

Original Research Article

THE IMPACT OF ENTREPRENEURIAL ORIENTATION ON PERFORMANCE THROUGH COMPETENCE IN RATTAN HANDICRAFT SMEs

ABSTRACT

This study aimed to analyze the relationship between entrepreneurial Orientation to performance with Competence as mediation. This quantitative study was conducted at Rattan Handicraft MSMEs in Gresik Regency, East Java, Indonesia. The sampling technique used multistage sampling with a sample of 82 MSME employees. The data analysis method uses SEM-PLS through several stages, including linearity assumption, measurement model test (outer model), structural model test (inner model), and hypothesis testing. The results of this study indicate an influence between entrepreneurial Orientation and Competence, the influence between entrepreneurial Orientation on performance, and the influence between Competence on performance, and Competence can mediate the relationship between entrepreneurial Orientation and performance. The practical contribution of this research is that it can develop business strategies and human resource management. The implications of this research can bring a deeper understanding of the dynamics involved in achieving performance excellence in the context of business and development strategies that can increase the success of MSMEs in achieving goals.

Can you write the letter in small case

The PLS-SEM algorithm is a sequence of regressions in terms of weight vectors. The weight vectors obtained at convergence satisfy fixed point equations.

This statement is not clear: Business strategies is too broad same human resource. I guess you are referring to Business development strategies as well as manpower development in MSMEs

Keywords: Entrepreneurial Orientation, Competence, Performance, MSMEs

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the most critical pillars in the Indonesian economy. According to data from the Ministry of Cooperatives and SMEs, the number of MSMEs currently reaches 64.2 million, contributing 60.51% or Rp 9,580 trillion to the GDP. MSMEs, which currently number around 64.2 million, can absorb 96.92% of the total workforce and can raise up to 60.42% of total investment (www.ekon.go.id).

In the course of the national economy, MSMEs have also been recorded as being able to remain resilient as support in every economic crisis experienced by Indonesia. MSMEs also play a significant role in encouraging increased investment and exports in Indonesia. Due to their significant role in the national economy, the Government consistently favors MSMEs to upgrade to export to make a more significant contribution to the economy. The government supports MSMEs in exporting by assisting in capitalization, legality, marketing, packaging, and the addition of industrial production machinery to meet the capacity of market demand (www.ekon.go.id).

For products to be exported and accepted in the international market, they must comply with international standards. Starting from the material, the neatness of the weaving, the uniqueness of the weaving, and several other things. Therefore, the development of human resources (HR) is also needed to upgrade the Competence or expertise of its employees [1]. Competence is the workability of each individual, which includes aspects of knowledge, skills, and work attitudes that are by the expected standardization. According to Plaskoff (2017) [2], Competence is a person's ability to do work in a directed manner. The skills of an employee can affect the progress of the organization/company, and because of this mutual influence, the organization/company must help its employees improve their skills.

Comment [SP1]: Can you be specific about the products

Human resource (HR) competence is among the most critical factors in the MSME industry. Entrepreneurial Competence is believed to be the main driver in handling challenges [3]. Increasing the Competence of human resources through increasing knowledge and skills is the key to improving the performance of MSMEs [4]. Based on research conducted, it states that Competence affects performance [5, 6, 7, 8]. In contrast to research conducted by Trihudyatmanto and Purwanto (2018) [9], competence has no effect on performance.

In addition to Competence, entrepreneurial Orientation is also one of the critical factors that can determine one's success in starting a business. Therefore, one needs to pay attention to the factors that influence entrepreneurial Orientation and continue to learn and develop oneself in order to become a successful entrepreneur. Entrepreneurial Orientation is not just about starting a company; it is about an innovative outlook, the ability to see opportunities amidst challenges, and the courage to take measured risks in order to achieve success. Entrepreneurship covers a wide range of aspects, from approaches to managing an established business to developing new, paradigm-shifting products or services. The results of previous research state that Orientation affects performance [5, 10, 11, 12, 13] in contrast to the research of Suharyati et al. (2023) [14] stated that there is no relationship between Orientation and performance. Orientation affects Competence [14, 15]. Meanwhile, research from Purwanto and Trihudyatmanto (2018) [16] states that Orientation does not influence Competence. Competence can mediate the relationship between Orientation and performance [14]. Meanwhile, Liekyhyung and Soelaiman's research (2022) [15] states that Competence does not affect performance.

Based on the explanation above, researchers want to re-examine the effect of Orientation on performance with Competence as a mediating variable in Rattan Handicraft MSMEs in Gresik Regency, East Java, Indonesia.

What is Rattan Handicraft MSMEs in Gresik Regency, East Java, Indonesia? What do they do? And how are they structured?

UNDER PEER REVIEW

2. LITERATURE REVIEW

2.1 Employee performance

According to Dessler (2016) [17] performance is the achievement of employee work results, both in quality and quantity in maximizing the obligations and loads obtained. Performance as a person's achievement in completing the work given to him [18]. Human resource performance is one of the most important factors impacting a company's rating, particularly in the extractive, rural, industrial, manufacturing, trade, and service sectors [19, 20]. Every company must want to realize good performance as a company goal. Indicators of employee performance according to Welbourne (1998) [21], Triest et al. (2023) [22] are quality, quantity, accuracy of work, and service orientation.

2.2 HR Competencies

Competence is defined as an underlying characteristic of an individual that is causally related to effective reference criteria and or superior performance in a job [23, 24, 25]. Based on this understanding, the competence possessed by a person is something that is inherent to him and can be used as a prediction of the performance he produces. Indicators of competence according to Potnuru and Sahoo (2016) [26] are self-competence, team competence, change competence, and communication competence.

2.3 Entrepreneurial Orientation

Entrepreneurial orientation is a concept that describes the attitude or behavior of a person who is driven by the desire to start an innovative business or venture and create value for society. Entrepreneurial orientation is a characteristic possessed by someone who has strong entrepreneurial intentions and continues to seek business opportunities. Entrepreneurial orientation can be influenced by several factors, such as social and family background, education, work experience, and personality. In addition, entrepreneurial orientation is also influenced by environmental factors such as the level of competition in the market, the expected level of profit, and the facilities available to entrepreneurs. Indicators of Entrepreneurial Orientation according to Mahmud and Anomsari (2011) [27] in this study include: need for achievement, internal locus of control, Self-Reliance, and Evtrov.

3. METHODOLOGY

This research is a quantitative study to examine the relationship between entrepreneurial Orientation and business performance through Competence in Gresik Regency Rattan Handicraft MSMEs. The sampling technique used was multistage sampling. The sample was 82 MSMEs. The data sources used in this study are data obtained directly from the source (primary data), namely data from Rattan handicraft MSMEs obtained through employees of Rattan handicraft MSMEs in East Java. In addition, researchers also use secondary data, namely data related to information from pre-existing sources such as previous research articles, websites, books, and news related to Rattan handicraft MSMEs in East Java, especially those that export, as well as direct observation to Rattan handicraft MSMEs. The data collection technique in this study was carried out using an instrument in the form of a questionnaire. This research analysis uses Path Analysis. Including testing the linearity assumption, the measurement model (outer model), the structural model (inner model), and the hypothesis.

3. RESULTS AND DISCUSSION

This research was conducted at Rattan Handicraft MSMEs in Gresik Regency, East Java, Indonesia. The results of outer loading in Table 1 show that the value of each item is above 0.7. This means that all indicators on each variable of Orientation, performance, and Competence can be declared to have a good level of validity. Because all indicators on these variables are by the requirements of convergent validity.

Table 1. Outer Loading Results

Orientation		Performance		Competence		Result
X1	0,775	Y2	0,816	Z1	0,729	Valid
X2	0,781	Y4	0,781	Z3	0,757	Valid
X3	0,816	Y5	0,842	Z4	0,735	Valid
X4	0,704	Y6	0,805	Z6	0,758	Valid
X5	0,769	Y7	0,818	Z7	0,724	Valid

X6	0,79	Y8	0,773	Z8	0,78	Valid
X7	0,814			Z10	0,729	Valid
X10	0,799			Z11	0,722	Valid
X11	0,781			Z12	0,741	Valid
X12	0,781			Z13	0,772	Valid
				Z14	0,769	Valid
				Z16	0,745	Valid

Source: Data Processed by Researchers (2024)

The results of the reliable test are shown in Table 2, with Composite Reliability values tending to be greater than Cronbach's Alpha. If the composite value of all variables is above 0.7, then all variables are considered to have good reliability values.

Table 2. Construct Reliability and Validity

	Cronbach's Alpha	Composite reliability	AVE	Result
Competence	0,928	0,938	0,558	Reliabel
Orientation	0,929	0,940	0,611	Reliabel
Performance	0,893	0,918	0,650	Reliabel

Source: Data Processed by Researchers (2024)

Comment [SP2]: Please check spelling

The hypothesis results are presented in Table 3 and Figure 1, namely, there is an influence between entrepreneurial Orientation and Competence, with a coefficient value of 0.913 and a p -value of 0.000, meaning H1 is accepted. Entrepreneurial Orientation affects performance with a coefficient value of 0.135 with a p -value of 0.000, meaning H2 is accepted. Competence affects performance with a coefficient of 0.753 and a p -value of 0.000, meaning that H3 is accepted. Competence can mediate the relationship between entrepreneurial Orientation and performance with a coefficient value of 0.688 and a p -value of 0.000.

Table 3. Test Results

	R-Square	Path Coefficients	P-Value	Result
Competence	0,834			
Performance	0,771			
Ori - Com		0,913	0,000	Significant
Ori - Perf		0,135	0,000	Significant
Com - Perf		0,753	0,000	Significant
Ori - Com - Perf		0,688	0,000	Significant

Source: Data Processed by Researchers (2024)

You are testing the hypothesis without stating the hypothesis? Can you State your hypothesis as well as your objectives clearly in your introduction, and aligned both.

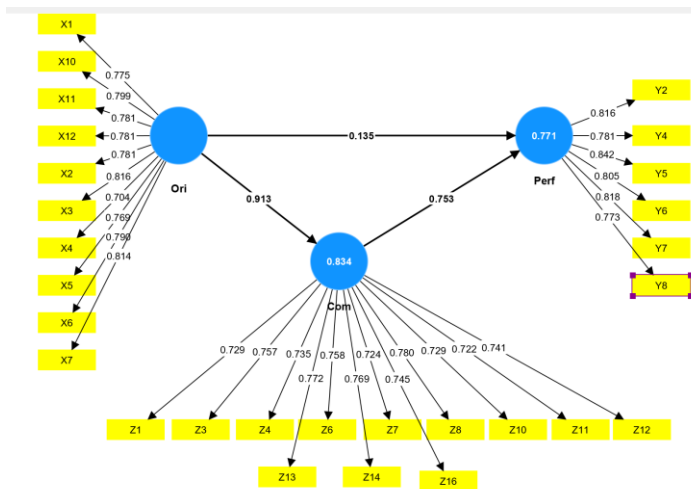


Figure 1. Path diagram model

There is an influence between entrepreneurial Orientation and Competence. In this study, entrepreneurial Orientation refers to the mental attitude and strategies companies use to identify, evaluate, and exploit business opportunities. This is closely related to the Competence of employees of Rattan Handicraft MSMEs. With a clear and detailed entrepreneurial orientation, it will be easier for employees to improve their Competence. When entrepreneurial Orientation is clearly organized and planned, employee competence will also increase. This study's results align with research conducted by Suharyati et al. (2023) and Liekyhyung and Soelaiman (2022) [14, 15].

There is an influence between entrepreneurial Orientation on performance. Entrepreneurial Orientation is very important to improve the performance of MSMEs [28]. Having an entrepreneurial orientation means trying to be the first in developing products, taking risks, and beating competitors. Rattan handicraft MSMEs have a high entrepreneurial orientation. Demonstrated by their ability to create new products, take risks in making decisions, and be willing to respond to any market changes. According to research, entrepreneurial-oriented firms always strive to create new products that are more innovative, proactive, and risk-taking [29]. The performance of rattan handicraft MSMEs refers to achieving desired goals and outcomes, such as sales growth, profitability, market share, and long-term sustainability. Entrepreneurial Orientation is considered to improve MSME performance. This is supported by research conducted by Anisa et al. (2023), Morgan and Anokhin (2023), Arum (2023), Nabila et al. (2022), and Anietie et al. (2022).

Competence affects performance. Competence in this context refers to the self-competence, team, change, and communication competence required to be a successful entrepreneur and run a business well. Rattan handicraft MSMEs continue to develop change competence to face changes for the better. For example, changes in consumer tastes, changes in consumer purchasing power conditions, and changes to be more creative and innovative. This continues to be done both by self-study and assistance from the Government. The hope is that by continuing to upgrade competencies, performance will improve. The results of this study are by research conducted by Anisa et al. (2023), Susanto and Sukarno (2022), Ejikeme et al. (2023), Syurwana et al. (2022), Sutikno et al. (2022).

Competence can mediate the relationship between entrepreneurial Orientation and performance. Planning and organizing a good entrepreneurial orientation will improve performance, with an increase in Competence by employees. This means that rattan MSMEs that continue to strive to improve their Competence can improve the relationship between entrepreneurial Orientation and performance. This study's results align with research conducted by Suharyati et al. (2023).

4. CONCLUSION

The results of this study indicate an influence between entrepreneurial Orientation and Competence, the influence between entrepreneurial Orientation on performance, and the influence between Competence on performance, and Competence can mediate the relationship between entrepreneurial Orientation and performance. The practical

contribution of this research is that it can develop business strategies and human resource management. In addition, in the efforts of MSMEs to improve competitiveness and long-term success. The implications of this research can bring a deeper understanding of the dynamics involved in achieving performance excellence in a business context. The study of entrepreneurial Orientation on performance, with Competence as mediation, not only provides a better understanding of the factors that influence business performance but also opens the door to interventions and development strategies that can increase the success of MSMEs in achieving goals. Suggestions for future researchers include testing competency development models or conducting longitudinal research that tracks the relationship between entrepreneurial Orientation, competency development, and business performance over time.

REFERENCES

- [1] Nina, N., Uce, K. S., & Hermina., D. S. (2023). Human Resource Development of Bandung MSMEs with Entrepreneurial Leadership Characteristic through Quality Leadership in Global Market Era. *Quantitative Economics and Management Studies*.<https://doi.org/10.35877/454ri.qems1699>
- [2] Plaskoff, J. (2017). Employee experience: The new human resource management approach. *Strategy Human Resource*, 16, 136–141. <https://doi.org/10.1108/SHR-12-2016-0108>
- [3] Hanifan, R., & Dhewanto, W. (2022). Reinforcing Business Resilience Through Entrepreneurial Competencies During Pandemic COVID-19: A Case of Indonesian MSMEs. *IJMESH: International Journal of Management, Entrepreneurship, Social Science and Humanities*, 5(2),89-107. doi: 10.31098/ijmesh.v5i2.1178
- [4] Sari, K., & Sianggaran, Y. P. (2022). HR Competency and Its Influence on MSME Performance in Central Magelang. *Economic Inspiration*, 4(1):37-49. DOI: 10.32938/ie.v4i1.2253
- [5] Anisa, D., Nadeak, C.S., Hafizah, A., Hasyim. (2023). The Influence of Entrepreneurial Orientation on the Performance of Meatball MSME Businesses in Medan City, Mediated by Entrepreneurial Competence. *Sanskara Management and Business*, 2(1) 24-34. DOI: 10.58812/smb.v2i01
- [6] Susanto, O. A., Sukarno, G. (2022). Analysis of Entrepreneurial Competence, Entrepreneurship Strategy and Social Capital on Business Performance in Furniture MSMEs in the City of Surabaya. *Al-Kharaj: Journal of Sharia Economics, Finance & Business*, 4(3), 673-685. <https://doi.org/10.47467/alkharaj.v4i3.713>
- [7] Ejikeme, Emmanuel, Isichei., Ike, Nnia., Anthony, Igwe., Chukwu, Benjamin, Ibe., Godwin, Peterside. (2023). Linking Competitive Intelligence, Learning Orientation and Export Performance of SMEs. *SAGE Open*.<https://doi.org/10.1177/21582440231184979>
- [8] Sutikno, Sutikno., Minkhatul, Fikriyah., Ahmad, Nurkhin. (2022). Relationship of Social Capital, Entrepreneurial Competence, and Performance: The Case of Convection SMEs. *Economic Education Analysis Journal*.<https://doi.org/10.15294/eeaj.v11i1.53976>
- [9] Trihudyatmanto, M., & Purwanto, H. (2018, August 1). The Influence of Motivation, Competence and Entrepreneurial Orientation on Business Performance at the Pande Besi MSME Center in Wonosobo. *Journal of Economics, Management, Accounting and Technology*, 1(1), 31-41. <https://doi.org/https://doi.org/10.32500/jematech.v1i1.210>
- [10] Morgan, T., & Anokhin, S. (2023). Entrepreneurial Orientation and new product performance in SMEs: The mediating role of customer participation. *Journal of business research*.<https://doi.org/10.1016/j.jbusres.2023.113921>
- [11] Arum, Prasasti. (2023). Entrepreneurial Orientation, company performance, and competitive advantage in Indonesian culinary SMEs. *Small business international review*.<https://doi.org/10.26784/sbir.v7i1.547>
- [12] Nabila, Vedy., Septiana, Mar'atus, Sholikhah., Miswan, Gumanti. (2022). How to Survive During Pandemic Situation? the Interface between Entrepreneurial Orientation, Market Orientation, and Smes' Performance during Covid-19. *Journal of Production, Operations Management and Economics*.<https://doi.org/10.55529/jpome.26.24.35>
- [13] Anietie, P., Akpan., Andrew, Amuamuziam, Okwudu. (2022). Exploring Entrepreneurial Orientation (EO) and Performance among Small and Medium Scale Enterprises (SMEs) In Nigeria. *Journal of economics, management and trade*.<https://doi.org/10.9734/jemt/2022/v28i830425>

- [14] Suharyati, S., Handayani, T., & Utami, K. (2023). The impact of entrepreneurial orientation on business performance through entrepreneurial competence in female MSMEs. *Journal of Business Management and Entrepreneurship*, 7(6), 1391–1405. <https://doi.org/10.24912/jmbk.v7i6.25771>
- [15] Liekyhyung, L., & Soelaiman, L. (2022). The Influence of Entrepreneurial Orientation on DKI Jakarta MSME Business Performance as mediated by Entrepreneurial Competence. *Journal of Managerial and Entrepreneurship*, 4(3), 731-738. <https://doi.org/10.24912/jmk.v4i3.19767>
- [16] Purwanto, H., & Trihudiyatmanto, M. (2018). The Influence of Entrepreneurial Intention, Entrepreneurial Orientation on Business Performance with Motivation as an Intervening Variable at the Carica MSME Center in Wonosobo. *Journal of Economics, Management, Accounting and Technology*, 1(1), 42-52. <https://doi.org/https://doi.org/10.32500/jematech.v1i1.211>
- [17] Dessler, Gary, 2016, *Human Resource Management*. Indonesian Edition, Volume 2. Jakarta. PT. Prenhallindo
- [18] Hasibuan, Malayu. 2012. "Human Resource Management". Jakarta: PT Bumi Aksara
- [19] Setiani, S., Siswanto, S., & Robithoh, S. (2023). Revisiting the effect of job satisfaction and organizational culture on employee performance: The mediating role of organizational citizenship behaviour. *Shirkah: Journal of Economics and Business*, 8(2), 125-142. <https://doi.org/10.22515/shirkah.v8i2.532>
- [20] Setiani, S., Sudarmiatin, & Hermawan, A. (2022). Motivation Role in Mediating the Effect of Work Culture and Organizational Citizenship Behavior on Performance. *Journal of Economics, Finance and Management Studies*, 5(11), 3422-3429. <https://doi.org/10.47191/jefms/v5-i11-28>
- [21] Welbourne, T. M., Johnson, D. E., & Erez, A. (1998). The role-based performance scale: validity analysis of a theory-based measure. *Academy Management of Journal*. 41(5), 540–555
- [22] Triest, S. V., Kloosterman, H., & Groen, B. A. C. (2023). Under which circumstances are enabling control and control extensiveness related to employee performance?. *Management Accounting Research*, 59, 1-17. <https://doi.org/10.1016/j.mar.2023.100831>
- [23] Mujiatun, S. (2019). The Influence of Training and Work Motivation on Employee Competency at Regional Office VI of the Medan State Civil Service Agency. *Scientific Journal of Management and Business*, 15(01), 48–60
- [24] Zisser, E. (2004). Bashar al-Asad and his regime - Between continuity and change. *Orient*, 45(2), 239–255.
- [25] Purba, S. (2009). The Influence of Organizational Culture, Intellectual Capital, and Innovative Behavior on the Performance of Department Leaders at Medan State University. *Performance*, 13(2), 150–167. <https://doi.org/10.24002/kinerja.v13i2.37>
- [26] Potnuru, R. K. G., & Sahoo, C. K. (2016). HRD interventions, employee competencies and organizational effectiveness: an empirical study. *European Journal of Training and Development*, 40(5), 345-365. <https://doi.org/10.1108/EJTD-02-2016-0008>
- [27] Mahmud, & Anomsari. (2011). Analysis of the Influence of Entrepreneurial Orientation, Management Ability, and Business Strategy in Improving Company Performance (Study of Small and Medium Enterprises in the Barito Business Area, Semarang). National Seminar on Applied Information & Communication Technology 2011 (Semantics 2011)
- [28] Abbas, D. (2018). The influence of business capital, market orientation, and entrepreneurial orientation on the performance of SMEs in Makassar City. *Journal of Minds: Management of Ideas and Inspiration*, 5(1), 95-112.
- [29] Syurwana., Muhammad, Azis., Basri, Bado. (2022). Competitive Advantage as a Mediation of Competence and Entrepreneurial Orientation in Business Success: An Empirical Evidence from Indonesia. *Asian Journal of Business and management*. <https://doi.org/10.24203/ajbm.v10i3.6999>
- <https://www.ekon.go.id/publikasi/detail/2969/umkm-menjadi-pilar-penting-dalam-perekonomian-indonesia>. Accessed 24 Oktober 2023

<https://www.ekon.go.id/publikasi/detail/3407/pemerintah-dorong-umkm-tingkatkan-daya-saing-untuk-masuk-pasar-global>.
Accessed 24 Oktober 2023

UNDER PEER REVIEW

