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# Study of Entrepreneurial Orientation and Organizational Commitment in SMEs as Form of Business Performance Improvement

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## Abstract

Small and medium enterprises (SMEs) play a vital role in economic growth worldwide. The purpose of this study is to determine and analyze the effect of entrepreneurial orientation and organizational commitment in SMEs as a form of business performance improvement in Brebes regency. This study used a quantitative approach with survey method, from the amount of 6,708 SMEs that have a business permit will be taken 200 samples, with random sampling technique reserves of 10%, spread in 17 districts of regency. Data analysis techniques in this study used Structural Equation Modeling (SEM) using AMOS Software. Descriptively used a framework approach to determine SMEs Performance. There is no difference between the covariance matrix of sample data calculated with the estimated population covariance matrix, the model is the same as empirical data is accepted which means the model is fit. The entrepreneurial orientation variable is proven to be positively and significantly influential on the performance of organization commitment. The entrepreneurial orientation variable is not proven to be positive and significantly improves SME performance. The organization's commitment variable is not proven to have a positive and significant effect on SMEs performance. The entrepreneurial orientation variable is not proven mediates between organization commitment variables on SMEs performance.

**Keywords:** Entrepreneurial Orientation, Organizational Commitment, SMEs Performance

## 1. Introduction

Small and medium enterprises (SMEs) play a vital role in economic growth worldwide. They substantially contribute to economic growth by creating jobs [1];[2];[3]. The concept of entrepreneurship at different levels, from individuals to groups and organizations is used. First, entrepreneurship thought used by unknown persons, because it is associated with the introduction and development of the product or service. Many theorists say that entrepreneurship and organizational commitment are used by small businesses because they are responsible for economic growth and job creation in the market. Recently, the more entrepreneurial concept is applied at the corporate level [4]. Some of the Entrepreneurship researchers have discussed several studies to describe the attitudes of entrepreneurs and entrepreneurship and some of them have shown in entrepreneurship to different levels of analysis. The SMEs sector is an important part of the national economy and development because since they were quite large. The growth of the SMEs sector currently visible encouraging.

Today's competitive world, increasing interdependence, rapid technological development, unstable environment, and many other factors have caused organizations, become entrepreneurs to get success [5]. Many studies have been conducted with a focus on identifying the determinants of the performance of SMEs to help small business owners improve entrepreneurial growth. As a form of organizational commitment, it is necessary to understand that business owners have a business orientation which is an important factor in competitive advantage and performance improvement for all types of businesses [6]. SMEs play an important role in the economic growth of a country, an important role can be seen from the role of SMEs in the use of manpower and efficiency, and the maximization of the use and distribution of resources as well as local [7]. Entrepreneurial orientation (EO) has become one of the most established constructs in entrepreneurship and broader management research [8], and a number of recent reviews of the EO literature have been conducted by [9] refer to this as temporal stability or reasonable consistency in the engagement of entrepreneurial behaviors over time. Temporal stability is addressed in Entrepreneurial orientation research through the inclusion of Entrepreneurial orientation attitudes as an essential, defining component and covariate to the sustained pursuit of entrepreneurial behavior.

Business orientation provides the basis for organizations to make decisions and actions based on entrepreneurial principles is a more important concept than individual personal expertise [10], and states the commitment of an entrepreneur is the most important thing in creating SMEs performance [11]. In Indonesia, the Law governing of SMEs is the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small and Medium Enterprises and the Law of the Republic of Indonesia, (2008), (2008), "A company classified as SMEs is a small company that owned and managed by a person or owned by a small group of people with a certain amount of wealth and income. Micro-businesses with maximum assets of 50 million and a maximum turnover of 300 million rupiah, small businesses with maximum assets of 50 million up to 500 million rupiah and a maximum turnover of 300 million rupiah to 2.5 billion rupiah, medium-scale businesses with maximum assets of 500 million rupiah to 10 billion rupiah and a maximum turnover of 2.5 billion rupiah to 50 billion rupiah, while for large businesses a maximum asset of 10 billion rupiah and turnover above 50 billion rupiah.

The performance of SMEs must continue to increase their annual income turnover which must be supported by an organizational commitment by the workers at SMEs to increase each production, it cannot be separated from the employees in it who always participate in the process of making the products.

## **2. Literature Review**

### **2.1 Entrepreneurial Orientation**

Entrepreneurial orientation is a characteristic and value adopted by the entrepreneur himself which is an unyielding nature, dare to take risks, speed and flexibility [12]. Entrepreneurial orientation emphasizes the spirit to create business innovation, as a refresher from business bottlenecks, which often accompanies the initial steps of innovation [13]. [5] states that there are five dimensions of Corporate Entrepreneurship that affect company performance, namely freedom, innovation, risk-taking, proactiveness, and competitive aggressiveness. [14] defines an entrepreneurial orientation as a corporate benefits strategy to be able to compete more effectively in the same marketplace.

### **2.2 Organizational Commitment**

Organizational commitment is commonly defined as a psychological link between the employee and his or her organization that makes it less likely that the employee will voluntarily leave the organization [15]. According to [16], [17] Organizational commitment is the degree to which people identify with the organization that employs them. It implies a willingness on the employee's part to put forth a substantial effort on the organization's behalf and his or her intention to stay with the organization for a long time. So was explained by [18] distinguishes organizational commitment into three forms, as follows: It is useful to distinguish between the three forms of organizational commitment. Affective commitment is a positive emotional state in which employees want to exert effort and choose to remain with the organization. Normative commitment is the choice to stay attached because of strong cultural or familial ethics that drives them to do so. They believe they ought to be committed because of others' belief systems and their own internalized norms and feelings of obligation. Continuance commitment encourages employees to stay because of their high investments in the organization (time and effort)

and the economic and social losses they would incur if they left. [19], [20] Organizational commitment is defined as the desire on the part of an employee to remain a member of the organization. Organizational commitment influences whether an employee stays a member of the organization (is retained) or leaves to pursue another job (turns over) Colquitt also states that there are three types of commitment, namely: (1) Affective commitment, i.e. one's desire to remain as a member of an organization due to emotional attachment to that organization. (2) Continuance Commitment, i.e. the desire of a person to remain as a member of an organization due to consideration of financial risks and survival if he leaves the organization. and (3) Normative Commitment, the desire of a person to stay as a member of an organization because he feels that survival is an obligation that must be carried out as remuneration for what has been given by the organization.

### **2.3 SMEs Performance**

[21] provides an understanding that performance or work performance is "The results or overall level of success of a person during a certain period in carrying out a task compared with various possibilities, such as work standards, targets or targets or criteria that have been determined advance and mutually agreed upon". [22] Performance can also be determined as a person's ability to perform and also includes opportunities and willingness to do their work. [23] Firm performance is a function of the market structure and behavior of firms within the competitive and ever-changing business world. As indicated in many previous studies, better performance in companies when they focus on market orientation with a particular focus on flexibility and speed of response. [24] "Performance is how well or badly you do something or something works". [25] explored that performance defines the degree of achievement of the job of an employee. Organizational performance is the capability of the organization to complete its goals efficiently. The organization has achieved its goals and objectives then it is successful in achieving superior Organizational Performance. Performance measurement is necessary to improve the organization's strategies [26].

### **3. Theoretical Framework**

According to the characteristics of small and medium-sized companies of population, the method of sampling of this study is random in that all members of the population have an equal chance in the selection of the sample. Therefore, 200 questionnaires were distributed among senior executives. Finally, 200 questionnaires were collected. At first, by using the library studies and searching valid sites and literature reviews, the theoretical framework for the study was obtained. Then, by using the theoretical framework, the variables in small and medium-sized companies were extracted and localized. By using the obtained variables, the questionnaire was designed. The questionnaire of this study was designed by the following steps: The variables related to entrepreneurial orientation, organization commitment and performance of SMEs were extracted from the literature and the results of similar studies in relation to this study. After this stage by using the field study, data were collected. The questionnaires were given to managers and asked them to complete it. This research uses a quantitative approach through the survey method, explaining that the survey method is used for investigative techniques by direct observation of phenomena or systematic meetings of data from the population by applying personal contacts and interviews when adequate information about a particular problem is not available in notes, files and other sources. a population sample of 200 SMEs, then proportional to 17 sub-districts in Brebes Regency, SMEs owners who have a business license. The types of instruments of entrepreneurial orientation, organizational commitment, and performance of SMEs in this study used primary data with questionnaires in the form of a series of statements of the respondents. The data analysis techniques in this study is using Structural Equation Modeling (SEM). This technique is a multivariate analysis technique which is a combination of regression analysis applied to the analysis of each variable with factor analysis applied to the analysis among the indicators.

### **4. Research Hypothesis**

The research hypothesis of this study is as follows:

- H1 : There is a positive influence on entrepreneurial orientation to SME performance
- H2 : There is a positive influence on the organizational commitment to SME performance

- H3 : There is a positive influence on entrepreneurial orientation to organizational commitments  
H4 : There is an indirect influence on entrepreneurial orientation towards SME performance

## 5. Methodology

The sampling method used is purposive random sampling, it is taking samples based on criteria determined by the researchers. The sample criteria used are respondents who have been operating at least 5 years of business in food and drink as many as 200 respondents. In this study, an analysis tool used is structural equation modeling (SEM) version 24.

The sample used is the owners and leaders of SMEs in Brebes Regency, considering that in this research used field studies, such as questionnaires, it can be said that the present study, based on the nature and methods of data collection is a descriptive study, Research purpose is an important thing, which should be considered. The main objective of most researches in social sciences is to investigate a field of study that can be said that the aim of this research is in the area of applied researches.

To determine the quality of the questionnaire, a validity and reliability test for the questionnaires were taken with 30 selected respondents before proceeding to the next test model. The validity and reliability tests used are SPSS version 25.

## 6. Validity and Reliability tests of Variables

### 6.1 Entrepreneurial Orientation

Validity test of "Entrepreneurial Orientation" variable, the result of the validity test from 20 questionnaires which are distributed to 30 respondents, there are 4 invalid questionnaires. So, only 16 valid questionnaires are used.

Reliability Statistics

	Cronbach's Alpha	N of Items
	.725	16

Based on the Reliability Statistics output of Entrepreneurial Orientation Variable, Cronbach alpha value =  $0.725 > 0.6$ . So, the Entrepreneurial Orientation variable is "Reliable"

### 6.2 Organizational Commitment

Validity test of "Organizational Commitment" variable, the result of the validity test from 16 questionnaires which are distributed to 30 respondents, there is 1 invalid questionnaire. So, only 15 valid questionnaires are used.

**Table 1:** Reliability test of "Organizational Commitment" variable

Reliability Statistics	
Cronbach's Alpha	N of Items
.681	15

Based on the Reliability Statistics output of Organizational Commitment Variables, Cronbach alpha value =  $0.681 > 0.6$ . So, the Organizational Commitment variable is "Reliable"

### 6.3 SMEs Performance

Validity test of "SMEs Performance" variable, the result of the validity test from 16 questionnaires which are distributed to 30 respondents, there are 2 invalid questionnaires. So, only 14 valid questionnaires are used.

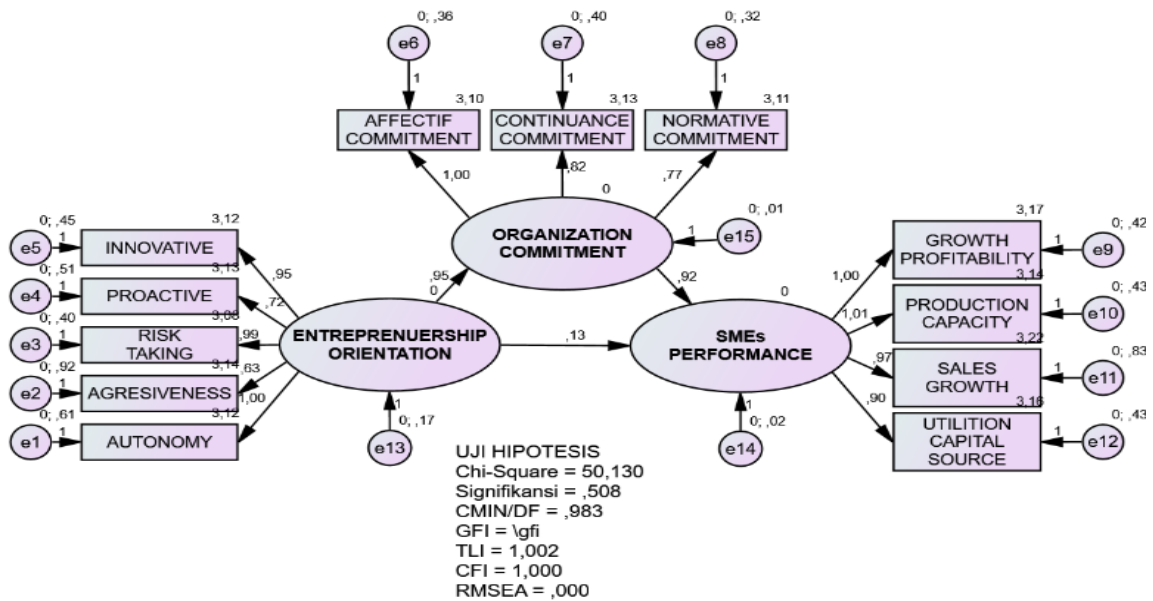
**Table 2:** Reliability test of "SMEs Performance" variable

Reliability Statistics	
Cronbach's Alpha	N of Items
.828	14

Based on the Reliability Statistics output of SMEs Performance Variables, Cronbach alpha value = 0.828 > 0.6. So, the SMEs Performance variable is "Reliable"

## 7. Results

**Figure 1: Result SEM**



### 7.1 Hypothesis Model

$H_0$  : There is no difference between the covariance matrix of sample data calculated with the estimated population covariance matrix (Model accepted)

$H_1$  : There is a difference between the covariance matrix of sample data calculated with the estimated population covariance matrix (Model rejected)

$H_0$  is accepted if the Probability value  $\geq 0.05$ , based on the results of the analysis, it is known that the analyzed model is a recursive model with a sample size of 200. Chi-Square value = 0,508 with df = 51 and probability 0,508. The Chi-Square results show that the  $H_0$  which states the model is the same as empirical data is accepted which means the model is fit.

### 7.2 Hypothesis Testing

Variables	Estimate	S.E.	C.R.	P	Status
ENTREPRENUERAL ORIENTATION → ORGANIZATIONAL COMMITMENT	,952	,170	5,609	***	Accepted
ENTREPRENUERAL ORIENTATION → SMEs PERFORMANCE	,128	3,434	,037	,970	Rejected
ENTREPRENUERAL COMMITMENT → SMEs PERFORMANCE	,921	3,577	,257	,797	Rejected

Source : Primary data processed, 2019

### **7.2.1 Hypothesis Testing 1**

H1: The effect of entrepreneurial orientation has a positive and significant effect on organization commitment

The estimated parameter for testing the effect of entrepreneurial orientation on the performance of organization commitment shows a CR value of 5,609 with a probability of 0,000. Because of the probability value  $< 0.05$ , it can be concluded that the entrepreneurial orientation variable is proven to be positively and significantly influential on the performance of organization commitment. The results of the research prove that hypothesis 1 is tested.

### **7.2.2 Hypothesis Testing 2**

H2: The effect of entrepreneurial orientation has a positive and significant effect on SMEs performance.

The parameter is expected to obtain entrepreneurial orientation is not supported for updating the CR value of 0,037 with a probability of 0,970. Because of the probability value  $> 0.05$ , it can be concluded that the entrepreneurial orientation variable is not proven to be positive and significantly improves SME performance. The results of the study did not prove the hypothesis 2.

### **7.2.3 Hypothesis Testing 3**

H3: The effect of organization commitment has a positive and significant effect on SMEs performance.

The estimated parameter for testing the effect of organization commitment on SMEs performance shows a CR value of 0,257 with a probability of 0.797. Because the probability value  $> 0.05$ , it can be concluded that the organization's commitment variable is not proven to have a positive and significant effect on SMEs performance. The results of the research did not prove that hypothesis 3 is not tested.

### **7.2.4 Hypothesis Testing 4**

H4: The effect of entrepreneurial orientation has a positive and significant effect on SMEs performance through organizational commitment.

The estimated parameter for testing the effect of entrepreneurial orientation on the performance of SMEs mediated by organization commitment shows a CR value of 0,037 and 0,257 with a probability of 0,970 and 0,797. Therefore, the probability value  $> 0.05$ , it can be concluded that a proven entrepreneurial orientation variable is not proven mediates between organization commitment variables on SMEs performance. The results of the research did not prove that hypothesis 4 is not tested.

## **8. Conclusion**

The Chi-Square results show that the  $H_0$  which states the model is the same as empirical data is accepted which means the model is fit. The entrepreneurial orientation variable is proven to be positively and significantly influential on the performance of organization commitment. The results of the research prove that hypothesis 1 is tested. The entrepreneurial orientation variable is not proven to be positive and significantly improves SME performance. The results of the study did not prove the hypothesis 2. The organization's commitment variable is not proven to have a positive and significant effect on SMEs performance. The results of the research did not prove that hypothesis 3 is not tested. The entrepreneurial orientation variable is not proven mediates between organization commitment variables on SMEs performance. The results of the research did not prove that hypothesis 4 is not tested.

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