth. As a form of organizational commitment, it is necessary to understand that business owners

have a business orientation which is an important factor in competitive advantage and performance improvement for all types of businesses (Lotz, W. & Van der Merwe, 2010). SMEs play an important role in the economic growth of a country, an important role can be seen from the role of SMEs in the use of manpower and efficiency, and the maximization of the use and distribution of resources as well as local (Xue Cunningham & Rowley, 2007). Entrepreneurial orientation (EO) has become one of the most established constructs in entrepreneurship and broader management research (Covin & Miller, 2014), and a number of recent reviews of the EO literature have been conducted by (Anderson, Kreiser, & Kuratko, 2015) refer to this as temporal stability or reasonable consistency in the engagement of entrepreneurial behaviors over time. Temporal stability is addressed in Entrepreneurial orientation research through the inclusion of Entrepreneurial orientation attitudes as an essential, defining component and covariate to the sustained pursuit of entrepreneurial behavior.

Business orientation provides the basis for organizations to make decisions and actions based on entrepreneurial principles is a more important concept than individual personal expertise (Aldrich, H. E., & Wiedenmayer, 1993), and states the commitment of an entrepreneur is the most important thing in creating SMEs performance (Baum, J. R., & Locke, 2004). In Indonesia, the Law governing of SMEs is the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small and Medium Enterprises and

the Law of the Republic of Indonesia, (2008), (2008), "A company classified as SMEs is a small company that owned and managed by a person or owned by a small group of people with a certain amount of wealth and income. Micro-businesses with maximum assets of 50 million and a maximum turnover of 300 million rupiah, small businesses with maximum assets of 50 million up to 500 million rupiah and a maximum turnover of 300 million rupiah to 2.5 billion rupiah, medium-scale businesses with maximum assets of 500 million rupiah to 10 billion rupiah and a maximum turnover of 2.5 billion rupiah to 50 billion rupiah, while for large businesses a maximum asset of 10 billion rupiah and turnover above 50 billion rupiah (Constitution of the Republic of Indonesia Number 20 year 2008 about SMEs, 2008).

The performance of SMEs must continue to increase their annual income turnover which must be supported by an organizational commitment by the workers at SMEs to increase each production, it cannot be separated from the employees in it who always participate in the process of making the products.

2. Literature Review

2.1. Entrepreneurial Orientation

Entrepreneurial orientation is a characteristic and value adopted by the entrepreneur himself which is an unyielding nature, dare to take risks, speed and flexibility (Liao & Sohmen, 2001). Entrepreneurial orientation emphasizes the spirit to create business innovation, as a refresher from business bottlenecks, which often accompanies the initial steps of innovation (Zhou, Yim, & Tse, 2005). (Dess & Lumpkin, 2005) states that there are five dimensions of Corporate Entrepreneurship that affect company performance, namely freedom, innovation, risk-taking, proactiveness, and competitive aggressiveness. (Porter, 2008) defines an entrepreneurial orientation as a corporate benefits strategy to be able to compete more effectively in the same marketplace.

2.2. Organizational Commitment

Organizational commitment is commonly defined as a psychological link between the employee and his or her organization that makes it less likely that the employee will voluntarily leave the organization (Farrukh, Ying, & Mansori, 2017). According to (Arunagiri, Kalaippiriya, Lenggesh Krishna, Maha Vithya, & Kalaivani, 2015), (Quick & Nelson, 2013) Organizational commitment is the degree to which people identify with

the organization that employs them. It implies a willingness on the employee's part to put forth a substantial effort on the organization's behalf and his or her intention to stay with the organization for a long time. So was explained by (Newstrom, 2015) distinguishes organizational commitment into three forms, as follows: It is useful to distinguish between the three forms of organizational commitment. Affective commitment is a positive emotional state in which employees want to exert effort and choose to remain with the organization. Normative commitment is the choice to stay attached because of strong cultural or familial ethics that drives them to do so. They believe they ought to be committed because of others' belief systems and their own internalized norms and feelings of obligation. Continuance commitment encourages employees to stay because of their high investments in the organization (time and effort) and the economic and social losses they would incur if they left. (Colquitt, 2015), (Luthans, 2011) Organizational commitment is defined as the desire on the part of an employee to remain a member of the organization.

2.3. SMEs Performance

(Martha, 2015) provides an understanding that performance or work performance is "The results or overall level of success of a person during a certain period in carrying out a task compared with various possibilities, such as work standards, targets or targets or criteria that have been determined advance and mutually agreed upon". (Kuruja, 2013) Performance can also be determined as a person's ability to perform and also includes opportunities and willingness to do their work. (Rubina Jabeen, Jamal Mohammed Esmail Alekam, Nik Kamariah Nik Mat, Bilal Nayef Ibrahim Zureigat, & Alaa Muhammad Fadel al Junaidi, 2013) Firm performance is a function of the market structure and behavior of firms within the competitive and ever-changing business world. As indicated in many previous studies, better performance in companies when they focus on market orientation with a particular focus on flexibility and speed of response. (Hornby, 2010) "Performance is how well or badly you do something or something works". (Hina Zafar, Muhammad Haroon Hafeez, 2016) explored that performance defines the degree of achievement of the job of an employee. Organizational performance is the capability of the organization to complete its goals efficiently. The organization has achieved its goals and objectives then it is successful in achieving superior Organizational Performance. Performance measurement is necessary to improve the organization's strategies (Saunila, M., Pekkola, S., &Ukko, 2014).

3. Methods and Equipment

3.1. Methods

According to the characteristics of small and medium enterprises of the population, the sampling method of this study is randomly of all community members which have the same opportunity in the selection of samples. Therefore, 200 questionnaires were distributed among senior executives. The sample criteria used were respondents who had operated a business of at least 5 years of effort, 200 questionnaires were collected. At first, using library studies and searching for valid sites and literature reviews, the theoretical framework for this study was acquired. Then, by using theoretical frameworks, variables in small and medium-sized companies are extracted and localized. By using the obtained variables, the questionnaire was designed. The questionnaire from the study was designed with the following steps: variables relating to entrepreneurial orientation, organizational commitments and SMES performance taken from the literature and similar study outcomes in relation to these studies. After this stage using field studies, data is collected. The questionnaire was given to the company owner and asked them to solve it. This research uses a quantitative approach through the Survey method, it is explaining that the Survey method is used for investigative techniques with direct observation of the phenomenon or systematic meetings of data from the community by implementing contacts and Interviews when adequate information about a given issue is unavailable in notes, files and other sources. The samples of 200 SMES Population are comparable to 17 regencies in Indonesia. They are the owners of SMES who have business licenses. The type of entrepreneurship instrument, organizational commitment, and performance of SMES in this study used primary data with questionnaires in the form of a series of respondents' statements. Analysis of technical data in this study used structural equation Modeling (SEM) with AMOS 24 software version. This technique is a multivariate analysis technique which is a combination of regression analysis applied to the analysis of each variable with the analysis of factors applied to the analysis between indicators.

3.2. Research Hypothesis

The research hypothesis of this study are as follows:

H1: The effect of entrepreneurial orientation has a positive and significant effect on organization commitment

H2: The effect of entrepreneurial orientation has a positive and significant effect on SMEs performance.

H3: The effect of organization commitment has a positive and significant effect on SMEs performance.

H4: The effect of entrepreneurial orientation has a positive and significant effect on SMEs performance through organizational commitment.

4. Result

4.1. Validity and Reliability tests of Variables

4.1.1. Entrepreneurial Orientation

Validity test of “Entrepreneurial Orientation” variable, the result of the validity test from 20 questionnaires which are distributed to 30 respondents, there are 4 invalid questionnaires. So, only 16 valid questionnaires are used.

TABLE 1: Reliability Statistics

	Cronbach's Alpha	N of Items
	.725	16

Based on the Reliability Statistics output of Entrepreneurial Orientation Variable, Cronbach alpha value = $0.725 > 0.6$. So, the Entrepreneurial Orientation variable is “Reliable”.

4.1.2. Organizational Commitment

Validity test of “Organizational Commitment” variable, the result of the validity test from 16 questionnaires which are distributed to 30 respondents, there is 1 invalid questionnaire. So, only 15 valid questionnaires are used.

TABLE 2: Reliability test of “Organizational Commitment” variable

Reliability Statistics	
Cronbach's Alpha	N of Items
.681	15

Based on the Reliability Statistics output of Organizational Commitment Variables, Cronbach alpha value = $0.681 > 0.6$. So, the Organizational Commitment variable is “Reliable”.

4.1.3. SMEs Performance

Validity test of “SMEs Performance” variable, the result of the validity test from 16 questionnaires which are distributed to 30 respondents, there are 2 invalid questionnaires. So, only 14 valid questionnaires are used.

TABLE 3: Reliability test of “ SMEs Performance” variable

Reliability Statistics	
Cronbach's Alpha	N of Items
.828	14

Based on the Reliability Statistics output of SMEs Performance Variables, Cronbach alpha value = 0.828 > 0.6. So, the SMEs Performance variable is “Reliable”.

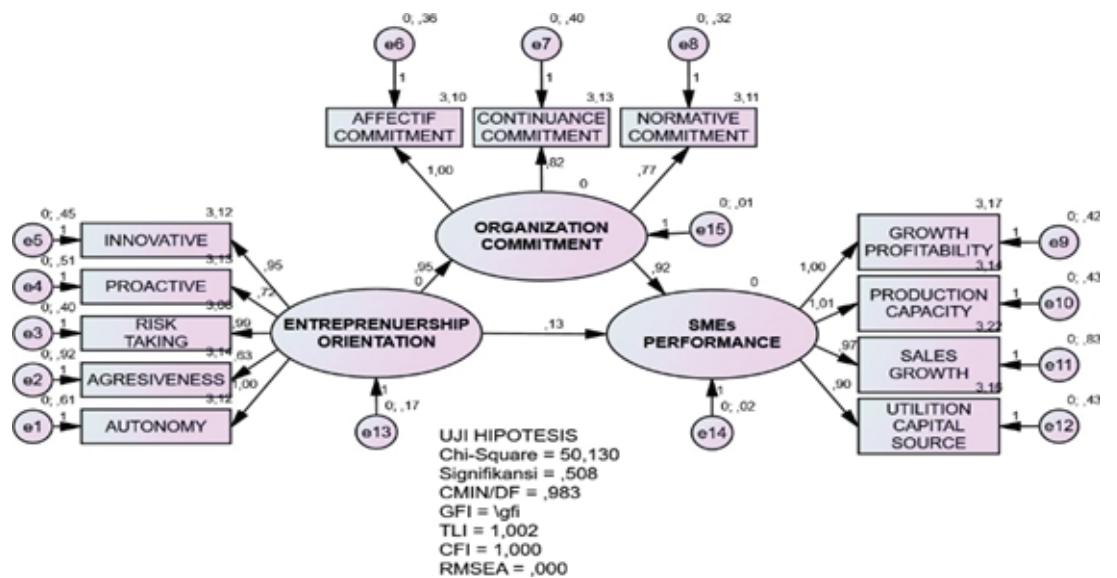


Figure 1: Result SEM

4.2. Hypothesis Model

H0: There is no difference between the covariance matrix of sample data calculated with the estimated population covariance matrix (Model accepted)

H1: There is a difference between the covariance matrix of sample data calculated with the estimated population covariance matrix (Model rejected)

Ho is accepted if the Probability value ≥ 0.05 , based on the results of the analysis, it is known that the analyzed model is a recursive model with a sample size of 200. Chi-Square value = 0,508 with df = 51 and probability 0,508. The Chi-Square results

show that the H0 which states the model is the same as empirical data is accepted which means the model is fit.

4.3. Hypothesis Testing

TABLE 4

Variables			Estimate	S.E.	C.R.	P	Status
ENTREPRENUERAL ORIENTATION	→	ORGANIZATIONAL COMMITMENT	,952	,170	5,609	***	Accepted
ENTREPRENUERAL ORIENTATION	→	SMEs PERFORMANCE	,128	3,434	,037	,970	Rejected
ENTREPRENUERAL COMMITMENT	→	SMEs PERFORMANCE	,921	3,577	,257	,797	Rejected

Source: Primary data processed, 2019

4.3.1. Hypothesis Testing 1

H1: The effect of entrepreneurial orientation has a positive and significant effect on organization commitment

The estimated parameter for testing the effect of entrepreneurial orientation on the performance of organization commitment shows a CR value of 5,609 with a probability of 0,000. Because of the probability value < 0.05, it can be concluded that the entrepreneurial orientation variable is proven to be positively and significantly influential on the performance of organization commitment. The results of the research prove that hypothesis 1 is tested.

4.3.2. Hypothesis Testing 2

H2: The effect of entrepreneurial orientation has a positive and significant effect on SMEs performance. The parameter is expected to obtain entrepreneurial orientation is not supported for updating the CR value of 0,037 with a probability of 0,970. Because of the probability value > 0.05, it can be concluded that the entrepreneurial orientation variable is not proven to be positive and significantly improves SME performance. The results of the study did not prove the hypothesis 2.

4.3.3. Hypothesis Testing 3

H3: The effect of organization commitment has a positive and significant effect on SMEs performance. The estimated parameter for testing the effect of organization commitment on SMEs performance shows a CR value of 0,257 with a probability of 0.797. Because the probability value $> 0,05$, it can be concluded that the organization's commitment variable is not proven to have a positive and significant effect on SMEs performance. The results of the research did not prove that hypothesis 3 is not tested.

4.3.4. Hypothesis Testing 4

H4: The effect of entrepreneurial orientation has a positive and significant effect on SMEs performance through organizational commitment.

The estimated parameter for testing the effect of entrepreneurial orientation on the performance of SMEs mediated by organization commitment shows a CR value of 0,037 and 0,257 with a probability of 0,970 and 0,797. Therefore, the probability value $> 0,05$, it can be concluded that a proven entrepreneurial orientation variable is not proven mediates between organization commitment variables on SMEs performance. The results of the research did not prove that hypothesis 4 is not tested.

5. Discussion

The result of entrepreneurial orientation research is proven to be positive and significant impact to organizational commitments. Entrepreneurial orientation is not proven to be positive and significantly SME performance improvement. The organizational commitments are not proven to have a positive and significant effect on SME performance. Entrepreneurial orientation is not proven to be an intermediary between organizational commitments variables in SMES performance. The research conducted by Gupta & Gupta, (2015) The research conducted in German for companies that already existed in 10 years, the results analyses indicate that entrepreneurial orientation has a strong initial effect on firm performance and this effect Gradually declines with time. Competitive intensity and demand volatility influence the effect of entrepreneurial orientation on performance in both the short term and the long term. Implications for research and practice are discussed. This is the result of the research, the difference of business period where the company is mostly 5 years and newly pioneered and located in rural areas, it is the cause of differences in results. Simon, Stachel, & Covin, (2018)

supports the opinion of the researchers, his research results have a relationship between entrepreneurial orientation and performance is often moderated by different factors. Specifically, scholars have called for research examining whether commitment to long-term objectives improves entrepreneurial orientation's effectiveness, believing that commitment may help firms overcome obstacles associated with entrepreneurial Orientation. We collected survey data from Executives in 126 small, high-technology firms, and found that entrepreneurial orientation and commitment to objectives enhanced sales growth. In addition, the study determined that commitment to objectives was associated with greater increased sales growth of companies high in entrepreneurial orientation, as compared to those low in entrepreneurial orientation, It means that the entrepreneurial orientation will affect the company's performance when the company has been in operation for a long time and so is the commitment, as longer as the company for a long-term goal of increasing the effectiveness of entrepreneurial orientation And trust so that it can help improve the company's performance.

6. Conclusion

The Chi-Square results show that the H0 which states the model is the same as empirical data is accepted which means the model is fit. The entrepreneurial orientation variable is proven to be positively and significantly influential on the performance of organization commitment. The results of the research prove that hypothesis 1 is tested. The entrepreneurial orientation variable is not proven to be positive and significantly improves SME performance. The results of the study did not prove the hypothesis 2. The organization's commitment variable is not proven to have a positive and significant effect on SMEs performance. The results of the research did not prove that hypothesis 3 is not tested. The entrepreneurial orientation variable is not proven mediates between organization commitment variables on SMEs performance. The results of the research did not prove that hypothesis 4 is not tested.

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Conflict of Interest

The authors have no conflict of interest to declare.

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