Entrepreneurial orientation and Business Performance: The Mediating Role of Relational Capabilities

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ABSTRACT

This study aims to investigate empirical evidences of the relationship between entrepreneurial orientation to enhance business performance. The previous study found that entrepreneurial orientation became an important key for an entrepreneurial to enhance the business performance. This study also examined the role of relational capabilities as an intervening variable to achieve business performance. The sample in this study were the furniture small and micro entrepreneurs (SMEs) in the region of central Java with a sample size of 200 respondents. The sampling technique in this research was done by using purposive sampling. Structural Equation Modelling (SEM) was used to test results of the data analysis with the help of software AMOS / Amos Graph. The results of the study showed that entrepreneurial orientation has a significant positive effect on business performance. Entrepreneurial orientation has a significant positive effect on relational capabilities. Relational capabilities is mediated significantly the positive relationship of entrepreneurial orientation and business performance.

Type of Paper: Empirical Research

Keywords: Entrepreneurial orientation, Relational Capabilities, Business Performance.

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1. Introduction and research problem

Indonesian Furniture Export sales value just entered ranked 18th, far below Malaysia and Vietnam (Central Java Directory of Exporters 2014). However, furniture and handicraft industry in Indonesia has the potential to grow larger in the future because it is supported by abundant raw materials, adequate skilled personnel, as well as product design is no less when compared with other countries. Indonesia export capabilities in the furniture sector has not yet been able to compete in the arena of global competition. According to data from UN Comtrade, the value of Indonesia's furniture exports in 2013 was only 1.8 billion US dollars, occupied the 18th position world. While the share of export markets European region has a huge potential that is 42%. Asia export market by 40%, 9% of America, Australia and Africa 7% 2% (Data Amindo Komda Java, Central Java Provincial Department of Commerce and the Chamber of Commerce, 2014).

It is very important for the SMEs furniture Indonesia to have an entrepreneurship spirit, in order to penetrate the international market. The studies on the importance of SMEs to be entrepreneurial orientation has also been investigated, by previous researchers as (Baker & Sinkula, 2009; Kohtamäki, 2008; Kraus, Rigtering, Hughes, & Hosman, 2011; Nadli, Nordqvist, Sjoberg, &Wiklund, 2007; Teck, 2012). Furthermore, Baker and Sinkula (2009) described the importance of the company to be oriented on the market and entrepreneurship in achieving the firms growth and identify market opportunities. The companies conducting orientation towards entrepreneurship will easily develop the company's innovation both through increasing the quality and quantity that have been produced. Zimmerer, Scarborough, and Wilson (2005) stated that the 21st century is considered as the century of entrepreneurship. Entrepreneurship is a concept and management practices that are important in the history of today's business world. Hitt, Ireland, Sirmon, and Traams (2011) stated that entrepreneurial is an activity or process carried out by individuals or groups in order to create prosperity (performance) through the creation of value. Meanwhile, Lamkin and Dess (1996) argued that the concept of entrepreneurial orientation describes the mind set of organizations in the search for a new venture that provides a framework for the company's research activities.

This research came from the phenomenon of exported furniture sales trend in Indonesia that showed a decline. The coverage market shares in the export-oriented SME Furniture Central Java region experienced increasing. Based on potential export market Indonesian furniture products which are still open, so the furniture export-oriented SMEs should be able to enhance its ability to enter the international market. Meanwhile, the objective of this study is to demonstrate empirically the effect of entrepreneurial orientation on business performance through variable relational capabilities in the scope of furniture SMEs. Relational capabilities are important concept in bridging relation of the entrepreneurial orientation and business performance.

2. Methods

Research samples

Respondents in this study of SMEs in the group furniture exporter located in Central Java, originated at the center of furniture industry in Jepara, Sukoharjo, Klaten and Sragen. While the analyzed unit of the study were managers or owners of SMEs furniture export orientation of a number of 200 respondents. The sampling technique used purposive sampling then looked at the experience of the SMEs furniture (manager or owner).

Instrument and Measurement

This study used primary data collected through questionnaires to be filled by respondents. All variables in this study, namely the construct entrepreneurial orientation, relational capabilities and business performance, were measured by using a Likert-scale questionnaire with answers range 1 - 5. The scale depicted rating from 'strongly disagree' to 'strongly agree'. The instrument in this study was an indicator of the three constructs, entrepreneurial orientation, relational capabilities and business performance.

Lin and Peng (2008) explain business performance is an operations of the organization, including the achievement of company goals achievement both internal and external. While business performance indicators in this study was measured through sales growth, profit and market share. Wiklund (1999) was defined entrepreneurial orientation as the entrepreneurship process based on the company where proactive action, innovation, and risk-taking by the company can be influenced by a number of factors coming from inside and outside the company, so that the action is embedded in a management framework. Entrepreneurial orientation in this study was measured by indicators of support for the development of new ideas, the courage to enter new markets, the use of technology and the courage to launch new products.

Adeco (2007) was defined relational capabilities is an intangible asset that was based on an effort to develop, maintain and preserve and build a relationship that is high quality with relation of the company. Relational capability in this study measured the quality of the relationship with the buyer, the international standards of product quality information from the buyer, orientation of long-term relationships with buyers, mutually beneficial.
Screening Data

The screening data test was done in the early stages of processing data by testing normality, and potentially outlier data detection (Ghozali, 2011). The number of respondents in this study were 200 respondents, namely the owners/managers of SMEs exported furniture oriented scattered on the four areas in Central Java, namely: Jepara district, Sukoharjo, Klaten and Sragen. Based on a survey conducted on 200 respondents, only 172 people who responded to the questionnaire and eight questionnaires were incomplete in the filling. However, when the data processing, there were 30 questionnaires outlier, so it should be dropped from the study sample. The total sample left in this study were 134 respondents.

Advanced testing conducted in the study using Structural Equation Modelling (SEM) using AMOS program assistance 21. The indicators that made up the construct by looking at parameters resulting goodness of fit. Measurement models used convergent validity, namely to test these indicators, whether valid or not what should be measured. Maximum likelihood estimation technique used in this study. Then we test item questionnaire using confirmatory factor analysis to examine the relationship constructs with the indicator (the validity of the questionnaire). Based on the theory developed while reliability testing used by using Cronbach alpha (Cronbach’s α).

3. Results and findings

Technique used in the model and hypothesis testing in this study was Structural Equation Modelling (SEM) analysis with AMOS program. The analysis was done with measurement model to test un dimensional. Indicators that created construct by looking at parameters which were derived from goodness of fit. Measurement model will employ convergent validity to test the indicators, if it is valid or not in measuring what should be measured. Besides, the significance of indicators needs to be tested as well if those indicators have the same dimension in creating latent variable. The next analysis was conducted on Structural Equation Modelling with the same steps, i.e. testing the parameters from goodness of fit and directly testing the research hypothesis on the causal relationship developed in the model.

Technique of maximum likelihood estimation was applied in this research. The number of sample used here was 164 samples on the basis that the number has met the criteria of the number of sample adequacy recommended for maximum likelihood estimation (MLE) technique and average error variance of indicator (AVE) criteria with a minimum sample size.

Tested model in this research using the item questionnaire by confirmatory factor analysis to examine the relation of construct with its indicator (questionnaire validity). Furthermore, the reliability testing employed cronbach alpha (Cronbach’s α). The research concluded that indicators can explain for measuring construct.

Structural Equation Modelling (SEM) with AMOS program is used in testing the three hypotheses of this research. The result of the testing using Structural Equation Modelling (SEM). The test result of full model confirmatory has indicated a good result in which it has met the criteria of goodness of fit. Structure of model was used to describe models of causality research with tiered relationship. The test result indicates the criteria of goodness of fit have met the requirements which are the scores for Chi-Square was 62.155, probabilities 0.018, TLI 0.957, GFI was 0.928, AGFI 0.885 and the score for RMSEA was 0.050 which indicate that the scores have met the determined cut-off. It indicates that the research is accepted and meets the determined criteria (standards).

The correlation score among each construct shows a strong correlation between entrepreneurial orientation and business performance constructs (0.580*). The relation between entrepreneurial orientation and relational capabilities constructs has showed a less strong result (0.681*). The relation between relational capabilities and business performance indicates a strong correlation (0.622*).

Table 2 indicates the standardized path coefficients of relationship among entrepreneurial orientation, relational capabilities, and business performance. Moreover, the research finding is also illustrated in Table 1 that forms the 3 hypotheses.

The relationship between entrepreneurial orientation on business performance shows the result from the structural path model that explains the availability of positive significant relationship between entrepreneurial orientation on business performance. The result of structural path calculation indicates that there is a positive and significant relationship between entrepreneurial orientation on business performance that can be observed from the value (t = 2.104 > 1.96) with significant value (0.035 < 0.05). Hypothesis 1 is accepted.

The relationship of entrepreneurial orientation on relational capabilities shows the result yielded from the structural path model that explains the existence of positive significant relationship between entrepreneurial orientation on relational capabilities. The result of structural path calculation indicates that there is a positive and significant relationship between entrepreneurial orientation on relational capabilities that can be seen from the value (t = 5.378 > 1.96) with significant value (0.000 < 0.05). Hypothesis 2 is accepted.

The relationship of relational capabilities on business performance shows the result yielded from the structural path model that explains the existence of positive significant relationship between relational capabilities on business performance. The result of structural path calculation indicates that there is a positive and significant relationship between relational capabilities on business performance that can be seen from the value (t = 2.920 > 1.96) with significant value (0.003 < 0.05). Therefore, hypothesis 3 is accepted.
4. Conclusions, implications and significance

This research is designed to examine the relationship among entrepreneurial orientation, relational capabilities, and business performance in the context of research of SMEs in the export-oriented furniture industry in the Central Java Region. The research finding has given evidences that the entrepreneurial orientation affects positive significant on the business performance. This research finding has supported the previous research done by Wang (2008) which found that organizational learning mediates the relationship between entrepreneurial orientation and company’s performance. This result is also supported by previous study conducted by Tomas et al. (2011) which underlines the importance of relationship utilizing their network as the source of opportunities and resources that can be functional as a path of changes towards sustainable excellence. The same result also supports the research is conducted by Chang (2012) which found that a company with market sensitivity orientation, ability to absorb knowledge, social networking capabilities, and integrative ability to communicate and negotiate are important abilities needed by a businessman.

Relational capability affects positive significant on business performance. This finding is in line with the previous study done by Lorenzoni and Lipparini (1999) which states that the networking available in an organization (intra and relational capabilities) can give a strong influence in promoting company’s growth and innovation. Furthermore, a study done by Smirnova et al. (2011) found that relational capabilities give positive and significant effects on marketing performance. Whereas, Lee et al. (2001) examines the external ability and internal network on marketing performance with the result that the three dimensions of internal ability give impact on performance. Interaction among internal abilities on the grounds of partnership relationship gives statistically significant effect on performance.

This paper provides new empirical evidence on the relationship between entrepreneurial orientation on business performance and the mediation variable of relational capabilities. In accordance with the previous study which suggests that entrepreneurial orientation is a very strong mediator in bringing a positive effect on the performance (Bhuian et al., 2010). Another important theoretical contribution is that this study also confirms the previous study conducted by Wiklund (1999) which states that entrepreneurial orientation is a process of entrepreneurial that bases on the company in which proactive, innovative, and risk taking actions by the company can be affected by several factors such as either inside or outside the company, thus, the relational capital on a management framework.

Implication of this research indicates its importance for the actors of export-oriented furniture SMEs to improve their business performance. In addition, the finding has also indicated that mediation role of relational capabilities as an important support for the export-oriented furniture SMEs actors in improving their business performance. Export-oriented actors, it is important for SMEs export-oriented and small companies to establish their role by putting forward the four principles, namely, maintaining the good quality of the relationship with their buyers, sharing information with their relations on international standardized product quality, acting on long-term relationships with buyers, and also building mutual relationships with their relations. Another important contribution of this study is also in line with the theory developed by Morgan and Hunt (1994) who states that in a cooperation, a company needs to be proactive and plays actively in an effort of introducing the company’s products which are built on the basis of commitment and trust.

Another interesting finding of this research also shows that even though studies on entrepreneurial orientation have been widely studied, but the research result here has consistently found the positive relationship with business performance. It is important for the SMEs actors to establish their orientation in developing their business by possessing supportive characteristics on the development of new ideas, courage to penetrate new market, technology utilization and courage to launch new product.

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