

Does Entrepreneurial Orientation Effect on Competitive Advantage? A Case Study in Small and Medium Industries



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ABSTRACT: Small and medium industries are currently the foundation of many communities in developing countries. To grow sustainably, this industry must have a competitive advantage. The purpose of the study was to analyze the effect of entrepreneurial orientation on competitive advantage. This research was conducted on export-oriented small and medium handicraft industries with a sample of 78 industries. The collected data were analyzed using Warp-PLS.6. The results showed that entrepreneurial orientation consisting of proactive, innovative, and risk-taking was proven to be able to increase competitive advantage.

KEYWORDS: proactive, innovative, risk taking, competitive advantage

INTRODUCTION

The Central Bureau of Statistics (BPS, 2020) reports that the proportion of Indonesians who are engaged in small and medium industries (SMI) is very large (around 99 percent) of the total existing businesses. The number of workers absorbed in this industry reaches 66.25% of the total 15.6 million workers in the industrial sector (kominfo.go.id). One of the characteristics of SMEs is that they are low-capital and labor-intensive businesses. In addition, they are also more prevalent in rural areas, but have proven to make an important contribution to economic development. They still face classic constraints, such as low access to capital, marketing, raw materials, and the quality of human resources. These constraints can interfere with the competitive advantage (BPS, 2021) of export craft SMIs, making them vulnerable to changes in the business environment. Initially, the presence of export craft SMIs in Bali was more dominant as a supporter of tourism sector activities as a regional flagship. Their role has been proven to add value to the tourism attraction because they can be complementary in improving the image of tourism. The majority of export craft SMIs produce souvenir products for tourists and have slowly developed into foreign trade commodities (exports). Currently, export craft SMI products are accepted by the international market, contributing significantly to the improvement of community welfare and income.

People's economic empowerment through SMEs is inseparable from entrepreneurship development activities as one of the important driving factors to improve the economy (Tambunan, 2009; Keskin et al., 2010). Entrepreneurship is believed to be a force for economic development and a driver of economic growth (Tobing et al., 2021). Entrepreneurship development through the empowerment of SMEs is a program that has been proven to make a significant contribution to economic growth, providing employment, and increasing community income, even non-oil, and gas exports (Tambunan, 2012; Robu, 2013). Sabanidze et al., (2021) state that SMEs play a strategic role in supporting the economic development of developing countries so that economic growth in these countries is highly dependent on their existence (Nawi et al., 2021).

Facing an increasingly competitive business landscape post-Covid 19 pandemic has required SMEs to have a competitive advantage in order to survive and grow sustainably. Empowerment efforts have finally become increasingly important due to dramatic changes in the local and global business environment. Finally, the demand for competitive advantage has become increasingly important to be able to exist in competition (Andika et al., 2021). Competitive advantage is the company's capability to obtain higher profits compared to competitors generated through better resource performance. Companies that have a competitive advantage will be able to generate and maintain profits better than their competitors and can grow continuously. A number of factors that can affect competitive advantage include entrepreneurial orientation (Chen et al., 2023; Yaskun et al., 2023; Yuliati et al., 2023). Entrepreneurial orientation is the behavior of the company's internal human resources. The

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characteristics of entrepreneurial orientation can help companies increase competitive advantage (Kiyabo and Isaga, 2020), referring to attitudes, behaviors, and practices in creating opportunities, taking risks, through innovation.

LITERATURE REVIEW

Resource Based View

The resource-based view (RBV) theory was introduced by Penrose (1959) that a company is an entity that manages various productive resources. The various resources managed are material and non-material, tangible, and some are intangible. Penrose (1959) argues that the same material and human resources can be combined in different ways depending on the ideas underlying their use. Penrose's (1959) view of the company is reinforced by Wernerfelt (1984) that the resource-based view (RBV) of the company can help develop business strategies to create sustainable competitive advantage. The concept of competitive advantage was first proposed by Porter (1980), that there are two strategic issues that are closely related to the company's efforts to gain profits. First, companies must be able to choose the type of industry to be engaged in. Second, the company must be able to choose a position and determine a competitive strategy (focus, differentiation strategy, or cost leadership strategy) to then make it able to outperform competitors.

Barney (1991) explains that strategic resources can create sustainable competitive advantage. However, these resources must have attributes of being valuable, rare or difficult to obtain, inimitable, and non-substitutable. The four attributes are then known as VRIN and are considered as important requirements so that a set of resources can be used as a foundation for creating sustainable competitive advantage.

Entrepreneurial Orientation and Competitive Advantage

Hili et al. (2017) explain that competitive advantage is a company's ability to achieve economic profits at least the same as its competitors in the same industry. The resource based view theory developed by Barney (1991) states that competitive advantage requires the role of top leaders to find valuable, rare, non-substitutable resources and capabilities that can be used as a source of sustainable competitive advantage (Madhani, 2009). This shows that SMEs are expected to look for new opportunities because an environment that is always changing rapidly can cause a decrease in product sales volume which results in a decrease in profits as a result of uncertain operations (Rauch et al., 2009).

Several researchers state that entrepreneurial orientation is a combination of innovation, proactiveness, and risk taking (Schillo 2011; Ketchen and Short 2012; Rank and Strenge, 2018; Basco et al, 2019; Iborra et al, 2019; Verbano et al., 2020) . The explanation of each indicator of entrepreneurial orientation can be described as follows.

1. Innovativeness refers to the tendency to pursue creativity and experimentation (Ketchen and Short 2012). Reflects engagement in new ideas and creative processes (Hult et al., 2004; Kreiser et al., 2002; Dess and Lumpkin, 2005). Innovation is an important aspect of entrepreneurial orientation because it helps companies to pursue new opportunities (Ketchen and Short 2012).

2. Proactiveness, a process that aims to anticipate and act on future opportunities (Schillo, 2011). A proactive attitude shows how a company relates to market opportunities by taking initiatives in the market (Ying-hong, 2007). Proactive companies have the desire to be pioneers (Reijonen et al., 2014) by acting first and taking advantage of emerging opportunities (Ketchen and Short 2012).

3. Risk taking is the willingness to decide and act without exact knowledge of possible returns and possibly speculate in personal, financial and business risks (Dess and Lumpkin, 2005). The ability to take risks helps companies to engage in bold actions compared to cautious actions (Ketchen and Short, 2012).

Porter (2008) defines entrepreneurial orientation as a strategy to be able to compete more effectively. Entrepreneurial orientation refers to processes, practices and decision making that encourage new input, having three aspects of entrepreneurship, namely always being innovative, acting proactively and daring to take risks (Sari et al., 2020). Entrepreneurship is seen as a pioneer in realizing sustainable and highly competitive economic growth. Innovation capability is related to perception and activity towards new and unique business activities. The ability to innovate is an important point of entrepreneurship and the essence of entrepreneurial characteristics. The research results of Zeebaree and Siron (2017) show that companies that have a strong entrepreneurial orientation have significantly more innovation capabilities than those that do not have an entrepreneurial orientation.

Entrepreneurial orientation is a company's orientation to have a principle for carrying out identification and exploitation activities of opportunities available in the market (Nwankwo and Kanyangale, 2020). Companies with a high level of entrepreneurial orientation tend to be more willing to take risks and not only rely on past strategies. Being more proactive and having the courage to take risks allows companies to create innovative products ahead of competitors, thus increasing competitive

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advantage (Kumalaningrum, 2012). An innovative attitude tends to emphasize the involvement of existing resources to support the creation of something new (Lumpkin and Dess, 1996). In a dynamic environment, entrepreneurial orientation is very helpful in creating competitive advantage (Schilling, 2006). A high entrepreneurial orientation can accelerate companies exploiting available opportunities to encourage company development (Kumalaningrum, 2012).

Competitive advantage has become an important theme in company management. A number of studies (Lee and Chu, 2011; Chen et.al., 2012) state that entrepreneurial orientation has a positive and significant effect on competitive advantage. Companies with actors who have a high level of entrepreneurial orientation always show the courage to take risks, are innovative and are more proactive (Adel and Habib, 2016; Pardi et al., 2014). In addition, entrepreneurial orientation capabilities can help companies compete more aggressively and independently to find new opportunities so that they perform better and increase competitive advantage (Lee and Chu, 2011; Chen et.al., 2012). Based on the description of a number of previous research results, the following hypothesis is proposed.

H1. Innovativeness has a significant positive effect on competitive advantage

H2. Proactivity has a significant positive effect on competitive advantage

H3. Risk taking has a significant positive effect on competitive advantage

METHODS

The research was conducted on small and medium industries (SMI) in Bali with a sample size of 78 IKM. Data was collected using a questionnaire containing questions about entrepreneurial orientation adopted from research conducted by Keh et al. (2007) and Basco et al. (2019) uses three dimensions, namely proactive, innovative, and risk taking. Competitive advantage was adopted from research by Kamukama (2013) and Ribek (2021), using four indicators, namely cost advantage, product differentiation, market advantage, and unique products. Next, the questionnaire was prepared according to the research variables by providing answer choices using a Likert scale of 1 – 5. IKM owners were asked to provide answer choices for the statements in the questionnaire by giving their perceptions of the research instruments that were considered most appropriate. The data that has been collected is then tabulated and analyzed using descriptive and inferential analysis assisted by WARP-PLS software.6

RESULT

Before interpreting the analysis results, using the WARP=PLS analysis tool, it is necessary to look at the results of the outer model test, namely the validity and reliability test which consists of convergent validity, discriminant validity and composite reliability. Apart from that, WarpPLS analysis also analyzes the goodness of fit of the inner model which is explained by R2 and the predictive relevance value. The outer model test results are shown in Table 1 below.

Table 1. Outer model test results

Indicators	Loading Faktor	Cronbachs Alpha	Composite reliability	VIFs	AVE
Innovative (X1)		0,624	0,737	2,407	0,514
x1.1 <- X1	0,698				
x1.2 <- X1	0,591				
x1.3 <- X1	0,689				
x1.4 <- X1	0,594				
Proactive (x2)		0,628	0,802	2,815	0,576
x2.1 <- X2	0,772				
x2.2 <- X2	0,824				
x2.3 <- X2	0,673				
Risk Taking (X3)		0,648	0,742	1,948	0,553
X3.1 <- X3	0,697				
x3.2 <- X3	0,720				
x3.3 <- X3	0,871				
Competitive. Advantage (Y)		0,817	0,880	2,805	0,648
Y.1 <- Y	0,792				
Y.2 <- Y	0,878				

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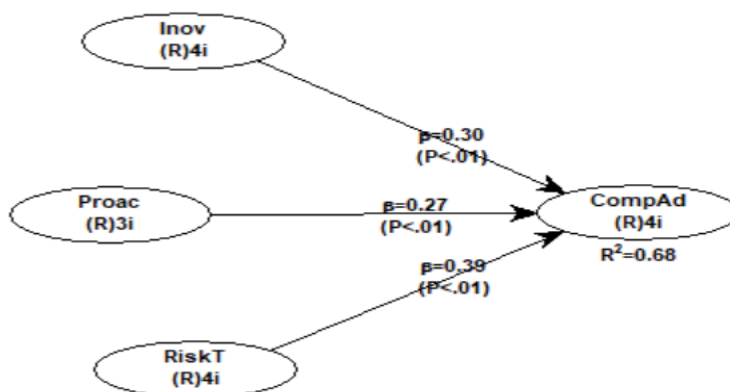
Indicators	Loading Faktor	Cronbachs Alpha	Composite reliability	VIFs	AVE
Y.3 <- Y	0,830				
Y.4 <- Y	0,804				

Primary Data, 2024

Table 1, informs that the loading factor value on each indicator is greater than 0.50 (> 0.50), meaning that the model has met convergent validity. Discriminant validity has been met based on the average variance extracted (AVE) value with a value > 0.50 . Likewise, the model has met the reliability composite criteria based on the Cronbachs Alpha value > 0.6 and the reliability composite coefficient value > 0.7 . While the value of variance inflated factors (VIFs) is smaller than the value of 5 ($VIFs < 5$) which means the model avoids multicollinearity. Based on Table 1, it can be concluded that the model has met the validity and reliability tests (outer model).

Furthermore, the predictive relevance (Q2) value is calculated using the formula $Q2 = 1 - (1 - R12) = 1 - (0.321) = 0.679$. This means that variations in innovative, proactive, and risk-taking variables can predict the creation of competitive advantage by 67.90%. The remaining 32.10% of competitive advantage is influenced by other variables outside the model.

After testing the outer model and inner model, here are the results of hypothesis testing using Warp-PLS.6 analysis, which is shown in Figure 1 as follows.



Based on Figure 1, a summary of the results of hypothesis testing is made, which is shown in Table 2 below.

Table 2. Hypothesis

H	Variable Effect	Path coefficient	p-values	Result
1	Proactive -> Competitive Advantage	0,305	0,002	Significant
2	Innovative-> Competitive Advantage	0,271	0,005	Significant
3	Risk Taking -> Competitive Advantage	0,389	<0,001	Significant

Primary Data, 2024

Table 2, shows that all proposed hypotheses are significant where Proactive, innovative, and risk taking attitudes are proven to be able to increase competitive advantage.

DISCUSSION

The results prove that export-oriented craft SMEs have a high entrepreneurial orientation. This study proves that entrepreneurial orientation has a significant effect on competitive advantage. The results of this study are consistent with the research of Lee and Chu (2011); Chen et.al. (2012); Kumalaningrum (2012); Kiyabo and Isaga (2020); Sadalia et al. (2020); Fatikha and Sumiati (2021). The concept of entrepreneurial orientation has long been recognized and developed by researchers, especially in the field of business management (Nwankwo and Kanyangale, 2020). This concept concerns creative and innovative abilities that are used as the basis, tips, and resources for seeking opportunities for success (Scarborough and Zimmerer, 1993). Entrepreneurial orientation is a concept that describes the attitude and behavior of a person who is proactive, innovative, and risk-taking in creating value (Sari et al., 2020). Entrepreneurial orientation is proven to be a source of forming and increasing the company's competitive advantage.

Competitive advantage reflects the results of strategy implementation that utilizes various resources owned by the company. Unique skills and assets are seen by Barney (1997) as a source of competitive advantage. The unique expertise of

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organizational members is an important part of achieving competitive advantage that makes the organization superior in implementing resource-based strategies so that it is difficult for competitors to imitate. Awwad (2013) states that competitive advantage is the ability gained through resources to support higher performance. Furthermore, Porter (1994) explains that competitive advantage is the heart of organizational performance, especially performance in the marketing field to face increasingly fierce competition going forward.

The results of the study inform that entrepreneurial orientation (proactive, innovative, and risk taking) has a significant positive effect on competitive advantage. It can be explained that the higher the entrepreneurial orientation behavior possessed by the owners of export craft SMIs, the competitive advantage possessed by the products produced by export craft SMIs will increase. Entrepreneurial orientation as part of the principle of business management is a characteristic of crafters so that they have and encourage the intention to continue to seek and take advantage of every opportunity that exists proactively, innovatively, and courageously in taking business risks.

Proactiveness is shown by the actions of artisans who always want to be ahead of the curve in responding to market demand, seeking new markets, and producing according to the latest trends. Innovative attitude is shown by the behavior of artisans who always try to create new products and look for ways to produce new products so that products can be more efficient. Thus, products will become increasingly more competitive in the market compared to products produced by competitors. The increasingly fierce competition causes export craft SMIs to also show the courage to take business risks. The number of competing products from abroad makes export craft SMIs always dare to take various risky challenges, but still remain controllable.

The findings of the research show that, after the Covid 19 pandemic, export craft SMIs have become more careful in carrying out their business operations. Innovative attitudes show the most dominant attitudes perceived by export craft SMI actors. This means that export craft SMI actors are always trying to find new markets due to post-pandemic market uncertainty. On the other hand, to find new markets, export craft SMIs always try to produce new products that meet the needs and tastes of the market. Export craft SMIs are also trying to respond to new markets by establishing closer partnerships, both with competitors and with distributors.

After the Covid 19 pandemic, export craft SMIs are trying to be optimistic in facing all challenges in the market. However, export craft SMIs are very careful in managing risks to face all the challenges that are very dynamic in the market. The information obtained also states that craft SMIs always try to follow the latest market trends. However, craft SMIs are always careful and selective in releasing new products. This means that before releasing a new product, export craft SMIs consider it more carefully than in the previous year. This is because post-pandemic conditions still traumatize export craft SMIs to be more responsive by always being proactive, innovative and showing courage in taking risks.

This research proves that the entrepreneurial orientation of export craft SMIs is very high and proven to increase competitive advantage. The higher the proactiveness, innovativeness and risk-taking courage of export craft SMIs, the higher the competitive advantage of products produced by export craft SMIs. Conversely, low entrepreneurial orientation can reduce competitive advantage. Entrepreneurial orientation is one of the processes in strategic management to support competitive advantage. Research by Mahmood and Hanafi (2013) suggests that entrepreneurial orientation has a strong impact on increasing competitive advantage. The attributes of business managers who adopt an innovative, proactive and risk-taking attitude in managing the business can create more value in managing business activities to face competition.

This research can enrich the resource view theory (Barney) that every organization can explore internal core competencies to produce capabilities that are valueable, rare, imitability, and nonsubstitute (VRIN). Entrepreneurial orientation is a core competency as part of internal capabilities that can be utilized in supporting the creation of competitive advantage. Proactive, innovative, and risk-taking behaviors are part of the internal core competencies that the organization relies on to create and produce products that have high competitiveness so that they can support the company's success in competition.

Managerial Implications

The research findings show that risk taking is a variable that has a dominant influence in increasing competitive advantage. This can be interpreted that after the Covid 19 pandemic, handicraft SMI players must dare to take considered risks to execute business plans. The pandemic-induced sluggishness that has hit the business world and the increasingly intense competition between similar industries require SMI actors to be proactive and innovative. IKM actors are expected to be more courageous in executing the plans that have been made despite facing possible risks. The courage to take various risks that may occur is essential when SMEs want to continue to grow sustainably by building competitive advantage. This research is able to enrich and strengthen the resource-based view theory. Entrepreneurial orientation is an internal capability proven to be able to be used as a source of competitive advantage. The resource view concept mandates that tangible assets (valueable, rare, imitable, and nonsubstitute) are core competencies owned by the company to increase competitive advantage.

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CONCLUSION

Entrepreneurial orientation is the attitude of craft SMEs, which is a strategic asset to increase competitive advantage. A proactive attitude, which is reflected by SMI actors to always be faster than competitors to enter new markets, can increase competitive advantage. Innovative attitudes are also seen as very important for SMEs to always introduce new products and services to increase competitive advantage. Furthermore, the courage to take risks that have been carefully considered is the most important capital to achieve competitive advantage.

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