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The Effect of Entrepreneurial Orientation, Working Capital And Market Orientation on The Performance of SMEs

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ABSTRACT

The purpose of this study was to analyze the effect of entrepreneurial orientation, working capital, and market orientation on the performance of Small and Medium Enterprises (SMEs) in Bali. The type of this research was quantitative method. The size of respondents were 280 SMEs, selected by accidental sampling or the sample was chosen by chance at the location and was considered suitable as a data source. In the questionnaire, there were five choices of scores for each statement that could be chosen according to the actual situation felt by the respondent. The data were analyzed using structural equation modeling analysis with the SmartPLS 4.0 software data processing tool. This study revealed that the entrepreneurial orientation, working capital, and market orientation had a positive and significant effect on the performance of SMEs. Finally, this model helps to determine how entrepreneurial orientation, working capital, and market orientation affect business performances of SMEs.

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INTRODUCTION

The role of small and medium sized enterprises is indicated by its population as the largest business actor in the Indonesian economy, as well as its contribution to employment, the formation of gross domestic product (GDP), exports and the creation of fixed capital or investment. I Wayan Ekadina, Head of Cooperatives and UKM Office in Bali mentioned that the number of SMEs increased by 28,344, or 6.4%, from 2020 to 2021. The Bali government continues to strive to increase the productivity and competitiveness of the MSME industry so it can best contribute to Bali's economy. SMEs need to expand their ability to adapt to dynamic change (entrepreneurial orientation), access working capital and government financing policies (working capital), and elevate customer satisfaction (market orientation) [1].

Most of SMEs were engaged in the primary sector (50.1 percent), and the tertiary sector (42.5 percent), while a small proportion in the secondary sector. Apart from low productivity, SMEs have better resilience to crises, formed because the organizational structure and workforce of SMEs are more flexible in adapting to market changes. According to Jogaratnam et al. (2017) [2] and Li et al. (2008) [3] this resilience and flexibility makes SMEs used by most people as the main source of livelihood.

Based on the level of productivity and the need to increase the population of small and medium enterprises, increasing the productivity of micro enterprises is used as a target for the empowerment of SMEs in the future. According to Mason et al. (2015) [4]; Purwanto et al. (2020) [5], improving the capacity and productivity of

micro-enterprises can be done through strengthening assets, skills and their connection with business and marketing networks in an established business system. It is also expected that the increase in the capacity of SMEs can escalate the income of the community in general, which in turn will contribute to the reduction of poverty. Finance Minister Sri Mulyani Indrawati said promoting micro, small and medium enterprises is the same as promoting women in Indonesia. This is due to the role and contribution of SMEs in the national economy, which reached 61% in 2021, 57% of which are led by women at the micro level. The Ministry of Finance, as National Treasurer and Tax Administrator, will continue to support women and SMEs in the Republic of Indonesia using all means of the State Budget, including means of funding public facilities and investments. According to Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] The role of small and medium enterprises also needs to be increased in strengthening the domestic production base, and participation in export and investment markets. The classic problem that has yet to be resolved is the lack of capital from most SMEs as a result of the low access of SMEs to sources of capital/financing, especially banking. Understanding Working Capital is an investment in short-term assets or investment in current assets. Working capital can be categorized into two, namely gross working capital and net working capital / Gross working capital is the total current assets, and net working capital is the total current assets minus the current liabilities [6].

Boso et al. (2013) [7] and Chen et al. (2013) [8] have different opinion, that working capital management is a company's investment in the short term: cash, marketable securities (securities),

receivables, and inventories. The company's performance can also be measured from the success in managing sales, which identifies consumer needs and desires through the creation of customer value and customer satisfaction. In realizing this goal, the company must be able to develop a market-oriented marketing strategy, so that the company is able to compete in reaching an increasingly global market with imported products. In order to increase competitiveness, adapting to customer needs, market-oriented plays important role. Customers are the assets that drive business performance. Market Orientation is a process associated with entrepreneurial activity, generate customer needs and satisfaction [9]. In addition, various studies showed that small businesses that are 'entrepreneurship oriented' would place HR capabilities as a target that must be achieved. According to Asad et al. (2020) [10]; Atuahene et al. (2001) [11]; Jogaratnam et al. (2017) [2] and Li et al. (2008) [3], by directing various available resources to use resources to achieve goals, it was expected to create innovation and creativity so as to produce better company performance. Better business performance leads to better competitiveness. This is a key factor in business continuity and growth. Based on the description above, this study raises these issues to conduct research with the title The Effect of Business Capital, Market Orientation, and Entrepreneurship Orientation on SME Performance. This study is development from the research done by Zaato et.al. (2020) [12] who explored the effect of entrepreneurial orientation on SMEs performance, Rofiaty et al. (2022) [13] focused on the implementation of entrepreneurship orientation and flexibility toward adaptive

innovation and improved firm performance.

Entrepreneurial Orientation

Entrepreneurial orientation is essential factors that improve productivity of SMEs [14]. The company have an entrepreneurial spirit and always strive to create and acquire innovative and cutting-edge products. Entrepreneurial orientation is a new approach to update company performance that someone can do several things, such as actively innovating and taking risks to be able to start and manage a business [15], [16].

Market Orientation

Market orientation is an important factor that can affect a company's performance [10], [2], [3]. Al Hakimi, et.all (2021) [17] defined market orientation as the most effective and efficient organizational culture to create behaviors that can produce the best for buyers and produce superior performance for the company. Based on the two definitions of market orientation, it can be concluded that market orientation is a way for organizations to identify markets and use them as a basis for determining company strategy [18], [12]. Companies that are successful in controlling the market are referred to as market drive firms, namely companies that always place customer orientation and competitor orientation in harmony, resulting in better marketing performance. Therefore, the main concepts in market orientation are customer orientation and competitor orientation.

Working Capital

Working capital management is a company's investment in the short term; cash, securities (securities), receivables, and inventories [2], [3]. From the above

understanding it can be concluded that working capital is the difference between current assets and current liabilities. Thus, working capital is an investment in cash, marketable securities, receivables and inventories minus current liabilities which are used to protect current assets.

SMEs Performance

Performance refers to the level of achievement or achievement of the company in a certain period of time. According to Asad et al. (2020) [10] there are obstacles/lack of an objective type of approach, namely: (1) there tends to be manipulation of numbers on the part of management, (2) managers/owners object to providing financial information and data (this condition was commonly found in research on SMEs). Asad et al. (2020) [10]; Atuahene et al. (2001) [11]; and Li et al. (2008) [3] stated that to anticipate the unavailability of objective company performance data in a study, it is possible to use subjective performance measures based on managers' perceptions. Jogaratnam et al. (2017) [2] and Li et al. (2008) [3] suggested that performance refers to the level of achievement of the company in a certain period of time. Company performance is a very decisive thing in the development of the company. On the other hand, the performance of a business is the results of group work functions in an organization which are influenced by various factors to achieve organizational goals within a certain period.

Hypothesis Development

Entrepreneurship Orientation and Company Performance

Entrepreneurial orientation can be determined based on four dimensions, namely need for achievement, internal locus of control, self-reliance and

extroversion. Higher entrepreneurial orientation can increase the company's ability to market its products towards better business performance [10], [11], [7], [8]. Previous research conducted by Puspaningrum (2020) [9] showed a significant influence between entrepreneurial orientation on company performance.

H1= There is an influence of entrepreneurial orientation on the performance of SMEs

Market Orientation and Company Performance

Market orientation is an important factor that can affect the company's performance [10], [2], [3]. It was also supported by the research of Chen et al. (2013) [8] found that there was a significant effect between market orientation and company performance.

H2= There is an effect of market orientation on the performance of SMEs

Working Capital and Company Performance

The working capital management is a company's investment in the short term: cash, marketable securities, receivables, and inventories [10],[11],[7],[8]. The previous research conducted by Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] showed a significant influenced between venture capital on company performance in the elements of business capital such as capital requirements for business, amount of capital, barriers to capital sources, and sources of capital from outside.

H3 = There is an effect of working capital on the performance of SMEs

RESEARCH METHOD

The type of research was quantitative method. The size of respondents was 280 SMEs in Bali selected by accidental sampling or the sample was chosen by chance at the location and was considered suitable as a data source. The online questionnaire was distributed through social media and in the questionnaire there were five choices of scores for each statement that could be chosen according to the actual situation felt by the respondent. All of the constructs and reflective items were measured on a 5-point scale, from 1 strongly disagree to 5 strongly agree. The data were processed and used to test the hypotheses that have been proposed using structural analysis

equation modeling with the SmartPLS 4.0 software data processing tool. PLS is a powerful analytical method because it does not require many assumptions and can be used with both small and large sample sizes. PLS can be used to confirm theories, build relationships that do not yet have a rationale, or test propositions [19].

The hypothetical models in this study are shows in figure 1 :

- H1 = There is an effect of entrepreneurial orientation on the performance of SMEs
- H2= There is an effect of market orientation on the performance of SMEs
- H3= There is an effect of working capital on the performance of SMEs

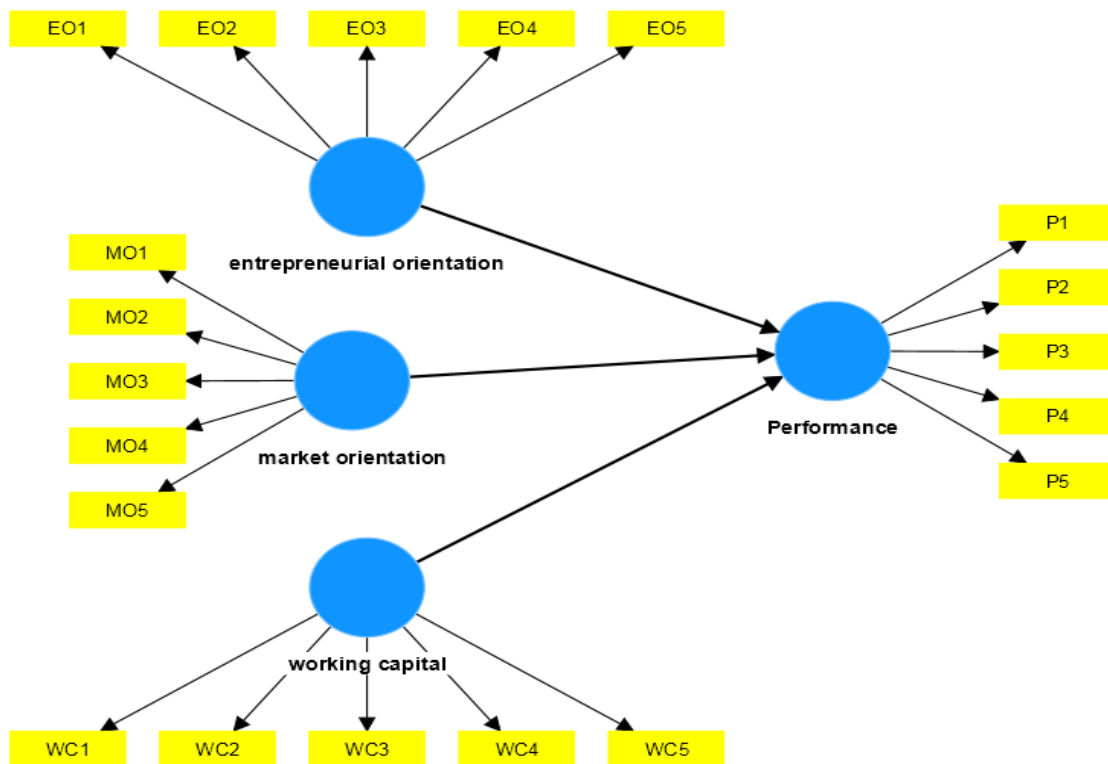


Figure 1. Research Model

Abbreviation:

EO is Entrepreneurial Orientation
 MO is Market Orientation
 WC is Working Capital

RESULT AND DISCUSSION

Characteristics of Research Respondents

Respondents of this research were SMEs owners who have been on business more than one year, which was classified based on age, gender, length of business, assets, the number of employees and education. The respondents were collected from 8 regencies and 1 city in Bali. Table 1 shows the owner of SMEs dominated by male, that was 157 people or 56.08%. Most of

the business owners at the range 30-39 years old, which was at 43.21%. Based on period of business operation, there was 116 (41.43%) have been running the company for more than five years. The asset value varied, with most of the SMEs having assets ranging from 10-30 million, which equates to 115 (41.07%). Based on the number of employees, most of SMEs have 5-10 employees, which was 123 (43.93%). Most of the SMEs owners were graduated from senior high school at the amount of 45%, it shown in [table 1](#).

Table 1. Characteristics of Research Respondents

No	Description	Frequency	Percentage
1	Gender		
	Male	157	56.08
	Female	123	43.92
2	Age of The Owner		
	20-29 years	28	10
	30-39 years	121	43.21
	40-49 years	109	38.93
	>50 years	22	7.86
3	Business Operation Period		
	1-2 years	24	8.56
	3-4 years	60	21.43
	4-5 years	80	28.58
	>5 years	116	41.43
4	Asset Value (IDR)		
	10-30 million	115	41.07
	31-60 million	36	12.86
	61-90 million	58	20.71
	>90 million	71	25.36
5	Number of Employees		
	5-10	123	43.93
	11-20	73	26.07
	21-40	35	12.50
	>40	49	17.50
6	Education		
	Senior High School	126	45.00
	Diploma	31	11.07
	Bachelor	74	26.43
	Postgraduate	49	17.50

Reliability Instrument Test Result

Reliability instrument test used two measurements which are Cronbach's Alpha and Composite Reliability where it is expected to have a value above 0.70 (>0.70) for it to be reliable (Solimun et al., 2017). The convergent validity test that is showed by the final value of the Cronbach's Alpha and Composite Reliability shows reliable values which exceeds 0.70 (>0.70) [19]. The final result

of the preliminary instrument testing shows reliable values as shown on table 2.

With the results from the reliability and validity testing of the data in this research, a structural model evaluation will be implemented in order to test the variables relationship in this research. This structural model evaluation will conclude the coefficient of determination, t-statistics.

Table 2. Reliability Test Results

Subjects	Cronbach's Alpha	Composite Reliability	Category (>0.7)
Entrepreneurial Orientation	0.832	0.911	Reliable
Working Capital	0.811	0.913	Reliable
Market Orientation	0.913	0.914	Reliable
Performance	0.914	0.916	Reliable

Coefficient of Determination (R²)

The table 3 presents the result of the coefficient of determination (R²): It was stated that the variable performance had a R² value of 0.727 and a Radj² of 0.723 which means that performance could be

explained by variables entrepreneurial orientation, working capital and market orientation at value of 72.7%, whereas the rest 27.3% were influenced by other variables which were not studied in this research.

Table 3. Coefficient of Determination Test Results

Variable	R ²	Radj ²
Performance	0.727	0.723

Hypothesis Testing

As discussed earlier, this research includes 3 hypotheses which the following were the result of the hypotheses testing:

H1: The entrepreneurial orientation has an effect on performance of SMEs

hypothesis 1 (H1) had a value of 6.436 for the t-statistics which was higher than the t-table value and p-value < 0.05. This means that the entrepreneurial orientation had a significant effect on performance of SMEs. Based on the results of the analysis, the entrepreneurial orientation variable has a partial positive effect on company performance. Conversely, if the

entrepreneurial orientation is low, the company's performance will also experience a decline. The results of this analysis accept hypothesis 4 that the Entrepreneurial Orientation has an effect on Company Performance. This finding supported the results of Chen et al. (2013); Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] stated that entrepreneurial orientation can be the most important way of measuring how a company is organized and is an important entrepreneurial contribution to company performance. This was also in line with the views of Chen et al. (2013) [8]; Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] which stated that entrepreneurial orientation has an effect on performance. Boso et al. (2013) [7]; Chen et al. (2013) [8]; Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] in his research said that entrepreneurial orientation had a positive influence on performance. It is believed that the Entrepreneurship Orientation plays a crucial role in ensuring the success of a business program that is run and provides support and encouragement through an entrepreneurial attitude to achieve success in business. Jogaratnam et al. (2017) [2] and Li et al. (2008) [3] explained that there was a positive impact of entrepreneurial orientation on performance, because there was a direct relationship between entrepreneurial orientation on performance that the independent effect of each dimension of entrepreneurial orientation contributes to performance and there was a differential relationship between innovation, proactiveness and risk taking on performance goals.

H2: Market orientation has an effect on performance of SMEs

The results of this analysis accepted the hypothesis that market Orientation had an

effect on Company Performance, with a value of 7.955 for the t-statistics which is higher than the t-table value and p-value < 0.05. This study supported the results of Chen et al. (2013) [8]; Jogaratnam et al. (2017) [2] and Li et al. (2008) [3] in their research concluded that market orientation has a significant effect on company performance. This finding was supported by Boso et al. (2013) [7]; Chen et al. (2013) [8]; Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] which stated that market orientation had a significant effect on company performance. Thus, it can be said that SMEs have carried out a market-oriented strategy. The market orientation is important when SMEs already have products and businesses that are growing, then market expansion is certainly very necessary.

H3: Working capital has an effect on performance of SMEs

As shown on the table above, hypothesis 2 (H2) had a value of 3.527 for the t-statistics which is higher than the t-table value and p-value < 0.05. This means that working capital had a significant effect on performance of SMEs. It indicated that working capital is one of the factors that play an important role in determining the level of improvement in company performance. The higher the working capital, the higher the company's performance will be. Conversely, if the business capital is low, the company's performance will also experience a decline. The results of this analysis accepted that Business Capital had an effect on company performance. This study supports the research of Chen et al. (2013) [8]; Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] who found a positive and significant influence of business capital factors on the development of SMEs businesses. The business capital is the capital used to

support businesses and the ease of obtaining business capital. It can be shown in figure 2.

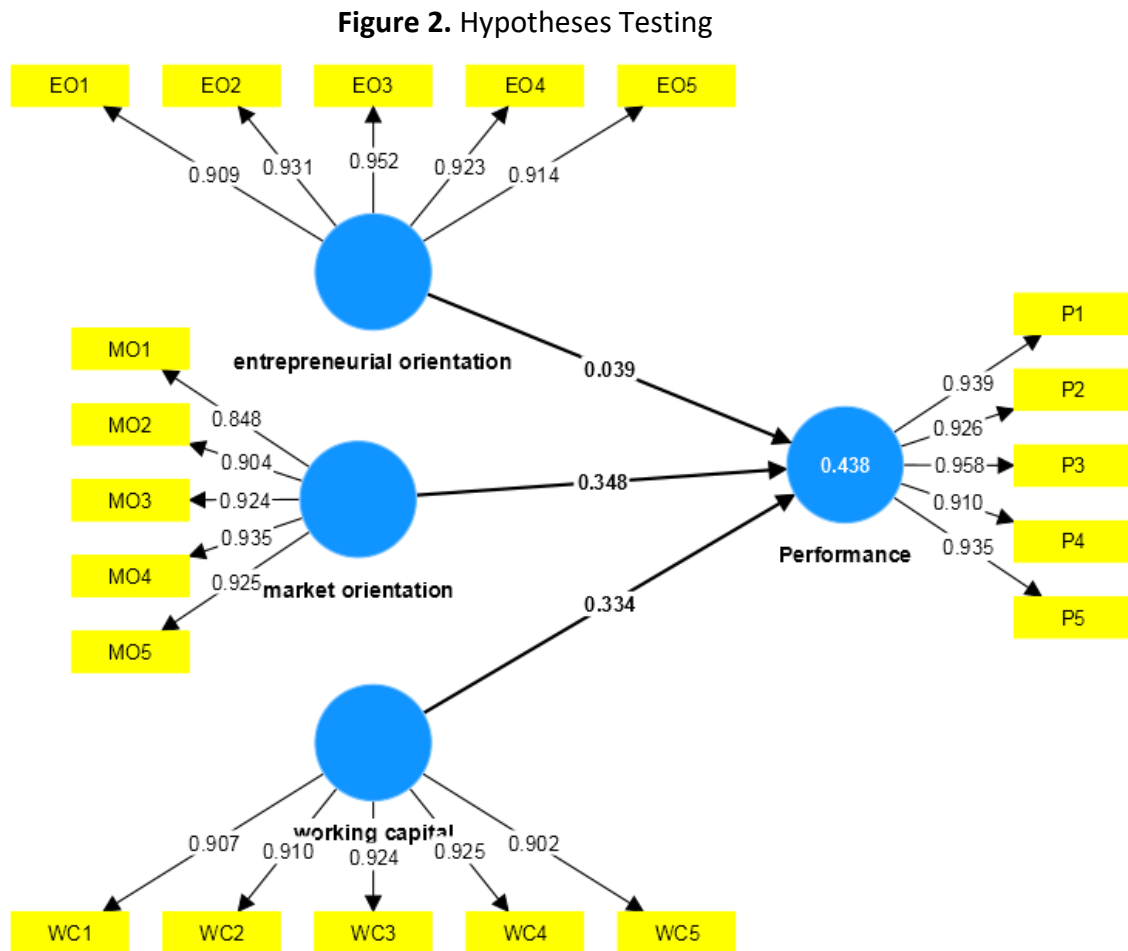


Table 4 . Path Coefficient

Variable	T-statistic	P-values	Analysis Results
Entrepreneurial Orientation – Performance	6.436	0.000	H0: Rejected H1: Accepted
Market Orientation – Performance	7.955	0.000	H0: Rejected H2: Accepted
Working Capital – Performance	3.527	0.000	H0: Rejected H3: Accepted

Based on the results in [table 4](#) of the analysis of the variables of entrepreneurial orientation, market orientation, and working capital have a simultaneous positive effect on company performance. Where this business capital consists of several indicators, namely the capital requirements for business, the amount of capital, obstacles to capital sources, and sources of capital from outside. The empirical test results showed that Entrepreneurship Orientation, Market Orientation, and working Capital are factors that play an important role in determining the level of improvement in company performance. The higher entrepreneurial orientation, market orientation, and working capital, the higher the company's performance will be. Conversely, if the business entrepreneurial orientation, market orientation, and working capital are low, the company's performance will also experience a decline. The results of this analysis accepted that entrepreneurial orientation, market orientation, and working capital, have a simultaneous effect on company performance. The entrepreneurial orientation is related in different ways to the performance of functions within an enterprise. SMEs have to maximize the ability to develop market orientation, find the source of suitable financing, and entrepreneurial orientation in order to increase the company performance. Market Orientation is related to emphasis creating and cultivating excellent customers value considering the interests of the stakeholders, in addition to organizational norms, developmental behavior and reactivity to market information. In meeting their financial needs, SMEs require an option for each available financing.

The results of this study were in line with the research of Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] that economic growth was supported by a liberal capital account policy, both for incoming and outgoing capital. This success gave rise to an extraordinary optimism, but the other hand unmitigated carelessness. An optimism that drives economic policies and the behavior of domestic and foreign economic actors seems to be spiraling out of control. This study also supported the findings proposed by Chen et al. (2013) [8]; Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] stated that market orientation is an important factor that can affect the company's performance. In addition, the results of research by Jogaratnam et al. (2017) [2]; Li et al. (2008) [3] revealed that there were 5 dimensions that affected the performance of companies/corporations, namely freedom, innovation, willingness to take risks, proactiveness, and competitive aggressiveness. Asad et al. (2020) [10]; Atuahene et al. (2001) [11]; Boso et al. (2013) [7] stated that the main key to the entrepreneurial orientation dimension includes actions that can be carried out freely or not depending on other parties, meaning that there is a will to renew and be willing to take risks, tend to be more aggressive than competitors, and be proactive in trying to see or predict. and anticipate opportunities in the market.

The descriptive results of this study also indicated that the entrepreneurial orientation is perceived quite well by business owners (SMEs). Entrepreneurial orientation is a very important component in developing a business. Therefore, to improve the performance of SMEs, things that need to be considered and improved are the need for achievement, internal locus of control, self-reliance, and extroversion. Business capital is absolutely

necessary to carry out business activities. Therefore, a certain amount of funds is needed as the basis for the financial measurement of the business being carried out. Sources of working capital can be obtained from own capital, government assistance, financial institutions both banks and non-bank financial institutions. Capital is a business factor that must be available before carrying out activities [16], [20], [18], [12], [5]. The size of the capital will affect the development of the business in achieving other means of capital income, including both capital in the form of money and in the form of goods. Capital is very important in setting up a business. Market orientation is also a very important component in business development efforts. Without a market orientation, a business will find it difficult to compete with other companies [4], [21].

CONCLUSION

The findings of this study showed that entrepreneurial orientation (t-statistics = 6.436, p-value < 0.05), market orientation (t-statistics = 7.955, p-value < 0.05), and working capital (t-statistics = 3.527, p-value < 0.05) had significant dan positive affect on performance of SMEs. Entrepreneurial orientation, market orientation, and working capital are factors that play important role in determining the degree of company performance. The higher the entrepreneurial orientation, market orientation, and working capital, the higher the company's performance. Conversely, if entrepreneurial orientation, market orientation and working capital are low, the company will perform poorly. This study has its limitations that it did not consider the effect of government role on SMEs performance. Further research can examine the role of government in supporting the existence of SMEs includes legality, strategy, finance, and management to improve SMEs performance.

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