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## The Effects of Entrepreneur Orientation and Strategic Agility on SMEs Business Performance during the Recession

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**ABSTRACT** : This research is expected to provide empirical evidence regarding the effect of entrepreneur orientation and strategic agility on SME business performance during the recession due to the Covid-19 pandemic. A total of 135 respondents who are SME owners were asked to answer some questions in the form of a questionnaire. The survey target is SMEs engaged in the manufacturing industry sector in Balikpapan City, Indonesia. The data that has been collected will be tested using Smart-PLS Software. The results show that entrepreneur orientation has no significant positive effect on business performance. Entrepreneur orientation has a positive and significant effect on strategic agility. Strategic agility has a positive and significant effect on business performance. Furthermore, the results also confirm that strategic agility plays a role in mediating the relationship between entrepreneur orientation and business performance. This study is expected to help SME owners, particularly the manufacturing sector, to understand the importance of strengthening entrepreneur orientation and implementing strategic agility to maintain and improve business performance

**KEYWORDS** : *Resources Base View (RBV), Entrepreneur Orientation, Strategic Agility, Business Performance, Small and Medium Enterprises (SMEs).*

### I. INTRODUCTION

In the current modern economic era, the economic growth of both developed and developing countries is mainly driven by entrepreneurship. Entrepreneurship is one of the most dynamic phenomena in the economy, but it can change under the influence of globalization and crises [1]. The existence of Small and Medium Enterprises (SMEs) has been recognized as a strategic sector to generate high economic growth, reduces unemployment, equalize income and reduces poverty. SMEs also play an important role in the economy in Indonesia. The Indonesian economy is dominated by SMEs where according to data from the Ministry of Cooperatives and SMEs, the number of SMEs as of July 2021 reaches 64.2 million players. The labor absorption rate reaches 97% of the total existing workforce[2].

Given the important role of SMEs as the backbone of the national economy, it is necessary to conduct in-depth studies to improve the entrepreneurial orientation of the perpetrators. This study seeks to gain knowledge about SME business strategies in maintaining their business performance during the recession due to Covid-19. Do entrepreneurial orientation and strategic agility affect business performance during a recession? This study is unique in its strategic context and furthermore, it links entrepreneurial orientation with strategic agility together in the face of a dynamic business environment. Previous studies on entrepreneurial orientation and SME performance have shown gaps in outcomes. Several studies explain that entrepreneurial orientation has a positive and significant impact on the performance of SMEs [3];[4]; [5]. However, there are several other studies that show different results where an entrepreneurial orientation has positive relation but not a significant effect on the performance of SMEs [6]; [7]; [8].

This study aims to analyze the direct and indirect effects of entrepreneurial orientation on business performance through strategic agility as a mediator variable. While in the world of literature, this paper will add to the treasury of literature on empirical evidence of SME entrepreneurial management in developing countries. The structure of the preparation of the paper begins with a review of the relevant literature, research conceptual models, and research hypotheses that discuss the relationship between the variables applied in this study, namely entrepreneurial orientation, strategic agility, and business performance. Next, the author explains the Smart-PLS research methodology along with a report on the results of data analysis. In the end, we present the conclusions and suggestions from the results of this study.

## II. LITERATURE REVIEW AND RESEARCH DEVELOPMENT

### 2.1 Resource-Based View (RBV) Theory

The Resources-Based View (RBV) theory explains the company's ability to create a competitive advantage that is based on its resources. According to [9], company resources will contribute to competitive advantage if these resources have four important characteristics, namely: (1) Valuable, where resources must have strategic value for the business, (2) Rare, where resources must be unique and difficult to obtain, (3) Imperfectly imitable, where the resource must be difficult to imitate, and (4) Substitutability, where the resource is difficult to replace by other resources.

Organizations are always trying to maintain a distinctive product (competitive advantage) and will close gaps in resources and capabilities in the most cost-effective manner [10]. Every company plans and implements various strategies to create competitive advantage so that it can outperform its competitors. Therefore, companies must create more value from the products or services produced, which depend on the supply of resources and special abilities in using these resources[11]. For long-term profitability and sustainability, the company must ensure the right strategy for the resources owned by the company and a sustainable competitive strategy.

### 2.2 Entrepreneur Orientation (EO)

Entrepreneur orientation, in the theory of RBV, has been adopted as an intangible resource in the form of a process [12]. EO has become an important concept in the entrepreneurial domain that has received much theoretical and empirical attention. EO is a conceptualization of entrepreneurship at the company level and reflects the behavior of the company[13]. Meanwhile, at the SME level, EO provides a key capability to build excellence[3]. Thus EO shows the company's behavior in building competitive advantage and this behavior can be practiced at various levels of business scale, both small businesses, medium businesses to large businesses. A company is called an "entrepreneurial enterprise" when it consistently demonstrates a tendency to innovate, act proactively and take rational risks [14]. [15]further explains innovation is "openness to innovation" or constant involvement and support for the development of new ideas, new and creative ways to improve current business practices. Proactive refers to a way of behaving where actions are taken before competitors act so that the organization's position is always one step ahead. Risk-taking is recognized as part of the impact of the actions taken, but the risks taken have been carefully considered. Entrepreneurial orientation is an important variable in improving company performance [16]. A large number of studies on the relationship and influence of entrepreneurial orientation and business performance show a positive and significant relationship[4]; [17];[5]. However, there are several other studies that show different results where an entrepreneurial orientation has positive relation but not a significant effect on the business performance of SMEs [6];[7]; [8].

### 2.3 Strategic Agility (SA)

Companies who are often facing a fluctuating and competitive business environment, so in order to survive and thrive, adaptation to the dynamics that occur must be a major concern [18].One of the important methods adopted by organizations is strategic agility[19].Strategic agility is defined as an extraordinary ability to utilize organizational resources to improve competence by maintaining agility and to ensure sustainable competitive advantage [20]. [21]revealed that there are three dimensions of strategic agility, namely: (1) strategic sensitivity, (2) resource fluidity, and (3) leadership unity. Strategic sensitivity relates to the ability to recognize the dynamics of the surrounding environment, whether it is an opportunity or a threat. Resource fluidity is related to flexibility in using the organization's resources to add value to customers and change the business model if necessary. Unity of leadership is the support of the leader in the form of policies and faster decision-making. In the view of [22], strategic agility can support organizations to avoid the "rigid trap" by continuously moving away from external attachments and always being oriented towards operational flexibility. Several research results show the positive and significant impact of organizational agility on organizational capability and organizational performance[23]; [24]; [25].

### 2.4 Business Performance (BP)

Performance is a measure of management's success in managing the company. Business performance is the level of success achieved from the use of various resources, effective and efficient use of processes as indicated by financial, marketing, operational and human resource performance[26]. In this study, to obtain a proportional picture of various aspects of SME business performance and considering the research period which is still in recession due to the COVID-19 pandemic, we use performance measures from a financial and non-financial perspective. We refer to the business performance of SMEs proposed by [27]in his research on the performance of SMEs in Britain during the economic recession in 2009. The performance of SMEs is measured using three indicators adopted to measure the performance of companies. The three indicators are employee turnover, employee absenteeism, and financial turnover. Employee turnover indicates the number of workers who experienced layoffs during a 12-month period in the sample companies. Employee absenteeism is measured as lost workdays per employee over a 12-month period. This does not include days of work lost as part of official

leave, employees leaving on placements, or courses. Meanwhile, financial turnover is the financial turnover reported by SMEs as the total turnover earned in a 12-month period.

## 2.5 Conceptual Model and Hypotheses Development

This study aims to integrate entrepreneurial orientation and strategic agility to maintain SME business performance during the recession. There are three main variables, namely Entrepreneur Orientation (EO), Strategic Agility (SA), and Business Performance (BP). EO is an exogenous variable while SA and BP are endogenous variables. Figure-1 shows a conceptual model of the relationship between variables and proposes the following hypothesis:

H1: Entrepreneur orientation has a positive and significant effect on strategic agility.

H2: Entrepreneur orientation has a positive and significant effect on business performance.

H3: Strategic agility has a positive and significant effect on business performance.

H4: Strategic agility mediates the relationship between entrepreneur orientation and business performance.

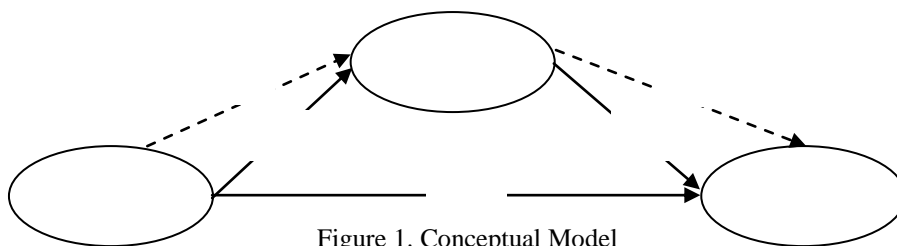


Figure 1. Conceptual Model

## III. RESEARCH METHODOLOGY

In the quantitative research paradigm, hypothesis testing is an important stage to confirm or develop theories, answer research problems and provide solutions to research subjects[28]. This research is applied research and uses a survey method for the respondents. The population that is the object of research is business owners who are members of SMEs in the manufacturing sector in Balikpapan City, Indonesia. Based on City Government data in 2019, the population of SMEs in the furniture, metal product, and industrial machinery manufacturing sector is 224 units. Determination of the number of samples needed for research using the Isaac-Michael table, with an error rate of 5% required 135 samples. Then, 135 questionnaires that were declared complete and met the criteria were processed to obtain a quantitative interpretation using the Smarts-PLS 3.0 software. The evaluation of the PLS model is carried out by evaluating the measurement model (outer model) and structural model (inner model).

## IV. RESULTS AND DISCUSSION

### 4.1 Measurement Model Analysis (Outer Model)

The first test on the PLS-SEM analysis was carried out on the measurement model (outer model) in order to test the validity and reliability of the measurement instrument. The validity test must meet both validity criteria, namely convergent validity, and discriminant validity. Convergent validity shows a high correlation value of a construct, as indicated by the loading score of each indicator greater than 0.7[28]. Loading score is obtained by doing several iterations. A loading score of less than 0.7 can be omitted from the construct because this indicator is not strongly correlated with the construct that represents it. Table 1 contains the results of the measurement model which includes the loading score of each indicator item, the composite reliability (CR) value, and the average variance extracted (AVE) value. The results showed that all constructs confirmed convergent validity with a loading indicator score of more than 0.7 and an AVE value of more than 0.5[29]. While construct reliability can be determined by the composite reliability (CR) value of each construct must be greater than 0.7 so that all measurement instruments meet reliable criteria.

Table 1. Result of the measurement model

| Construct                | Item | Loading | CR    | AVE   |
|--------------------------|------|---------|-------|-------|
| Entrepreneur Orientation | EO1  | 0.827   | 0.940 | 0.840 |
|                          | EO2  | 0.810   |       |       |
|                          | EO3  | 0.881   |       |       |
|                          | EO4  | 0.828   |       |       |
|                          | EO5  | 0.797   |       |       |
|                          | EO6  | 0.894   |       |       |
| Strategic Agility        | SA1  | 0.860   | 0.956 | 0.783 |
|                          | SA2  | 0.882   |       |       |
|                          | SA3  | 0.884   |       |       |
|                          | SA4  | 0.858   |       |       |
|                          | SA5  | 0.804   |       |       |
|                          | SA6  | 0.848   |       |       |
|                          | SA7  | 0.803   |       |       |
|                          | SA8  | 0.824   |       |       |
|                          | SA9  | 0.923   |       |       |
| Business Performance     | BP1  | 0.973   | 0.979 | 0.938 |
|                          | BP2  | 0.959   |       |       |
|                          | BP3  | 0.975   |       |       |

The discriminant validity test method was assessed by comparing the AVE roots for each construct with the correlation value between that construct and other constructs in the model [30]. The model is said to meet the criteria of discriminant validity if the AVE root for each latent variable is greater than the correlation value between the latent variables and other latent variables in the model. In PLS software, the AVE root value is shown in table 2 for the Fornell-Larcker Criterion where the AVE root value (diagonal) is higher than the correlation value between the constructs and other constructs.

Table 2. Discriminant validity of the measurement model

|    | BP           | EO           | SA           |
|----|--------------|--------------|--------------|
| BP | <b>0.969</b> |              |              |
| EO | 0.642        | <b>0.917</b> |              |
| SA | 0.714        | 0.888        | <b>0.885</b> |

Note: BP=Business Performance, EO=Entrepreneur Orientation, SA=Strategic Agility

#### 4.2 Structural Model Analysis (Inner Model)

The second step in the PLS-SEM analysis is the analysis of the structural model (inner model) with the aim of predicting causality and hypotheses. There are three variables that will be tested how big is the relationship and how strong is the influence between one variable and another. The level of strength of the relationship or the significance of the structural model is measured from the path coefficients formed. In addition, the magnitude of the R-Square value and the t value also determines the level of significance. Through the bootstrap process on Smart-PLS, the R-square, t-value, and path coefficient values will be obtained to predict the causal relationship that is formed. Table 3 shows the results of structural model testing and a description of the test results.

Table 3. Result of the structural model

| Hypothesis | Relationship | Path Coeff. | t-value | Decision                 |
|------------|--------------|-------------|---------|--------------------------|
| H1         | EO →BP       | 0.036       | 0.345   | Positive not Significant |
| H2         | EO →SA       | 0.888       | 47.953  | Positive and Significant |
| H3         | SA →BP       | 0.682       | 6.717   | Positive and Significant |
| H4         | EO →SA →BP   | 0.606       | 6.570   | Supported                |

Based on table-3 above, we can interpret the results of the structural model testing. The path coefficient assessing the causal relationship of the structural model and the level of significance determined by the t-value criteria must be greater than 1.96. The results showed that based on the t-value there was a significant relationship between EO → SA (47.953) and SA →BP (6.717). However, the relationship between EO →BP (0.345) was not significant. Testing the mediating role of SA linking EO to BP confirmed the results of a "specific indirect effect". The mediating role of SA shows a positive and significant relationship because in hypothesis H4 the path coefficient value is 0.606 and the t-value is 6.570 indicates significance. Therefore, strategic agility mediates the relationship between entrepreneurial orientation and business performance. The level of prediction accuracy of R-square or the level of contribution in the formation of endogenous variables shows that BP ( $R^2 = 0.510$ ) is moderate and SA ( $R^2 = 0.789$ ) is good. While the Model Fit criteria show the NFI value = 0.913 or 91.3%, meaning that the observed model meets the model fit requirements. The test results described above show the conformity of the structural model with the rules of thumb in PLS-SEM.

## V. CONCLUSION AND RECOMENDATION

This research is expected to provide empirical evidence regarding the effect of entrepreneurial orientation and strategic agility on SME business performance during the recession due to the Covid-19 pandemic. This hypothesis is proven by the existence of a positive and significant relationship between entrepreneurial orientation and strategic agility. Likewise, the hypothesis is proven on a positive and significant relationship between strategic agility and business performance. These results are in line with previous research conducted by [21], [23], and [25]. However, the relationship between entrepreneurial orientation and business performance does not show a significant positive relationship. This finding is similar to the results of studies by [6]; [7], and [8]. The strategic agility mediation test was successful and significant. This shows the importance of strategic agility in improving business performance directly or indirectly as a mediator. In a very dynamic business environment, strategic agility needs great attention from SMEs and all entrepreneurs. This study has been able to develop and integrate a model that links entrepreneurial orientation, strategic agility, and business performance in one framework. However, this study was limited to the manufacturing sector SMEs and was conducted in a recession. It is recommended that further research be extended to other business fields and in normal economic conditions.

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