

THE EFFECT OF ENTREPRENEURSHIP ORIENTATION ON COMPETITIVE ADVANTAGE IS MEDIATED BY INNOVATION AND MARKET ORIENTATION (EVIDENCE ON WOVEN FABRIC UKM IN KUPANG / NTT)

Yeremias Lake
Moeljadi
Kusuma Ratna

ABSTRACT

This research is motivated by the increasingly fierce competition between Woven Fabric UKM. SMEs must be able to create competitive advantage in the products. Thus, Woven Fabric UKM in Kupang must have a competitive advantage in order to compete with Woven Fabric UKM. Innovation can be used as one of the strategies to achieve a competitive advantage. Therefore, it is necessary to increase product innovation and process innovation in order to achieve competitive advantage by means of market orientation and entrepreneurial orientation. The purpose of this research was to examine and analyze the effect of entrepreneurial orientation on competitive advantage mediated by innovation and market orientation in woven fabric SMEs in the city of Kupang. The research sample was carried out on 50 UKM of woven fabrics as respondents in Kupang. The research sampling technique used saturated sampling. The analysis technique used is quantitative analysis with PLS (Partial Least Square). The results showed that entrepreneurial orientation have a positive and significant effect on competitive advantage. Likewise, innovation and market orientation have a positive and significant effect on competitive advantage. In this research, innovation and market orientation as partial mediation in the relationship between entrepreneurial orientation and competitive advantage. The practical implications can provide knowledge and understanding for SME fabric entrepreneurs, then increase innovation and market orientation as a competitive advantage through the implementation of entrepreneurial orientation.

Keywords: entrepreneurship orientation, innovation, market orientation, competitive advantage, UKM

INTRODUCTION

Industry is an interaction process of technology development, innovation, and trade between several countries. In some countries, the industrial sector is a sector that can advance the country's economy. The industrial sector is an initial stage of a country's economic development. In this case, the Indonesian states also participated in developing its industry (large industrial sector and small industrial sector) both in urban and rural areas. In the regional context, one of the sectors were contributed significantly to development, especially rural development, is the small industrial sector or what is often called Small and Medium Enterprises (SMEs). SMEs in Indonesia have an important role in the movement for country's economy (Sari, 2015). SMEs can play a role to increase many employment, state development, and it is important to distribute the results of development (Nur et al., 2014). In addition, SMEs also have the advantage of not being easily shaken, because raw materials and other resources are mostly local, vulnerable to fluctuations in imports of raw materials (Suryana, 2014: 233).

Based on 2012 BPS data on the Proportion of Indonesian People on a Small Scale, the number of SMEs is very large at around 98%, and the number of workers absorbed is around 97% on the total Indonesian workforce. Contributions made by Small and Medium Industries based on BPS data (2012) amounted to Rp. 2,563.3 trillion or 56% of Indonesia's total Gross Domestic Product (GDP) (www.bps.go.id, 2013). According to Hadiyati (2011) said that an increase in the number of SMEs can be seen from various aspects, which include the large number of industries in each sector. It has a potential to create more jobs compared to the same investment in a larger scale business. In addition, the contribution of SMEs for formation of GDP is quite significant, because it contributes foreign exchange to countries with a stable export value. It increasing a number of SMEs in Indonesia, it cannot be denied by the competition between SMEs, both in the regions and in the international arena, is getting higher. This condition was requires SMEs to be able to innovate with their products, thereby creating positive value in the eyes of consumers. In the competition between an SME and another, especially those selling similar products, business management must be managed well, then it can win market share. This means that SMEs must implement the right sign about marketing strategy. So, many consumer do not switch to other companies even to make purchases continuously. For this reason, SMEs are required to better understand all the needs and desires of consumers. It was able to create a high quality products.

Indeed, an SME must have a competitive advantage and innovation that can be used as one of the strategies to achieve competition in the market world. Therefore, it is necessary a product innovation to achieve a competitive advantage such as improve market orientation and entrepreneurial orientation. Market orientation and entrepreneurial orientation can create quality product innovations, so SMEs have a competitive advantage in the eyes of customers, because talking about SMEs is not only about how to produce one type of product, but also about how to innovate with high creativity.

Based on the description of previous research, it can be concluded that the research gap was provides the basis / opportunity for current research to reexamine the relationships between previous studies, such as: (1) Inconsistent findings about the effect of entrepreneurial orientation on competitive advantage; (2) Inconsistency findings about the effect of entrepreneurial orientation on competitive advantage is mediated by innovation; (3) Limited research was examining the effect of entrepreneurial orientation on competitive advantage and mediated by market orientation. Some of these research gaps showed that a positive or negative

relationship and there is an indirect relationship mediated by other variables. It also provided opportunities for current research to reexamine the relationship between the previous studies. This research was conducted on creative woven fabric UKM in the Kupang area due to competition. The woven fabric UKM was faced with various opportunities and threats, both from outside and within the country. For this reason, every SME businessman is required to always understand and comprehend. It is happening in the market and what consumers want, as well as various changes in the business environment.

TEORITICAL FRAMEWORK

Strategy Management

Strategy management is a dynamic process because it takes place continuously in an organization. In every strategy always requires a review and maybe even changes in the future. One of the main reasons is because the conditions faced by an organization, both internal and external, are always changing. In other words, the management strategy is intended to the organization becomes a unit. It is able to display with high performance and as much as possible because a successful organization. The level of effectiveness and productivity is get increase too. According to Paerce (1997) said that strategy management is a set of strategies and actions the lead to the formulation and implementation about plans designed and to achieve the goals of an organization. Don Harvey (1982) argued that strategic management is related to the process that choosing many strategy and policies in the context of maximizing organizational goals. There are various public opinions that used the main study material to formulate a strategy are including what new business needs to be entered, what business needs to be stopped, how to allocate resources, whether to expand operations or diversification, whether to enter international markets, whether will merge or form joint ventures and how to avoid taking over competing companies.

Entrepreneurship Orientation

Entrepreneurship comes from the French language, namely entrepreneur which is translated in English as between taker or go (Alma, 2013). Entrepreneurship is an equivalent on the word entrepreneurship. Wira means that persistent, brave, mighty, while business is coupled with the word business. In the large Indonesian dictionary (2002), entrepreneurship is a equivalent of entrepreneurs who are interpreted as people who are smart or talented to recognize new products, determine new production methods, arrange operations for the procurement of new products, market, and regulate to operating capital. Entrepreneurship is defined in depth as the process of creating something that different value by using the effort and time required, carrying the financial, psychological, and social risks for accompany. It as well as receiving reciprocating monetary services and personal satisfaction (Wiratmo, 1996). According to Alma (2003) said that entrepreneurship is an ability in creative thinking and innovative behavior that is used as a basis, resources, driving force, tactics, tips and processes in facing life's challenges.

Meanwhile, according to Zimmerer and Scarborough (2006) stated that entrepreneurs are people who create new businesses at a risk and uncertainty in the interests of profit and growth by identifying important opportunities, then gathering the necessary resources and playing a major role in them. This entrepreneurial attitude arises when someone dares to develop new businesses and ideas, while the entrepreneurial process includes all functions, activists, and actions related to the acquisition of opportunities and creation of business organizations. Then, the entrepreneur is a person who gets the opportunity and creates opportunities, then creates an organization to pursue these opportunities (Bygave, 1996).

Innovation

Schumpeter (1935) said that the first economist to define innovation, so there were 5 (five) types of innovation, such as introduction of new products or qualitative changes to existing products, new innovation processes for industry, opening new markets, and development of new sources on supply of raw materials, then changes in industrial organizations. The definition of innovation was includes to the adoption of a new product or process, then increases for overall competitiveness and profitability. This includes new ways to identify the needs of new and existing clients, so innovation is a major challenge for small and medium business management. Innovation as an object also has a meaning that a new product or company practice available for applications. An innovation can be new to the company, new to a market, or country or region, or new globally. Innovations are new creations (in material form) that have significant to economic value, generally carried out by companies or individuals with a new product or process.

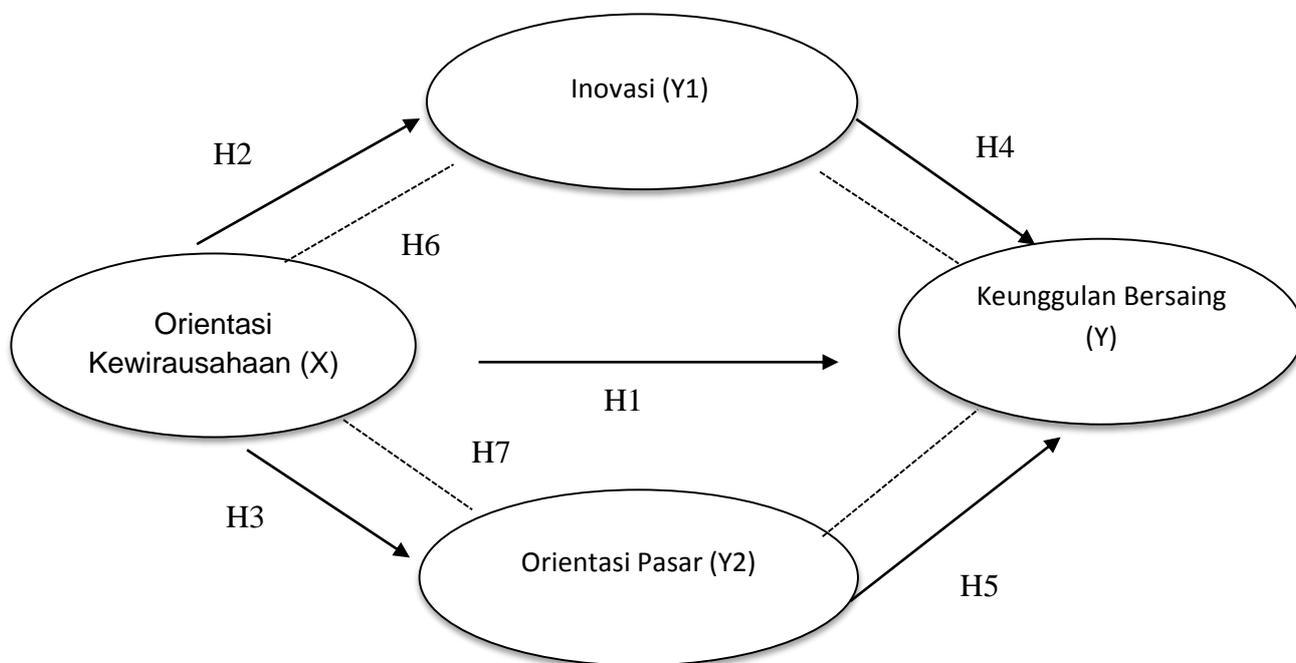
Market Orientation

Market orientation is important for companies to increase global competition and changes needed, then desired by consumers. Where, companies can realize that they must always be close to their markets. Market orientation is a business culture, where an organization has a commitment to continue and to be creative in creating added value for customers. Uncles (2000) stated that market orientation is a process and activity related to the creation and satisfaction of customers by continuously assessing the needs and desires of customers. Application of market orientation will bring increased performance for small and medium businesses. Narver and Slater (1995) stated that market orientation has three components, such as customer orientation, competitor orientation, and inter-functional alliance. Customer orientation and competitor orientation are include all activities involved in obtaining information about buyers and competitors in the target market and disseminating through business. While, inter-functional functions are based on customer and competitor information is consist to coordinated efforts.

Competitive Advantage

Basically, every organization is competes in an environment and to be superior to its competitors. Generally, businesses apply this competitive strategy explicitly, explicit strategies can be developed through the planning process. The development of a competitive strategy is developing a general formula about how the business competes, what the objectives and policies will be needed in achieving to these goals.

According to Groge and Vickery (1994), stated that intense competition causes organizations to strive and to win the competition by implementing appropriate competitive strategies. So, they can implement and realize their goals in accordance with expectations. In this case, excellence is more emphasized on resources and expertise possessed by an organization. Organizations have competencies in the marketing, manufacturing, and innovation sectors can make this a source and achieve a competitive advantage. Competing strategies are divided into three general strategies to measure competitive advantage according to Porter (2008), which are low cost leadership, differentiation, and focus.



Picture 1. Conceptual Framework

METHODOLOGY

This type of research used in this study is Explanatory Research, which explains the causal relationship between variables through hypothesis testing, where the variables studied are entrepreneurial orientation, innovation, market orientation, and competitive advantage.

Population is a generalization area that consists of: objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions (Sugiyono, 2008). The population in this study were 50 woven fabric SMEs in the city of Kupang.

The sample is part of the number and characteristics possessed by a population (Sugiyono, 2014). Therefore, the samples taken should represent a population studied as far as possible. The sampling method was used saturated sampling, which is a sampling technique if all members of the population are used as samples (Sugiyono, 2014). In sampling, the research used 50 SME woven fabrics in Kupang.

Data collection techniques were used surveys and questionnaires. According to Sugiyono (2012) said that the questionnaire is a data collection technique by a set of questions and written statements to respondents. Where, the questions and statements are submitted must support with the problems to be examined. In this research, the questionnaire was addressed to SME businesses in the Kupang area.

RESULT

Hypothesis testing using PLS approach was produces with path coefficients and influence to entrepreneurial orientation on competitive advantage. It has a significant effect with a path coefficient of 0.363 and t-statistics of 3.416, then significant of 0.001 at α 5% (significant value <0.05). Because the significance value is less than 0.05, there is sufficient empirical evidence to accept H1: entrepreneurial orientation has a real and positive effect on competitive advantage. The coefficient marked positive indicated that entrepreneurship orientation (X) increase and effect to the competitive advantage (Y).

Hypothesis testing using the PLS approach was produces with path coefficient and influence to entrepreneurial orientation on innovation. It has a significant effect with a path coefficient of 0.641 and t-statistics of 6.764, then a significance of 0.000 at α

5% (significant value <0.05). Because the significance value is less than 0.05, there is enough empirical evidence to accept H2: entrepreneurial orientation has a real and positive effect on innovation. The coefficient marked positive indicated that entrepreneurship orientation (X) increase and effect to innovation (Y1).

Hypothesis testing using the PLS approach was produces with path coefficient and influence to entrepreneurship orientation on market orientation. It has a significant effect with a path coefficient of 0.667 and t-statistics of 8.831, then a significance of 0.000 at α 5% (significant value <0.05). Because the significance value is less than 0.05, there is enough empirical evidence to accept H3: entrepreneurial orientation has a real and positive effect on market orientation. The coefficient marked positive indicated that the entrepreneurship orientation (X) increase and effect to market orientation (Y2).

Hypothesis testing using the PLS approach was produces with path coefficients and influence to innovation on competitive advantage. It has a significant effect with a path coefficient of 0.343 and t-statistics of 2.132, then a significant of 0.033 at α 5% (significant value <0.05). Because the significance value is less than 0.05, there is enough empirical evidence to accept H4: innovation has a real and positive effect on competitive advantage. The coefficient marked positive indicated that innovation (Y1) effect to competitive advantage (Y).

Hypothesis testing using the PLS approach was produces with path coefficient and influence to market orientation on competitive advantage. It has a significant effect with a path coefficient of 0.298 and t-statistics of 2.277, then a significant of 0.023 at α 5% (significant value <0.05). Because the significance value is less than 0.05, there is enough empirical evidence to accept H5: market orientation has a real and positive effect on competitive advantage. The coefficient marked positive indicated that market orientation (Y2) effect to the competitive advantage (Y).

The indirect effect between entrepreneurial orientation on competitive advantage is mediated by innovation, an indirect effect coefficient of 0.22 with a t-statistic of 2.053 and a significant of 0.041 at α 5% (significant value <0.05). Because the significance value is less than 0.05, there is enough empirical evidence to accept H6: there is an indirect effect between entrepreneurial orientation on competitive advantage mediated by innovation. This means that entrepreneurship orientation (X) can affect to competitive advantage (Y) and without going through the mediation variable innovation (Y1). The effect of entrepreneurship orientation (X) on competitive advantages (Y) through the mediation variable innovation (Y1). It means that if innovation (Y1) has a high value, it will increase the effect of entrepreneurial orientation (X) on competitive advantage (Y). In other words, the higher a value of entrepreneurship orientation will be effect to the value of competitive advantage and the value of innovation.

The indirect effect between entrepreneurial orientation on competitive advantage is mediated by market orientation, an indirect effect coefficient of 0.204 is obtained. There is a t-statistic of 1.987 and a significant of 0.033 at α 5% (significant value > 0.05). Because the significant value is less than 0.05, there is sufficient empirical evidence to accept H7: there is an indirect effect between entrepreneurial orientation on competitive advantage mediated by market orientation. This means that entrepreneurship orientation (X) can affect to competitive advantage (Y) and without going through market orientation (Y2) as a mediation variables. The effect of entrepreneurship orientation (X) on competitive advantages (Y) through the market orientation as a mediation variable (Y2). It means that if market orientation (Y2) has a high value, it will increase the effect of entrepreneurial orientation (X) on competitive advantage (Y). In other words, a higher of the value of entrepreneurship orientation will effect to the value of competitive advantage and the value of market orientation.

CONCLUSION

The entrepreneurial orientation (X) has a positive influence on competitive advantage (Y). The entrepreneurial orientation (X) has a positive influence on innovation (Y1). If the entrepreneurial orientation is increase, so the innovation is also increase. Entrepreneurial orientation (X) has a positive influence on market orientation (Y2). If entrepreneurial orientation is increase, so the market orientation also increase. Innovation (Y1) has a positive influence on competitive advantage (Y). If the innovation is increase, so the competitive advantage is also increase. Market orientation (Y2) has a positive influence on competitive advantage (Y). If the market orientation is increase, so the competitive advantage will be increase (Y). Entrepreneurial orientation (X) has a positive influence on competitive advantage through mediation of innovation (Y1). The results indicated that entrepreneurial orientation can increase innovation, then innovation is increase to the competitive advantage. Entrepreneurial orientation (X) has a positive influence on competitive advantage through mediating market orientation (Y2). The entrepreneurial orientation can improve market orientation, market orientation increase to the competitive advantage of SMEs.

SUGGESTION

An entrepreneurial orientation needs increased to maintain the competitive advantage of woven fabric SMEs, such as being aggressive, proactive, brave, and autonomous in terms of producing more products than the number an existing orders and more actively introducing products with different designs to the public. SMEs must continue to innovate by developing innovative products that are different from previous products. The developing new products are similar to products from competitors, if the products produced by competitors are much in demand by customers. In addition, product innovation can also be realized with process innovations in the manufacture of certain products to accelerate the production process.

SMEs must further improve to market orientation, so they become even better in dealing with competitors. Especially, more aggressive in responding to conditions, where competitors make intensive promotions to customers and respond to competitors more quickly. The competitive advantage of woven fabric SMEs in Kupang needs to be increased again by seeking costs that

incurred to produce woven fabric. So, it is relatively small and the selling price of woven fabric is cheaper than the prices of competitors. In addition, competitive advantage is enhanced by creating more better quality woven fabric products than woven fabrics produced by other competitors.

REFERENCES

- Aloulou, W. dan Fayolle, A. 2005. A Copceptual Approach of Entrepreneurial Orientation within Small Business Context. *Journal of Enterprising Culture*, 13, 21-45.
- Bharadwaj, Sundar G, P.R. Varadarajan, Jihn Fahy, 1993, Sustainable Competitive Advantage in Service Industries: A Conceptual Model and Research Proporsitions, *Journal of Marketing*, 57, 83-99.
- Bharadwaj, Sundar G, P.R. Varadarajan, Jihn Fahy, 1993, Sustainable Competitive Advantage in Service Industries: A Conceptual Model and Research Proporsitions, *Journal of Marketing*, 57, 83-99. Covin, J.G., Green, K.M., & Slevin, D. P. 2006. *Strategic Process Effects on the Entrepreneurial Orientation – Sales Growth Rate Relationships. Entrepreneurship Theory and Practice*, 16, 177-190.
- Dewi, S.B, 2006. Analisis Pengaruh Orientasi Pasar dan Inovasi Produk terhadap Keunggulan Bersaing untuk Meningkatkan Kinerja Pemasaran (Studi pada Industri Batik di Kota dan Kabupaten Pekalongan). Tesis Program Studi Magister Manajemen Universitas Diponegoro.
- Djodjobo, C.V., dan Tawas, H.N, 2014. Pengaruh Orientasi Kewirausahaan, Inovasi Produk, dan Keunggulan Bersaing terhadap Kinerja Pemasaran Usaha Nasi Kuning di kota Manado. *Jurnal EMBA*. 2, 1214-1224.
- Frishammar, J. and Horte, S.A, 2007. The Role of Market Orientation and Entrepreneurial Orientation for New Product Development Perfomance in Manufacturing Firms. *Technology Analysis & Strategic Management*, 22 (3): 251-266.
- Hapsari, Gusti R.E. 2014. Pengaruh pembelajaran Organisasional. Orientasi Pasar dan Inovasi Organisasi terhadap Keunggulan Bersaing (Studi pada PT Bank Rakyat Indonesia (Persero) Tbk. Cabang Malang Raya. Tesis Program PascaSarjana Manajemen Universitas Brawijaya.
- Hilmi, Mohd Faiz, T Ramayah dan Yanti Mustapha, 2011. Product and Process Innovativeness: Evidence from Malaysia SMEs, *European Journal of Social Science*. 16, 547-555.
- Kumalaningrum, 2012. Lingkungan Bisnis, Orientasi Kewirausahaan, Orientasi Pasar, dan Kinerja Usaha Mikro Kecil dan Menengah. *JRMB*, 7, 1.
- Lee and Hsieh, 2010. A Research in Relating Entrepreneurship Capability and Sustained Competitive Advantage. *Journal of Business and Economics Research*. 8,9.
- Lumpkin, G.T, and Dess, G.G, 1996. Clarifying The Entrepreneurial Orientation Construct and Linking it to Firm Perfomance. *Academy of Management Review*, 2, 135-172.
- Matsuno, K. J. T. Mentzer, dan A. Ozsomer, 2002. The Effect of Proclivity and Market Orientation on Business Perfomance. *Journal of Marketing*. 66, 18-32.
- Miller. Dany, 1983. The Correlates of Entrepreneurship in Three Types of Firms. *Management Science*, 29, 770-791.
- Narver, J. C., & Slater, S. F., 1990. The Effect of Market Orientation on Business Profitability, *Journal of Marketing*. Pp. 20-35.
- Pardi, 2014. The Effect of Market Orientation and Entrepreneurial Orientation toward Learning Orientation, Innovation, Competitive Advantage and Marketing Perfomance. *European Journal of Business and Management*. 6,12.
- Samad dan Azis, 2016. *Innovation and Competitive Advantage Moderating Effect of Firm Age in Foods Manufacturing SMEs in Malaysia. Economics and Finance*. Elsevier B.V.
- Setyawati, Harini Abrilia, 2013. Artikel, Pengaruh Orientasi Kewirausahaan dan Orientasi Pasar terhadap Kinerja Perusahaan melalui Keunggulan Bersaing dan Persepsi Ketidakpastian Lingkungan sebagai Prediksi Variabel Moderasi: Survey pada UMKM Perdagangan di Kab. Kebumen.
- Sismanto, Adi, 2006. Analisis Pengaruh Orientasi Pembelajaran, Orientasi Pasar dan Inovasi terhadap Keunggulan Bersaing untuk meningkatkan Kinerja Pemasaran (Studi Empiris pada Industri Kecil dan Menengah Produk Makanan di Propinsi Bengkulu). Tesis. Program Magister Manajemen, PascaSarjana Fakultas Ekonomi dan Bisnis, Universitas Diponegoro, Semarang.
- Supranoto, Meike. 2009, Strategi menciptakan Keunggulan Bersaing produk melalui Orientasi Pasar, Inovasi, dan Orientasi Kewirausahaan dalam rangka meningkatkan Kinerja Pemasaran (Studi Empiris pada Industri Pakaian jadi Skala Kecil dan Menengah di kota Semarang). Tesis. Program Magister Manajemen, PascaSarjana Fakultas Ekonomi dan Bisnis, Universitas Diponegoro, Semarang.

- Suci, Rahayu Puji, 2009. Peningkatan Kinerja melalui Orientasi Kewirausahaan, Kemampuan Manajemen dan Strategi Bisnis (Studi pada IKM Bordir di Jatim). *Jurnal Manajemen dan Bisnis, Universitas Petra, Surabaya*, hal. 46-58.
- Uncles, Mark, 2000. Market Orientation. *Australia Journal of Management*. 25, 1-15.
- Wiklund., Johan, Stepherd, D., 2005. Entrepreneurial Orientation and Small Business Performance: A Configurational approach. *Journal of Bussines Venturing*, 20, 71-91.
- Yoo-Joo, Ma. et al. 2012. *The Effect Entrepreneurship and Market Orientation on Social Perfomance of Social Entreprise*. International Conference on Economics Marketing and Management. IPEDR Vol 28. IACSIT Press, Singapore.
- Zhou, K. Z., James, R., Brown, and Chekitan, S. D, 2009. Market Orientation, Competitive Advantage, and Performance: A Demand-Based Perspective. *Journal of Business Research*, 62, 63-1070.
- Zahra, S. And Covin, J. G. 1995. Contextual Influences on The Corporate Entrepreneurship-performance: A Longitudinal Analysis. *Journal of Business Venturing*, 10, 43-58

Yeremias Lake
Faculty of Economics and Business,
Universitas Brawijaya
Email: lakeyeremias@gmail.com

Moeljadi
Faculty of Economics and Business,
Universitas Brawijaya

Kusuma Ratna
Faculty of Economics and Business,
Universitas Brawijaya