

# Managerial Capabilities and Market Orientation in Mediating Entrepreneurial Orientation with Business Performance of Coffee Processing SMEs in Pupuan

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**Keywords:** Entrepreneurial Orientation, Managerial Capabilities, Market Orientation, Business Performance, Coffee Processing.

**Abstract:** Role analysis as well as the influence of managerial capabilities and market orientation in mediating entrepreneurial orientation with business performance on coffee processing SMEs in Pupuan and explaining the role of managerial capabilities and market orientation in mediating entrepreneurial orientation with business performance on coffee processing SMEs in Pupuan is the purpose of this study. The data of this research were collected through questionnaire method by using samples of 52 owners and managers in 26 units of coffee processing SMEs in Pupuan. Partial Least Square statistical analysis tool is used in this study and then tests the mediation effect. The result of this research concludes that managerial capabilities and market orientation have a positive and significant influence and act as partial mediator between entrepreneurial orientation and business performance. The results also provide suggestions to continuously improve high entrepreneurial attitude with managerial capabilities and market orientation for SMEs to be able to improve business performance.

## 1 INTRODUCTION

National economic growth is largely determined by the dynamics of the economy in areas sustained by small and medium sized economic activities, i.e. Small and Medium Enterprises (SMEs). SMEs play important roles in the regional and national economic and contribute substantial contributions in terms of increasing employment, reducing unemployment and distributing development outcomes throughout Indonesia (Nur et al., 2014). Therefore, SMEs have a very strategic role. The sustainability of an SME is certainly illustrated in its business performance. SMEs that have huge potential for export are coffee processing SMEs in Pupuan District, Tabanan Regency, Bali. However, this potential is not necessarily able to improve the performance of SMEs business. At this time SMEs processing coffee in Pupuan experienced problems related to weak performance caused by problems in managerial and marketing aspects.

Suci (2009) states business performance as a series of work functions of a company within a

certain period of time, which is reflected as the achievement of success or as a failure. Sales growth, asset growth and profit growth are used to measure business performance, especially the performance of small and medium business enterprises. The importance of the role of entrepreneurial orientation and its positive influence on business performance is explained in several entrepreneurial researches e.g. Andersen (2010); Nur et al. (2014); Umar (2014) and Tricahyadinata et al. (2015). The study of Hughes & Morgan (2007) and Frank et al. (2010) show that entrepreneurial orientation indicators provide a significant negative relationship to business performance.

The development of entrepreneurial orientation of SMEs is highly determined also by the managerial capabilities of the SMEs entrepreneurs themselves. The result of empirical study on the influence of managerial capabilities has been stated by Suci (2009), Maupa (2004) and Degraevl (2011) which shows entrepreneurial orientation gives positive and significant influence on managerial capabilities. In other researches, it is stated that the

influence of managerial capabilities to the performance is not significant, i.e. in research of Lo (2012), Umar (2014) and Nuret al. (2014). The study of Mithas et al. (2011) indicates that managerial capabilities have an important role in developing the company's capabilities. In addition, on the results of the study Umar (2014) and Nur et al., (2014) indicates managerial capabilities that are capable of mediating well between the entrepreneurial orientation of business performance.

Market orientation is defined as the superior value created for the buyer to achieve higher business performance over competitors (Narver and Slater, 1990). The market orientation consists of 3 indicators formed from the constructs, i.e.: customer orientation, competitor orientation and interfunctional coordination (Prakorsa, 2005). Previous researches which show negative relation between entrepreneurship orientation to business performance are by Hassim et al. (2011); Affendy et al. (2015); Matsuno et al., (2002); Pramesti and Giantari (2016); Amin et al., (2016) found in the results of their researches that there is influence of mediation between entrepreneurial orientation to business performance of SMEs.

Therefore, the research on strategy management aims to identify the role of managerial capabilities and market orientation in mediating entrepreneurial orientation and business performance of coffee processing SMEs in Pupuan. The study also creates a hypothesis of relation between variables and tests every hypothesis. Finally, we will discuss the implications of the findings in this study.

## 2 RESEARCH HYPOTHESIS

### **Relations between Entrepreneurial Orientation with Business Performance.**

High entrepreneurial orientation will provide the ability to gain new business opportunities that directly affects the company's earnings, which ultimately impact business performance positively (Keh et al., 2007). Research from Kreiser et al., (2002) demonstrates that indicators i.e. innovative, proactive and risk-taking are capable of improving performance in a company. Research from Nur et al. (2014) and Hassim et al., (2011) also shows that the relations between entrepreneurial orientations with business performance have a positive and significant relation. Hence, hypothesis 1 can be stated as follows:

**H1:** The entrepreneurial orientation has a positive and significant impact on business performance.

### **Relations of Entrepreneurial Orientation with Managerial Capabilities.**

Entrepreneurship is a personal incentive to be able to acquire, manage and utilize existing resources. It will certainly encourage the increase in managerial capabilities which is more defined as the identification and control of self (Suci, 2009). Researches by Maupa (2004) and Degrauel (2011) mention the same results where entrepreneurial orientation has a significantly positive impact on its relations with managerial capabilities. Thus, hypothesis 2 can be stated as follows:

**H2:** The entrepreneurial orientation has a positive and significant influence on managerial capabilities.

### **Relations between Entrepreneurial Orientation with Market Orientation.**

Gima and Ko (2001) states that companies which aim to achieve better performance should be able to apply entrepreneurial orientation by considering market share, market entry and product quality (Gima and Ko, 2001). Previous research by Riana (2010) suggests that entrepreneurial orientation is an important indicator in improving market orientation proactively. Previous researches on the relations between entrepreneurial orientation and market orientation which has a significant positive impact are discussed by Vitale et al., (2002); Nur et al., (2014) and Pramesti and Giantari (2016). Therefore, from the description above, hypothesis 3 can be stated as follows:

**H3:** The entrepreneurial orientation has a positive and significant impact on market orientation.

### **Relations between Managerial Capabilities with Business Performance.**

Ability is a strong foundation to improve the business performance of a company by doing self-positioning according to the company's perspective (Degrauel, 2011). The research by Suci (2009) shows that through good communication skills, appropriate problem solving, ability to manage pressure and time and ability to motivate others will be able to improve business performance. Researches by Mithas et al., (2011) and Emadzade et al., (2012) also show that managerial ability is able to positively and significantly influence business

performance. Thus, the hypothesis 4 proposed in this study is as follows:

**H4:** Managerial capabilities have a positive and significant impact on business performance.

**Relations between Market Orientation with Business Performance.**

A good business performance is strongly influenced and emphasized by the application of market orientations. The implementation of customer orientation, competitor orientation and inter-functional coordination significantly affects the improvement of business performance (Prakosa, 2005). Jaworski and Kohli (1990) stated marketing of a company puts more of an emphasis on market orientation in improving business performance. Researches from Riana (2010), Nur et al., (2014), Umar (2014) and Pramesti and Giantari (2016) indicated that market orientation has a positive significant relationship to improving business performance. Hence, according to the results of previous researches, it can be stated hypothesis 5 in this study as follows.

**H5:** Market orientation has a positive and significant impact on business performance.

**Relations of Managerial Capabilities Mediates Entrepreneurial Orientation with Business Performance.**

Managerial capabilities are very important in a business. A strong managerial base of planning, operational capability and good communication can improve business performance (Latif, 2002). An entrepreneurial orientation based on effective managerial skills is usually able to improve business performance in Small and Medium Enterprises (Neshamba, 2006). Previous research results from Duygulu and Kurgun (2009); Suci (2009) and Degraavel (2011) also showed that entrepreneurial orientation has a positive and significant impact on business performance. Based on the previous empirical study above, hypothesis 6 can be proposed as follows:

**H6:** The entrepreneurial orientation has a positive and significant impact on business performance through managerial capabilities.

**Relations of Market Orientation Mediates the Entrepreneurial Orientation with Business Performance.**

Entrepreneurial activities and marketing activities can be integrated to drive innovation within the company aimed at improving the business

performance Gima et.al (2001). Olson (2010) stated an important concept in running an entrepreneurial orientation which aims to improve business performance is to be based on a strong market orientation. The previous empirical studies which proves that there is an indirect relationship between business performance where market orientation as a mediating variable are researches from Idar et al. (2012), Amin et al. (2016), Pramesti & Giantari (2016) and Benito et al. (2007). Therefore, based on empirical studies above, hypothesis 7 can be proposed as follows:

**H7:** The entrepreneurial orientation has a positive and significant impact on business performance through market orientation.

From the description above of the literature hypotheses and research hypotheses, the concept of research framework is presented as shown below.

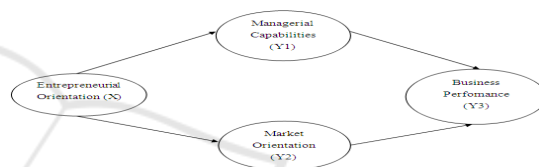


Figure 1: Conceptual Framework of Research.

**3 RESEARCH METHOD**

The research is categorized as an explanatory research which sees the relation between entrepreneurial orientation variables, managerial capabilities and market orientation on business performance. The data were collected by using survey method which is considered as the most appropriate or cross-sectional because it is very suitable to test the research hypothesis with data obtained at certain time range. The research is located in Pupuan District, Tabanan Regency. There we studied 26 units of coffee processing SMEs in Pupuan as population as well as owners and managers in coffee processing SMEs in Pupuan which has been established for at least 3 years, so there were 52 respondents. SPSS 22.0 and Partial Least Square (PLS) are used because only small numbers of sample are studied.

**4 RESULTS**

Based on the survey, the results indicate that 73.07% coffee processing SMEs in Pupuan has been

established for 1-10 years with 1-5 workers. The workers in coffee processing SMEs in Pupuan (maximum 5 people) are dominated by male workers by 80.8 % with the age of 38-47 years old, and the highest education they have are at high school level. The results of the seven hypotheses showed a positive and significant influence. The test results are shown in Table 1 and Table 2 for the test of mediation effect. The result of the analysis on the influence of entrepreneurial orientation shows significant positive impact to business performance as evidenced by the significance value of 0,038 <0,05; hence hypothesis H1 is accepted, where entrepreneurial orientation gives significant positive impact to acceptable business performance.

The hypothesis that mentions the fact that entrepreneurial orientation has a positive significant effect on managerial capabilities and entrepreneurial orientation has a significant positive effect on market orientation shows the same significance value of 0.000 <0.05, therefore it is proven that hypotheses H2 and H3 are acceptable.

Table 1: Path Coefficients.

Constructs	Original Sample	t Statistics	p Values	Remarks
Entrepreneurial orientation (X) → Business performance (Y <sub>3</sub> )	0,292	2,081	0,038	Accepted
Entrepreneurial orientation (X) → Managerial capabilities (Y <sub>1</sub> )	0,770	12,283	0,000	Accepted
Entrepreneurial orientation (X) → Market orientation (Y <sub>2</sub> )	0,737	8,543	0,000	Accepted
Managerial capabilities (Y <sub>2</sub> ) → Business performance (Y <sub>3</sub> )	0,299	2,241	0,025	Accepted
Market orientation (Y <sub>2</sub> ) → Business performance (Y <sub>3</sub> )	0,382	2,838	0,005	Accepted

The relation of managerial capabilities to business performance is indicated by the significance value of 0.025 <0.05 i.e. 0.025, thus the hypothesis H4 is accepted. Likewise with H5 hypothesis that states the relation of market orientation to business performance is indicated by the significance value of 0.005 <0.05 s, thus hypothesis H5 can be considered as significant or acceptable.

Table 2: Indirect Effects.

Construct	Original Sample	t Statistics	p Values	Remark
Entrepreneurial orientation (X) → Business performance (Y <sub>3</sub> )	0,512	5,353	0,038	Accepted

The effect of indirect relation between entrepreneurial orientation and business performance shows significant positive result with coefficient value 0,512. The t-statistics 5,353 > critical t-value 1.96, which indicates the entrepreneurial orientation has indirect relation or through significant positive mediation variables on business performance through managerial capabilities variables and market orientation variables. Hence, H6 and H7 are proven and acceptable.

Table 3: Mediation Effect of Managerial Capabilities Test.

<p><b>Indirects Effect 0,770*0,299</b>                      (Entrepreneurial orientation → Managerial capabilities = 0,770;                      Managerial capabilities → Business performance = 0,299)</p>	0,230
<p><b>Direct Effect Before Entering Mediating Variable</b>                      (Entrepreneurial orientation → Business performance=0,544)</p>	0,544
<p><b>Total Effects</b>                      Variance Accounted For Method (VAF) = Indirect Effect/Total Effect = 0,230/0,774</p>	0,774 <b>0,3</b>

Table 3 shows the managerial capabilities of mediating the relation between entrepreneurial orientation and business performance score 0.3 or 30 percent and indicates that managerial capabilities as the partial mediator. This form of partial mediator explains that managerial capabilities is not the only mediator of entrepreneurial orientation's relationship with business performance of coffee processing SMEs in Pupuan but there are other mediator factors.

Table 4 shows the result of calculations of mediation test on market orientation where market orientation is the partial mediator between relations of the entrepreneurial orientation and business performance which results to 0.34 or 34 percent. This result illustrates that market orientation only

mediates the relation between entrepreneurial orientation partially, and business performance is one of the few factors that mediate the relation between entrepreneurial orientation with the performance business of coffee processing SMEs in Pupuan.

Table 4: Mediation Effect of Market Orientation Test.

<p><b>Indirects Effect 0,737*0,382</b></p> <p>(Entrepreneurial orientation →Market orientation= 0,737;</p> <p>Market orientation → Business performance = 0,382)</p>	0,282
<p><b>Direct Effect Before Entering Mediating Variable</b></p> <p>(Entrepreneurial orientation → Business performance =0,544)</p>	0,544
<p><b>Total Effects</b></p> <p>Variance Accounted For Method (VAF) = Indirect Effect/Total Effect = 0,282/0,826</p>	0,826 <b>0,34</b>

## 5 DISCUSSION AND CONCLUSION

The entrepreneurial orientation has a positive and significant impact on business performance. It means the higher the innovation, proactive and risk-taking values applied by the owners and managers of coffee processing SMEs in Pupuan, the more business performance will increase in coffee processing SMEs. It also supports researches from Kreiser et al. (2002); Nur et al., (2014) and Hassim et al., (2011).

The entrepreneurial orientation gives positive and significant influence to managerial capabilities. It means the higher the values of entrepreneurship orientation applied by the owners and managers of coffee processing SMEs in Pupuan, the higher the managerial capabilities of owners and managers of coffee processing SMEs in Pupuan. This also supports previous researches conducted by Suci (2009); Maupa (2004) and Degrauel (2011).

The entrepreneurial orientation gives positive and significant influences to market orientation. It means the better the innovative, proactive and bold values of implementing the market orientation of coffee processing SMEs in Pupuan, the more market orientation of coffee processing SMEs in Pupuan. This is also supportive of previous researches by

Nur et al., (2014); Vitale et al., (2002) and Pramesti and Giantari (2016).

Managerial capabilities give positive and significant influence to business performance. It implies the better the values of managerial capabilities in communication, determining personal decisions, motivating employees, and managing problems properly applied by the owners and managers of coffee processing SMEs in Pupuan, the higher the business performance of coffee processing SMEs in Pupuan. It also supports the research conducted by Mithas et al., (2011), Sacred (2009), Degrauel (2011), Emadzade et al., (2012).

Market orientation has a significant positive impact on business performance. This indicates that the better the values of customer orientation, to competitors and inter-functional coordination applied by the owners and managers of coffee processing SMEs in Pupuan, the higher the business performance of coffee processing SMEs in Pupuan. It also supports researches conducted by Nur et al. (2014), Umar (2014) and Pramesti and Giantari (2016).

The managerial capabilities show the skill to mediate partially. Through managerial capabilities, the relation of entrepreneurial orientation has a significant positive impact on business performance. This indicates that the higher the innovative, proactive and risk-taking values applied by the owners and managers of coffee processing SMEs in Pupuan through direct or mediated managerial capabilities, the higher the business performance of coffee processing SMEs in Pupuan. It supports the research conducted by Latif (2002); Duygulu and Kurgun (2009) and Degrauel (2011).

The market orientation indicates being able to mediate partially. Through market orientation, the relation of entrepreneurial orientation provides a positive and significant impact on business performance. It indicates that the higher the innovative, proactive and risk-taking values applied by the owners and managers of coffee processing SMEs in Pupuan through direct or mediated market orientation, the higher the business performance of coffee processing SMEs in Pupuan. It also supports the research conducted by Benito et al., (2007), Osman et al., (2011), Amin et al., (2016), Pramesti and Giantari (2016).

## 6 LIMITATIONS AND FUTURE RESEARCH

The study also has limitations where this research is

only done in a certain time point (cross sectional), while the environment can change at any time dynamically, and the scope of research is only done on coffee processing SMEs located in Pupuan District, Tabanan Regency. Hence the results of this study cannot be generalized to coffee processing SMEs outside Pupuan District.

According to the results of the research that has been obtained, suggestions that can be given to SME owners and managers to focus more and emphasize these dominant indicators without forgetting to improve weak indicators in order to improve overall business performance. Efforts to support the development of coffee processing SMEs in Pupuan District must include synergies and proactive actions between local government and community in Pupuan District in particular as this is the key to success in improving business performance.

Second, the advice for academics is that future research needs to be considered to use other constructs, i.e. the skill of technological innovation that can mediate the relationship between entrepreneurial orientation and business performance. In addition, entrepreneurial orientation can be positioned as the mediation between managerial capabilities and business performance. Future research may also extend research orientation within a wider range of populations and conduct research on different types of SMEs in other areas; hence the findings of this study may be different than those in other areas.

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