

IMPROVING THE BUSINESS PERFORMANCE OF THE SMALL AND MEDIUM SCALE HANDICRAFT INDUSTRY THROUGH ENTREPRENEURIAL ORIENTATION AND COMPETITIVE ADVANTAGE

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ABSTRACT

This study aims to examine competitive advantage (CA) as a mediating variable between entrepreneurial orientation (EO) and business performance (BP) in the small and medium business sector, especially the handicraft industry. This study uses the positivism method, the sample used in the study is handicraft craftsmen who have been clustered based on research variables and 119 respondents were obtained as research samples. Data was obtained by distributing questionnaires to business actors. Furthermore, the data is processed to test the hypothesis formulated using SEM variance Partial Least Square (PLS). The results showed that competitive advantage gave a positive contribution between entrepreneurial orientation and business performance, yet entrepreneurial orientation did not significantly affect the achievement of business performance. The practical implication of this research is to improve business performance post pandemic Covid-19 SMEs handicraft industry is to create competitive advantage (CA). Competitive advantage (CA) can be created with an entrepreneurial-oriented attitude.

Keywords: Entrepreneurial orientation, Competitive Advantage, Business Performance, SMEs, Handicraft Industry.

INTRODUCTION

Small and medium enterprises make a very large contribution to the economy of a country, especially developing countries. Empowerment of small and medium enterprises is carried out by the government in order to increase economic growth, equity and increase people's income, create job opportunities and alleviate poverty. Indonesia, which is a developing country, plays a very large role in the national economy. However, the pandemic situation that occurred during the last two years had a very large impact on the decline in the SMEs sector, especially the handicraft industry. Indonesia, which is an archipelagic country with various cultural tribes, has a very diverse handicraft industry, most of which also show local cultural characteristics from the region (Rahyuda, Rahyuda, Rahyuda, & Candradewi, 2018). The handicraft industry has the potential to develop, but in the past two years since the pandemic crisis hit all parts of the world, there are many sectors that have not been able to survive. The handicraft industry is also one of the sectors experiencing sluggishness; the implementation of policies that focus on preventing COVID-19 has caused the economy to experience a drastic setback. Two years on, all countries are competing to revitalize the economy and provide stimulation for business actors to bounce back.

Small and medium business actors are an illustration of entrepreneurial-oriented behavior; entrepreneurial-oriented attitudes have been widely studied and are an inseparable part of strategic management. Anderson et al. (2012) in his study has constructed an entrepreneurial orientation attitude, which is something very complex owned by an entrepreneur, the same thing was also done by (Kraus et al., 2017) who constructed an entrepreneurial attitude consisting of the dimensions of innovative, proactive and aggressive attitudes in competing. Entrepreneurial orientation attitude has an impact on business performance, as the results of research conducted (Barrett, Dooley, & Bogue, 2021; Alam, 2013; Al-awlaqi, Mohamed, & Habtoor, 2018). In line with studies conducted by (Yanlong Zhang, 2012; Cho & Lee, 2018) which states that an entrepreneurial-oriented attitude can create better business performance.

It is not only enough to have an entrepreneurial orientation, but the SMEs industry must also have a sustainable competitive advantage (Ma, 2002; Ma, 2004). Competitive advantage is a situation where the company has an advantage both in products, processes, and markets. With the competitive advantage possessed, the achievement of financial performance can also be achieved better (Andakama, Ahiauzu, Ntayi, & Kamukama, 2011a). competitive advantage refers to the resource-based view theory is that it depends on the internal resources owned by the company, namely the capability of business actors is an important factor of competitive advantage (Chuang, Chen, Lin, Chen, & Lin, 2016). Businesses are able to adapt to technological developments and how to dominate new markets. Jardon, Martos, Jardon, & Martos (2012) in research on competitive advantage, focuses that competitive advantage depends on organizational capabilities in determining strategic plans for achieving business performance. In connection with the entrepreneurial orientation attitude in this study which includes innovation and aggressive attitude in competing, it is intended that it will require businesses to optimize technology mastery and market control which in the end will increase business performance as well. Based on the background of the problem, the purpose of this study is to:

- 1) To determine the effect of entrepreneurial orientation on business performance
- 2) To determine the effect of entrepreneurial orientation on competitive advantage
- 3) To find out the influence of competitive advantage on business performance
- 4) To find out the effect of entrepreneurial orientation on business performance by mediating competitive advantage.

LITERATURE REVIEW AND HYPOTHESES

1. Entrepreneurship Orientation and Business Performance

Entrepreneurial orientation is not new in the perspective of strategic management; entrepreneurial orientation is a view to create business continuity that is run in dynamic or uncertain environmental conditions. Business persistence and innovation are characteristics of someone who has an entrepreneurial orientation attitude (Murphy & Murphy, 2009). An entrepreneurial attitude can create a good business pro forma (Crema et al., 2014; Bereket,

Mamo, 2017; Le & Ikram, 2022; Wee Loong Lee, Aik Lee Chong, Ramayah T., 2019). Entrepreneurial attitude provides opportunities for business development (Subhanjan Sengupta, 2017; Ebrashi & Ebrashi, 2013; Hasan Khalili, Syedhammzeh nejadhussein, 2013), based on these empirical hypotheses formulated in research (H1).

H1 : Entrepreneurial orientation has a significant effect on business performance.

2. Entrepreneurship Orientation and Competitive Advantage

Competitive advantage describes the company being able to create products and processes that are superior to its competitors, and competitive advantage will have an impact on business continuity. In small and medium-sized industries, competitive advantage can be created with an entrepreneurial-oriented attitude, namely the ability to create innovation (Beaver, Prince, & Beaver, 2002). Similar research was also conducted (Ma, 2002) which stated that the determination of competitive advantage is through innovation, creation, and the ability to see changes in the environment so that companies have the right strategy to compete. The competitive advantage of the small and medium industry sector is created when business actors are responsive to competitive situations, so they will continue to strive for continuous innovation (Kafetzopoulos, Dimitrios; Gotzamani, Katerina; Gkana, 2015). The ability to compete and create innovation in this study is an indicator of entrepreneurial attitude or spirit, based on empirical facts from previous studies, the second hypothesis is formulated in this study.

H2 : Entrepreneurial orientation has a significant effect on competitive advantage.

3. Competitive Advantage and Business Performance

Competitive advantage is an important factor for achieving business performance (kamukama, Ahiauzu, Ntayi, & Kamukama, 2011; Chuang, Chen, Lin, Chen, & Lin, 2016; Parnell, Long, Lester, & Parnell, 2015). The same study was also conducted by (Rua et al., 2018), the results of his research show that good financial performance of the SMEs sector is achieved through competitive advantage. Based on several previous research results, and the relevant conditions of the small and medium industrial sector in the post-covid period which must create a competitive advantage in order to improve financial performance or business performance, the third and fourth hypotheses are formulated.

H3 : Competitive advantage has a significant effect on the achievement of business performance.

H4 : Significant competitive advantage as a mediation between entrepreneurial orientation and business performance.

RESEARCH METHOD

1. Research Design

This study uses a positivism approach, data obtained through questionnaires distributed to handicraft businesses that have been clustered based on the annual turnover obtained which

refers to the MSME Law No. 20 of 2008. Furthermore, it is analyzed using statistics to test hypotheses, the test results function to explain the relationship between variables either directly or in relation to the mediating variable (Creswell, John 2017:24-25). The variables used in this study consist of endogenous variables, namely business performance and competitive advantage, as well as exogenous variables, namely entrepreneurial orientation. The indicators used for each variable include; entrepreneurial orientation using indicators of innovation and aggressive competition. Competitive advantage uses mastery of technology and market knowledge, while business performance uses productivity and financial condition.

2. Population and Sample

The population used is business actors who produce handicrafts as local local products, in one of the provinces in Indonesia, namely East Java province. The research location was chosen because the East Java area of Indonesia has the potential for the handicraft industry which can develop well in the future. The sample used is judgment sampling, namely the sample is selected with certain considerations that are tailored to the objectives and problems that will be developed through the proposed hypothesis (Ferdinand, 2014:179). Sample is the manager as well as the manager or owner of the handicraft industry whose industrial products are marketed in local and foreign markets. The number of samples that match the research criteria is 148 samples, while those who fill out the questionnaire completely and can process the data are 119 respondents. Respondents are spread in the districts of the province of East Java, Indonesia.

3. Research Hypotheses Testing

Hypothesis testing is intended to answer the proposed hypothesis is accepted or rejected by using the critical t-test (1.96) at a significance level of $p = 0.05$ to the weight relation. If the p-value < 0.05 then the hypothesis is accepted which indicates that there is a significant effect between the exogenous and endogenous variables. And if the p-value > 0.05 then the hypothesis is rejected which indicates that there is no significant effect or relationship between the exogenous and endogenous variables.

4. Analysis of Mediating Variables

The analysis of the mediating variable in this study uses a testing approach with Z-value, namely testing the indirect effect path coefficient by multiplying the path coefficients of the segments traversed by the Sobel test of the Z-value statistical test (Solimun, Fernandes Adj, 2017). In this study, the indirect effect test is the entrepreneurial orientation variable on business performance by mediating competitive advantage.

RESULT AND DISCUSSION

Characteristic respondent

The respondent data used for data analysis is 119, consisting of 88 medium-scale business groups and 31 small-scale handicraft-producing business groups. The characteristics of the respondents are presented in table 1 below.

Table 1: Characteristic Respondent

Respondent Characteristic	Criteria	Total	Percentage
Respondent Status	Manager & Owner	103	87%
	Manager not the owner	16	13%
Total		119	100%
Gender	Male	47	39%
	Female	72	61%
Total		119	100%
Age	<40 y.o	18	15%
	41-50 y.o	43	36%
	51-60 y.o	49	41%
	>60 y.o	9	8%
Total		119	100%
Education	Elementary	9	8%
	Junior high	22	18%
	Senior high	54	45%
	Bachelor degree	34	29%
Total		119	100%

Source: Primary Data Processed, 2021

Table 1 above shows that the majority (eighty seven percent) of the handicraft industry is run by owners, who are also managers and thirteen percent are run by other people, namely managers but not direct business owners, usually managers still have kinship relations with business owners. In accordance with the character of small and medium industries, that does not require large capital and are run by the owners themselves. Most of the business actors in the handicraft industry are women (sixty-one percent) and thirty-nine percent are men; but gender here does not characterize the specificity of the industrial product because the handicrafts produced by the small and medium business groups are the result of the creativity of the industry. Furthermore, the age level of the majority of the handicraft industry players is over 40 years old, namely thirty-six percent are 41-50 years old, and forty-one percent are 51-60 years old. This shows that the handicraft industry can develop in various age groups. The education level of the actors in this industry is dominant forty-five percent of high school graduates and twenty-nine percent are undergraduate graduates, the rest are junior high school graduates (eighteen percent) and eight percent of elementary school levels.

Validity test: convergent and discriminant

The convergent validity test aims to determine the relationship between each indicator and its latent construct or variable, the convergent validity test in this study uses the PLS program to see the reflexive indicators between the component scores and the indicator scores. From the calculation of the PLS program, the value of convergent validity is obtained in table 2 below.

Table 2: Convergent Validity

Variable	Indicator	Loading factor	P-Value	Noted
Entrepreneurial orientation	Have an Innovative attitude (X ₁)	0.712	0.000	Valid
	Have an aggressive competing attitude (X ₂)	0.890	0.000	Valid
Competitive Advantage	Able to keep up with technological developments (Z ₁)	0.887	0.000	Valid
	Have the ability to dominate the market (Z ₂)	0.745	0.000	Valid
Business Performance	Business productivity has increased (Y ₁)	0.835	0.000	Valid
	The financial condition of the business has improved (Y ₂)	0.846	0.000	Valid

Source: Data processing results, 2021

The results of the convergent validity test in table 2 show that the indicators of each research variable have a loading factor value of more than 0.500 with a p-value of 0.000 and are declared to meet the validity requirements. Furthermore, discriminant validity is presented in table 3 below.

Table 3: Discriminant Convergent

Indicator	Entrepreneurship Orientation (X1)	Competitive Advantage (Z)	Business Performance (Y)
X1	0.712	0.363	0.447
X2	0.890	0.411	0.525
Z1	0.306	0.591	0.246
Z2	0.199	0.686	0.271
Y1	0.493	0.386	0.803
Y2	0.618	0.500	0.914

Source: Data processing results, 2021

Table 3 above shows that the correlation of the measurement items in each variable shows a greater value than the other constructs, then the latent construct is able to predict the variables better than the other constructs and is declared to meet the discriminant validity requirements.

Reliability test

Reliability test is intended to measure the internal consistency of the indicators used, internal consistency that is intended is accuracy, consistency and accuracy. In this study, reliability was tested with composite reliability and Cronbach's alpha and the results obtained in table 4.

Table 4: Reliability Test

Variable	Composite reliability		Cronbach's alpha		Noted
	Value	Criteria	Value	Criteria	
Entrepreneurial orientation	0.885	≥ 0.600	0.858	≥ 0.600	Reliable
Competitive Advantage	0.869		0.848		Reliable
Business Performance	0.865		0.788		Reliable

Source: Data processing results, 2021

Table 4 shows that all variables meet the reliable requirements, namely the indicators used indicate a level of accuracy and are consistent with composite reliability and Cronbach's alpha values of more than 0.600.

Research Model Development

Conversion of the path diagram from the research model into an equation that describes the relationship of each indicator to its latent variables which include entrepreneurial orientation, competitive advantage, and business performance. The development of the research model is presented in table 5.

Table 5: Equation Model

Variable	Indicator	Loading Factor	Equation Model
Entrepreneurial Orientation	Have an Innovative attitude (X ₁)	0.712	X ₁ =0.712X
	Have an aggressive competing attitude (X ₂)	0.890	X ₂ =0.890X
Competitive Advantage	Able to keep up with technological developments (Z ₁)	0.887	Z ₁ =0.887Z
	Have the ability to dominate the market (Z ₂)	0.745	Z ₂ =0.745Z
Business Performance	Business productivity has increased (Y ₁)	0.835	Y ₁ =0.835Y
	The financial condition of the business has improved (Y ₂)	0.846	Y ₂ =0.846Y

Source: Data processing results, 2021

Table 5 above shows that each indicator has a dominant nature to form the latent variable. Like entrepreneurial orientation, aggressive competitive indicators are more dominant than innovation indicators. This indicates that the entrepreneurial-oriented attitude of the handicraft industry players is more aggressive in competing with the loading factor value of 0.890. Meanwhile, the competitive advantage variable is formed dominantly from the technology mastery indicator with a loading factor value of 0.887 which is greater than market control. In the endogenous variable, namely business performance, it is formed dominantly from financial condition indicators with a loading factor of 0.846 which is greater than productivity.

Hypothesis test

Based on the results of the hypotheses test of the variables that have met the validity and reliable requirements, the path coefficient values, t-statistics, and p-values are as follows:

Table 6: Hypothesis test results

Hypothesis	Path	Path coefficient	t Statistic	p-value	Noted
1	$X \rightarrow Y$	0.475	1.953	0.053	Not significant
2	$X \rightarrow Z$	0.320	2.113	0.034	Significant
3	$Z \rightarrow Y$	0.591	2.049	0.019	Significant
4	$X \rightarrow Z \rightarrow Y$	0.189	1.996	0.027	Significant

Source: Data processing results, 2021

The hypothesis test based on table 6 shows that there are differences in test results with the proposed hypotheses, the effect of entrepreneurial orientation on business performance shows a statistical t-value of 1.953 less than 1.96 with a p-value of more than 0.05, it is stated that there is no significant effect, hypothesis 1 is rejected. The effect of entrepreneurial orientation on competitive advantage shows that the t-statistic value of 2.113 is more than 1.96 and the p-value is less than 0.05. It is stated that there is a significant effect, hypothesis 2 is accepted. Likewise, the effect of competitive advantage on business performance also shows the same thing, namely the t statistic of 2.049 is more than 1.96 with a p-value of less than 0.05, it is stated that there is a significant effect, hypothesis 3 is accepted. Competitive advantage as a mediation between entrepreneurial orientation and performance also shows the t-statistic value of 1996 is more than 1.96 with a p-value of less than 0.05. It is stated that competitive advantage provides a significant mediation on business performance, hypothesis 4 is accepted.

Discussion

The effect of entrepreneurial orientation on business performance

The results show that entrepreneurial orientation has no significant effect on business performance, the results of this study are not in line with previous research (Hasan Khalili, Syedhamzeh Nejadhussein, 2013; Bereket, Mamo, 2017; Cho & Lee, 2018). Several previous studies have stated that entrepreneurial-oriented attitudes have an impact on achieving better business performance, the difference in results is due to conditions that occur in different social communities. The situation in this study was taken after the Covid-19 pandemic, where all sectors began to slowly recover their businesses as a result of the global economic downturn due to the pandemic. In entrepreneurship theory, an entrepreneurial-oriented attitude has a very broad scope for the success of the business it runs (Murphy & Murphy, 2009). How to redesign business failure, in a crisis situation caused by a pandemic, many small and medium industries have gone bankrupt. Many small and medium business actors are unable to continue their business again, only business actors are able to design business failures by looking at the potential or opportunities that will survive and can grow again. The handicraft industry had experienced a slump due to policies that focused on preventing the impact of Covid-19,

including the cross-border movement. Post-pandemic economic revitalization is a breath of fresh air for business actors, the opening of the tourism industry is slowly providing opportunities for the handicraft industry to develop again. An entrepreneurial-oriented attitude, namely innovation in products and processes as well as ability or aggressiveness in business competition will improve business financial performance (Le & Ikram, 2022; Do, Budhwar, Shipton, Nguyen, & Nguyen, 2022). The entrepreneurial-oriented attitude in this study is still not able to have a direct impact on the achievement of business performance, the resource-based theory states that human capital is a determining factor for business success, innovation capabilities must continue to be developed so that business can be sustainable (Borah, Iqbal, & Akhtar, 2022). The entrepreneurial orientation in this study has not seen a direct impact on business financial performance, this is because it still takes time for business recovery and refers to concepts in strategic management science, entrepreneurial attitudes which include innovation and aggressiveness in competing in the long term will be able to improve business performance.

The effect of entrepreneurial orientation on competitive advantage

Hypothesis testing shows that entrepreneurial orientation has a significant effect on competitive advantage, the innovations created by the handicraft industry business actors also have an impact on the utilization of current technological developments both in the process and in the marketing of products. This study is in line with previous findings (Kamukama, Ahiauzu, Ntayi, & Kamukama, 2011b; Francis, Asah; Olawale, Olufunso Fatoki; Ellen, 201; Chang-Muñoz, Mercado-Caruso, Gazabon, Segarra-Oña, & Osorio, 2021; Tehseen, Johara, Halbusi, Islam, & Fattah, 2021). Small and medium enterprises, especially the handicraft industry, are one of the sectors affected by the Covid-19 pandemic crisis, the economic revitalization carried out by the government is one of the factors that stimulates this industry to develop again. Business actors in this sector strive to create innovations in accordance with the socio-economic changes of their communities and see various potentials that can be developed again. Changes in people's behavior are used as new opportunities so that the handicraft industry can grow again. Changing the pattern of product marketing, not only in tourist attractions or local markets but shifting to the use of technology in marketing. With an entrepreneurial-oriented attitude, the handicraft industry is believed to be able to develop again, namely innovation and aggressiveness in competing with very dynamic environmental changes and seeing market potential by utilizing technological developments so that the business being carried out can be sustainable (Howard & Steffen, 2022).

Effect of competitive advantage on business performance

Based on the results of the study showing that competitive advantage has a significant effect on achieving business performance, the biggest challenge in this sector is how to create a sustainable competitive advantage so that financial performance and productivity levels can be maintained (Mukherjee, 2018; Parnell et al., 2015). Competitive advantage is a condition that describes the company has succeeded in winning the competition in the business environment both in terms of raw material supply, production processes and market control. Competitive

advantage in this study is measured by indicators of mastery of technology and market domination. The shift in people's behavior during the pandemic is seen as a potential or opportunity for the handicraft industry to grow again by using technology as a means or media for product distribution. The potential for a wider market reach can provide opportunities for improving business performance or financial performance. This study is in line with several previous researchers (Kamukama, Ahiauzu, Ntayi, & Kamukama, 2011; Chuang, Chen, Lin, Chen, & Lin, 2016; Parnell, Long, Lester, & Parnell, 2015).

The effect of entrepreneurial orientation on business performance by mediating competitive advantage

The findings show that innovation and aggressiveness in competing which are an illustration of an entrepreneurially oriented attitude have a significant effect on increasing business performance by mediating competitive advantage created by business actors, in line with research (Bennett, Smith, & Bennett, 2002; Ji, Lin, Chen, Lin, & Chen, 2008; Miles, Darroch, Miles, & Darroch, 2006; Rua et al., 2018). In a post-pandemic situation, the SMEs sector has the potential to grow again by optimizing its internal resources and adapting to a very dynamic environmental change (Rosas, Cecilia, & Zaldivar, 2022). Innovation and aggressive competition are owned by SMEs with the use of technology both in the distribution and production processes so that they can increase market share, technology for distribution networks is very helpful for business actors in meeting the needs of people who have experienced a shift in behavior due to the pandemic. Market control and optimal use of technology will be able to increase business productivity and good financial performance.

Research implication

The practical implication of this research is to emphasize on small and medium-sized businesses, especially the handicraft industry, to continue to create innovations both in the process and distribution by using the right technology and trying to continue to improve new markets both domestically and abroad so that business performance can increase, while the theoretical implication is that entrepreneurial orientation, which is an inseparable part of strategic management science, is an important determinant of creating a sustainable competitive advantage.

Research Limitation

The limitation of this research is that the respondents only understand in general about the indicators used in each variable being measured, in future research, qualitative information is needed to strengthen the results of the study. The time span used to measure business performance is still considered very lacking, because economic recovery has also only been implemented by all countries so that the maximum impact has not been seen. In further research, it is necessary to add a time span so that the business performance of the observed industry provides optimal results. On the other hand, this research was only conducted in one province in Indonesia, namely East Java Province; with personal characteristics that are strongly influenced by cultural background and local customs.

CONCLUSION

The results of the hypothesis test indicate that the entrepreneurial-oriented attitude of SMEs in the handcraft industry has not been able to create optimal business performance in terms of financial performance and productivity. This is because the condition of business recovery still takes time, because the economic downturn due to the pandemic crisis has affected all levels of society. Weak people's purchasing power is also a major factor in achieving performance. However, this attitude of innovation and aggressive competition really needs to be improved again in post-pandemic crisis conditions, many SMEs business actors are unable to rise again due to the Covid-19 pandemic triggered by the economic downturn experienced many countries. The economic recovery carried out by the Indonesian government provides an opportunity for the SMEs industry to grow again with innovations taking into account changes in a very dynamic environment. Innovation and aggressive attitude in competing will be able to create sustainable advantages and in the end business performance will also increase.

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