The Role of Entrepreneurial Orientation and Entrepreneurial Leadership of SMEs in the City of Surakarta, Indonesia

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Abstract

This research analyzes entrepreneurial leadership and orientation's influence on business performance with competence as a mediating variable in Bakery SMEs in Surakarta City. The design of this research is explanatory causality research with a quantitative approach. The number of samples is determined using Slovin and simple random sampling of 189 respondents. The analytical tool used was SPSS description analysis. The study results showed entrepreneurial orientation, leadership, competence, and business performance perceptions. Entrepreneurial orientation in SMEs in Surakarta is empirically reflected by the courage to take risks, innovativeness, economy, and reactivity. The indicator of daring to take risks has the highest contribution value, especially regarding the courageous attitude of business actors to accept risks from the business they are running. Entrepreneurial Leadership in SMEs in Surakarta is empirically reflected by being brave enough to act, sociable, broad-minded, big-hearted, and self-confident. The self-confidence indicator has the highest contribution value, especially regarding the ability of bread SMEs in Surakarta to run a business that never gives up from the various obstacles they face. Knowledge, skills, self-concept, character, and motives empirically reflect competence.

1. Introduction

SMEs play an essential and strategic role in the country's economic growth in developing countries like Indonesia and developed countries. When the COVID-19 pandemic occurred in Indonesia, SMEs were the economic sector that had the best resilience. The capabilities of SMEs need to be empowered and continuously developed by trying to reduce the obstacles they experience so that they can make a better contribution to improving community welfare (Sutaryo, 2004).

After the COVID-19 pandemic, the performance of small and medium enterprises in the City of Surakarta still needs to be improved, considering that the role of the small and medium industrial sector is the main driver for the economy of the City of Surakarta (Supriadi et al., 2022). This can be seen from the contribution to economic growth. In general, the contribution of the small and medium industrial sectors to the economy of Surakarta City in 2019 was 8.46 percent.

According to Bygrave and Hofer (1992), entrepreneurial leadership is a paradigm that emerged from the domain of leadership and entrepreneurship. While both fields of leadership and entrepreneurship have developed a sizable body of research over the decades, the concepts have reached consensus independently. In addition, it is essential to identify other entrepreneurial competencies that may predict business success (Andrews et al., 2011). Entrepreneurial orientation is one of the essential factors that integrates, builds, and reconfigures external and internal competencies to cope with the rapidly changing environment in business circles (Darwis, 2017).

This factor generally affects performance positively (Caseiro & Coelho, 2018). In addition, entrepreneurial orientation is the primary determinant of business growth and innovation.
This allows top management to outline a possible vision for achieving a competitive advantage (Rauch et al., 2009). Furthermore, entrepreneurial orientation can help explore innovative capabilities among organizations and moderate the relationship between knowledge-based resources and firm performance (Dess & Lumpkin, 2005). This research is expected to have theoretical benefits (for the development of science) and practical benefits (for researchers and institutions). Practical Benefits are to SMEs in the City of Surakarta about the importance of paying attention to performance for business sustainability by paying attention to entrepreneurial orientation and entrepreneurial leadership through increasing competence, as input for SMEs in the City of Surakarta, entrepreneurial orientation, entrepreneurial leadership, and competence are closely related and can encourage business performance, and for human resource management practitioners to realize actors’ welfare in Bread UKM in Surakarta City.

Literature Review

The theoretical basis of this research is taken from the resource-based view (RBV) application, explaining the relationship between entrepreneurial leadership and entrepreneurial orientation on business performance through competence. According to Barney (1991), RBV is a theory that explains a company's ability to build competitive advantages through valuable, rare, imitable, and organized internal resources to obtain added value. RBV has sustainable advantages from tangible and intangible resources; RBV considers intangible resources, such as competence, as human capital characteristics (Barney et al., 2001).

Entrepreneurial Orientation

According to Schumpeter, an entrepreneur (1934-1980) is an innovator who implements changes in the market through new combinations. The combination can be in the form as introducing new products or with new qualities, introducing new product methods, opening new markets, obtaining new sources of supply of new materials or components, running a new organization in an industry. Schumpeter (1934, 1980) connected the meaning of entrepreneurship with the concept of innovation applied in a business context and linked it to a combination of resources (Schumpeter, 1934, 1980). According to the Big Indonesian Dictionary (KBBI), entrepreneurship is the same as being self-employed: a person who is clever or talented at recognizing new products, determining new production methods, arranging operations for procuring new products, making them, and arranging operational capital.

Richard Cantillon introduced the concept of entrepreneurship in France in the 18th century. In the same period in England, there was also an industrial revolution involving several entrepreneurs. Through Schumpeter’s theory of economic growth, entrepreneurship has been placed in a critical position in implementing development. The understanding of entrepreneurship developed in line with the evolution of the thinking of economists in the Western world and then spread to other countries, including Indonesia. In our own country, the concept of entrepreneurship is translated as entrepreneurship or entrepreneurship.

Entrepreneurship is identifying, developing, and bringing a vision to life. This vision may be an innovative idea, an opportunity, or a better way to run things. This process results in the creation of new businesses formed under risk or uncertainty. Entrepreneurship has different meanings among experts or sources of reference for different gravity and emphasis. Entrepreneurship is a science that studies the development of the spirit of creativity and the courage to take risks in the work carried out in order to realize the results of that work. The courage to take risks belongs to an entrepreneur because he is required to have the courage to bear the risk of the work he does to create an entrepreneur. After all, he must be brave and ready if his business does not yet have value in the market, and this must be seen as a form of the process towards becoming an entrepreneur.

Entrepreneurial Leadership

Entrepreneurial leadership involves the organization and motivation of the company's operating system and employees to achieve the company's core values, such as taking risks, seizing opportunities, innovating products and processes, creating competitive advantages, and increasing the dynamics of competencies pursued by entrepreneurs (Gupta et al., 2004).
Entrepreneurial leadership emerges at the intersection of entrepreneurship and Leadership (Cogliser & Brigham, 2004; Vecchio, 2003). Entrepreneurial leadership directs employees' energy and talents to achieve visionary goals (Rastogi, 2003). In entrepreneurship, where there is usually a more complex structure and fewer behavioral norms than in established organizations, leaders are mainly thought to have a solid imprinting impact. In this way, SME leaders can exercise greater discretion and, as a result, significantly influence company strategy and performance. Ilesanmi (2000) defines entrepreneurial leadership as the ability to produce the leadership needed in all human activities. The entrepreneurial leadership indicators used are courage to act, sociability, broad-mindedness, big-heartedness, and self-confidence. Experts use three main approaches to define entrepreneurial Leadership.

First, focus on the inherent traits and characteristics that differentiate entrepreneurial leaders from other leaders. Second, examine environmental factors and contexts in which organizational leaders are adept at applying entrepreneurial principles and strategies in carrying out their roles and duties, and third, observe the social process where entrepreneurial leaders influence other people to realize their vision. Entrepreneurial leadership in the success of entrepreneurial ventures has been highlighted by various studies such as (Cogliser & Brigham, 2004; Vecchio, 2003). Additionally, there is a need to develop leadership styles coherent with today's entrepreneurial settings. Entrepreneurial success is closely related to leaders encouraging followers to think and act creatively and innovatively (Kuratko, 2007). As an effective form of leadership with a high influence on workforce creativity (Sulistyan et al., 2022).

2. Methods

A research design is a guideline containing systematic steps researchers will follow to conduct their research. In preparing a research design, it is necessary to anticipate various sources that can be used to support and hinder the implementation of research (Sugiyono., 2017). This research design is included in explanatory causality research. This research begins by describing the variables of entrepreneurial leadership and entrepreneurial orientation, entrepreneurial competence, and the Bread UKM business performance in Surakarta. Then, this research aims to empirically test the influence of entrepreneurial orientation and entrepreneurial leadership on business performance through the competency of UKM Roti in Surakarta.

The research was conducted on bread entrepreneurs in Surakarta City, Central Java. The city of Surakarta has five sub-districts. Currently, the city of Surakarta is famous for cultural and culinary tourism. Choosing a bakery business in the city of Surakarta.

This study's population (N) is 590 people in Surakarta's small and medium bread business sector. Determining the sample for this research uses the Slovin formula (Sanusi, 2011, p. 101), namely:

\[ n = \frac{N}{1 + N\alpha^2} \]

where:
- \( n \) = sample size
- \( N \) = population size
- \( \alpha \) = inaccuracy tolerance (in percent).
If you use this formula, first determine the error tolerance limit. This error tolerance limit is expressed in percentage and error tolerance (e) based on the researcher’s considerations. The inaccuracy tolerance value in this study is 6%, so the sample size can be calculated as follows:

\[ n = \frac{590}{1+590(0.06)^2} \]
\[ n = \frac{590 \times 2500}{7810} \]
\[ n = \frac{59 \times 2500}{781} \]
\[ n = 147500/781 \]
\[ n = 188.86 \]
\[ n = 189 \]

Based on the calculations above, it is known that the sample size is 189 bread entrepreneurs. The sampling technique used was Proportional Random Sampling.

Based on the research design that has been determined, the analysis technique is carried out in the following stages: Descriptive analysis will describe the highest, lowest, and average values of each variable using the descriptive statistics method.

3. Results and Discussion

3.1. General description of SMEs in Surakarta

The development of SMEs in Surakarta has shown a positive trend in recent years after the COVID-19 pandemic, with solid support from the government. Based on data updates from the Surakarta City Cooperatives, SMEs, and Industry Department, it was recorded that in 2022, 11,157 micro, small, and medium enterprise (MSME) units will be operating in the area. Data from the previous year, namely 2021, shows only 3,635 MSMEs.

The number of MSMEs is classified into three categories: micro-businesses with 11,138 units, small businesses with 18 units, and medium businesses with three units. The distribution of MSMEs in Solo City is in five sub-districts, with the following proportions: 24.81 percent are located in Serengan, 17.65 percent are located in Jebres, 17.59 percent are located in Banjarsari, 13.34 percent are located in Laweyan, and 26.61 percent are located in Kliwon Market.

3.2. Description of Entrepreneurial Orientation Variable (X1)

The entrepreneurial orientation variable in this research is entrepreneurial activity, which refers to the process, decision-making style, and behavior of being able to enter new or established markets with new or existing goods or services. This variable is reflected by the courage to take risks (X1.1), innovation (X1.2), proactiveness (X1.3), and autonomy (X1.4). The average score for the entrepreneurial orientation variable (X1) is 4.29. Indicators reflecting entrepreneurial orientation are the courage to take risks and autonomy, with an average value above 4.29. The risk-taking indicator has the highest average value, namely 4.36, the autonomy indicator is 4.29, and the indicator with the lowest average is innovativeness and proactiveness at 4.26.

This shows that most respondents agree that entrepreneurial orientation is reflected in the courage to take risks, innovativeness, proactiveness, and autonomy. The most considerable average value of the entrepreneurial orientation variable is the courage to take risks. The most crucial thing in entrepreneurship is the courage to take risks for consumer convenience, such as by providing guarantees, giving discounts, and creating something new. Based on the table above, it can be seen that the courage to take risks in providing a guarantee for products that are damaged or not in good condition to consumers obtained the highest number of agreeing results with 104 respondents (55.0%), followed by 79 respondents (41.8%) who strongly agreed. Six respondents (3.2%) said they were neutral, 0 respondents (0%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.39, which shows that most respondents agree it takes courage to take risks by providing consumers with guarantees for damaged or unsuitable products.

The distribution of respondents’ answers regarding the courage to take risks in providing discounts to loyal consumers stated that they strongly agreed, amounting to 88 respondents.
(46.6%), followed by 75 respondents (39.7%) who agreed, 25 respondents (13.2%) who said they were neutral, one respondent (0.5%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.32, which shows that most respondents agree that courage is needed to take risks when providing discounts to loyal consumers.

Respondents' answers about being brave enough to take risks to create something new or creative among consumers were 90 respondents (47.6%), followed by 85 respondents (45.0%) who strongly agreed, and 12 respondents (6.3%) who said they were neutral, two respondents (1.1%) said they disagreed, and 0 respondents (0.0%) said they strongly disagreed. The average score obtained was 4.37; this shows that most respondents agreed to create something new or creative for consumers. The average indicator score for the boldness to take risks statement was 4.39. This explains that most respondents agree about guaranteeing damaged/unsatisfactory products/commodities to consumers, providing discounts to loyal consumers, and creating something new/creative for consumers in terms of daring to take risks.

Based on the table above, it can be seen that there is a need to innovate towards innovation, with the highest number of respondents agreeing, amounting to 120 respondents (63.5%), followed by 45 respondents (23.8%) who strongly agree, 24 respondents (12.7%) who agree neutral, 0 respondents (0%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.11, which shows that most respondents agree with the need to innovate constantly. The distribution of respondents' answers regarding trying to improve products or trade commodities in terms of innovation stated that they strongly agreed, amounting to 109 respondents (57.7%), followed by 51 respondents (27.0%) who agreed, 29 respondents (15.3%) who said they were neutral, 0 respondents (0%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.42, which shows that most respondents agree on the need to improve products or trade commodities regarding innovation.

Respondents' answers regarding innovativeness and interest in something new to attract consumers showed that 116 respondents (61.4%) agreed, followed by 60 respondents (31.7%) who strongly agreed, 12 respondents (6.3%) said neutral, one respondent (0.5%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score obtained was 4.24; this shows that the majority agreed always to be interested in something new to attract consumers. The average indicator score for the innovativeness statement is 4.26. This explains that most respondents always agree to innovate, try to improve products/trade commodities, and are always interested in something new to attract consumers. The distribution of respondents' answers regarding proactiveness related to the ability to work together with new people in carrying out a business stated that they agreed, amounting to 112 respondents (59.3%), followed by 56 respondents (29.6%) who agreed, 20 respondents (10.6%) who said they were neutral, one respondent (0.5%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.18, which shows that most respondents agree that the ability to work together with new people is needed.

Based on the table above, it can be seen that proactiveness by having the initiative to establish communication with fellow entrepreneurs and consumers as well as the government or private sector resulted in the most strongly agreeing with 86 respondents (45.5%), followed by 76 respondents (40.2%) who said agree, 27 respondents (14.3%) stated they were neutral, 0 respondents (0%) stated they disagreed, and 0 respondents (0%) stated they strongly disagree. The average score is 4.31, which shows that most respondents agree they have the initiative to establish communication with fellow entrepreneurs, consumers, and the government or private sector.

Respondents' answers regarding proactiveness towards the ability to establish good communication with fellow entrepreneurs and consumers as well as the government/private sector stated that they agreed, amounting to 101 respondents (53.4%), followed by 71 respondents (40.2%) who said agree, 27 respondents (14.3%) stated they were neutral, one respondent (0.5%) said they disagreed, and 0 respondents (0%) said they strongly disagree. The average score was 4.28, which shows that the majority agreed on proactiveness in establishing good communication with fellow entrepreneurs, consumers, and the government/private sector.
The average indicator score for the proactiveness statement was 4.26. This explains that most respondents agree regarding proactiveness in collaborating with new people in running a business, having initiative, and being able to communicate with fellow entrepreneurs and consumers as well as the government/private sector. The distribution of respondents’ answers regarding the courage to take risks to achieve the desired goals was 84 respondents (44.4%), followed by 77 respondents (18.8%) who strongly agreed, 28 respondents (14.8%) who said they were neutral, 0 respondents (0%) stated they strongly disagreed, and 0 respondents (0%) stated they were neutral. The average score is 4.26, which shows that most respondents agree with the courage to take risks to achieve the desired goals.

Based on the table above, you must have the courage to manage and develop your business/capital. The results obtained were that the majority agreed, amounting to 87 respondents (46.0%), followed by 79 respondents (41.8%) who strongly agreed, and 22 respondents (11.6%) said they were neutral, one respondent (0.5%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.29, which shows that most respondents agree they must have the courage to manage and develop business/capital.

Respondents’ answers related to courage in managing/investing profits obtained 85 respondents (45.0%) agreed, followed by 83 respondents (43.9%) who strongly agreed, 21 respondents (11.1%) said they were neutral, 0 respondents (0%) said they disagreed, and 0 respondents (0.0%) said they strongly disagreed. The average score obtained was 4.33. This shows that the majority agreed regarding courage in managing/investing the profits obtained. The average indicator score for the statement of autonomy is 4.30. This explains that most respondents agree about the commitment to courage to take risks to achieve desired goals, manage and develop business/capital, and manage/invest the profits they obtain.

3.3. Description of Entrepreneurial Leadership Variables (X2)

The entrepreneurial leadership variable in this research is intended to be the most critical factor in determining business success or failure. This variable has indicators of being brave to act (X2.1), easy to get along with (X2.2), broad-minded (X2.3), big-hearted (X2.4), and self-confident (X2.5). The average score for the entrepreneurial leadership variable (X2) is 4.41. Indicators that can reflect entrepreneurial leadership are having a big heart, self-confidence, and daring to act, which has an average value above 4.41. The indicator of having a big heart and self-confidence has the highest average value, namely 4.52; the indicator of daring to act is 4.49; the indicator of sociability is 4.40; and the indicator with the lowest average of having a broad view is 4.13.

This shows that most respondents agree that entrepreneurial leadership is reflected in being brave enough to act, sociable, broad-minded, and self-confident. The most considerable average value of the entrepreneurial leadership variable is having a big spirit and self-confidence. Having confidence in your abilities, being able to admit failure in business, and having the will to get up when you fail are the most important things an entrepreneur must have. The distribution of respondents’ answers regarding caution in acting in developing a business stated that they strongly agreed, amounting to 137 respondents (72.5%), followed by 37 respondents (6.3%) who agreed, 12 respondents (6.3%) who stated they were neutral, three respondents (1.6%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.63, which shows that most respondents agree regarding being careful in developing a business.

Based on the table above, it can be seen that acting according to one’s wishes obtained the most results stating that they strongly agree, amounting to 107 respondents (56.6%), followed by 47 respondents (24.9%) who agreed, 31 respondents (16.4%) who stated they were neutral, four respondents (2.1%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.36, which shows that most respondents agree with acting according to their wishes. The average score for the Courage to Act indicator is 4.49. This explains that most respondents agree with having the courage to act cautiously in developing their business according to their wishes.

The distribution of respondents’ answers about being friendly in socializing stated that they strongly agreed, amounting to 116 respondents (61.4%), followed by 51 respondents (27.0%)
who said they agreed, 20 respondents (10.6%) said they were neutral, two respondents (1.1%) stated they disagreed, and 0 respondents (0%) stated they strongly disagreed. The average score is 4.49, which shows that most respondents agree regarding being friendly in socializing. The distribution of respondents’ answers about being flexible in socializing stated that they strongly agreed, amounting to 85 respondents (45.0%), followed by 82 respondents (43.4%) who said they agreed, 19 respondents (10.1%) who said they were neutral, three respondents (1.6%) stated they disagreed, and 0 respondents (0%) stated they strongly disagreed. The average score is 4.32, which shows that most respondents agree with socializing flexibly. The average indicator score for the sociable statement is 4.40. This explains that most respondents agree that sociability can be assessed by friendliness and flexibility in socializing.

The distribution of respondents’ answers about having intelligence in developing a business was 97 respondents (51.3%), followed by 68 respondents (36.0%) who strongly agreed, 20 respondents (10.6%) who said they were neutral, and four respondents (2.1%) disagreed. The average score is 4.47, which shows that most respondents agree about having intelligence in developing a business. There were 109 respondents (57.7%) who agreed they have the ambition to be successful in business, followed by 68 respondents (36.0%) who strongly agreed, 28 respondents (14.8%) who said they were neutral, and four respondents (2.1%) disagreed. The average score is 4.27, which shows that most respondents agree about having the ambition to succeed in business. The average score of the broad-minded indicator is 4.27. This explains that most respondents agree with taking a broad view of intelligence in developing a business and having the ambition to succeed.

Based on the table above, it can be seen that being able to admit one’s failures in business, the most significant number of respondents who strongly agreed was 115 respondents (60.8%), followed by 48 respondents (25.4%) who agreed, 25 respondents (13.2%) who said they neutral, one respondent (0.5%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. The average score is 4.18, which shows that most respondents agree that being able to admit failure in business is part of having a broad view.

The distribution of respondents’ answers regarding being able to accept the situation stated that they strongly agreed, amounting to 124 respondents (65.6%), followed by 49 respondents (25.9%) who said they agreed, 25 respondents (7.9%) who said they were neutral, one respondent (0.5%) stated they disagreed, and 0 respondents (0%) stated they strongly disagreed. The average score is 4.57, which shows that most respondents agree that accepting the situation is part of self-confidence. The average indicator score for the Big Spirit statement is 4.38. This explains that most respondents agree that it is related to having a big heart in admitting failure in business and accepting the situation.

The distribution of respondents’ answers about having confidence in their abilities to run a business to get optimal results stated that they strongly agreed, totaling 116 respondents (61.4%), followed by 47 respondents (24.9%) who agreed, 25 respondents (13.2%) who said neutral, and one respondent (0.5%) disagreed. The average score is 4.47, which shows that most respondents agree that having confidence in one’s abilities in running a business is part of self-confidence. Based on the respondent data from the table above states that by having a leader who is not anxious about running the business, 131 respondents (69.3%) strongly agree, followed by 36 respondents (19.0%) who agree, 20 respondents (10.6%) said they were neutral, two respondents (1.1%) said they disagreed, and 0 respondents (0%) said they strongly disagreed. This indicates that having a leader who is not anxious about running a business increases self-confidence.

The average indicator score for the self-confidence statement was 4.52. This explains that most respondents agree that having confidence in one’s abilities in running a business and having a leader who is not anxious about running a business can increase self-confidence. The table above shows the average score for the entrepreneurial leadership variable (X2) is 4.44.

4. Conclusion
Based on the results of the research discussion, in examining the influence of entrepreneurial orientation, entrepreneurial leadership, competence, and their implications on business performance, which was carried out on SMEs in Surakarta to improve business performance, the following conclusions can be drawn as perceptions about entrepreneurial orientation, entrepreneurial leadership, competence, and business performance.

Entrepreneurial orientation in SMEs in Surakarta is empirically reflected by the courage to take risks, innovativeness, economy, and proactiveness. The indicator of daring to take risks has the highest contribution value, especially regarding the courageous attitude of business actors to accept risks from the business they are running. Entrepreneurial Leadership in SMEs in Surakarta is empirically reflected by being brave enough to act, sociable, broad-minded, big-hearted, and self-confident. The self-confidence indicator has the highest contribution value, especially regarding the ability of bread SMEs in Surakarta to run a business that never gives up from the various obstacles they face. Knowledge, skills, self-concept, character, and motives empirically reflect competence. The knowledge indicator has the highest contribution value, and this indicates that bread SMEs in the city of Surakarta have the motivation to continue learning in order to develop their business.

References


