

# Adoption of E-Commerce, Entrepreneurship Orientation Mediated by Business Strategy on The Performance Food Industries

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# ADOPTION OF E-COMMERCE, ENTREPRENEURSHIP ORIENTATION MEDIATED BY BUSINESS STRATEGY ON THE PERFORMANCE FOOD INDUSTRIES

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## ABSTRACT

*Small and Medium Industries (abbreviated as SMIs) competition in East Java is very tight, thus it encourages every existing SMI to have competitive advantage compared to others. Several studies have been conducted to improve the performance of SMIs. Dynamic Capabilities, entrepreneurship orientation, Business Strategy, and Adoption of e-commerce are the factors that considered having an effect on the performance of SMIs. Tulungagung and Trenggalek districts of East Java Province were chosen as the location to conduct the research. The study population was SMIs in food manufacturing. The data were collected by random sampling technique and analyzed by using multiple regression and Sobel test. The results of this study indicated that the factors of Dynamic Capability, entrepreneurship orientation, and adoption of e-commerce could affect the performance of SMI in food manufacturing, while Business Strategy did not affect the performance of the SMI.*

**Keywords:** Adoption of e-commerce, SMI performance, Dynamic capability, Business Strategy, and Entrepreneurship orientation

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## 1. INTRODUCTION

Facing the ASEAN Economic Community by 2015, Small and Medium Industry is expected to be more productive and competitive. This is because the opportunity to cooperate with other SMIs in ASEAN is also opened. Therefore, Indonesian SMIs should also be wary of increasingly sharp competition. The very tight competition of SMIs, especially in the area of East Java, becomes the driving force for every existing SMIs to have a competitive advantage over others.

Several studies have been conducted to improve SMI performance. There are several factors that are considered to have an effect on this research. The first factor tested in this study was Dynamic Capability. Dynamic Capability reflects an organization's ability to achieve new and innovative forms to create competitive advantage (Teece et al., 1997). The term capability emphasizes key rules of management in adapting, integrating, and correctly reconfiguring internal and external organizational resources, and functional skills to adapt to environmental change requirements. When a business has Dynamic Capability, it will simplify the business and can improve the business performance.

The second factor is Business Strategy. Business Strategy is a key component for the company. Business strategies include business plans and tactics that the company must develop in certain business conditions (Neupert, et al., 2006). According to Lechner & Floyd (2012), SMI's resilience level is low because the SMI is newly established and it is small scaled. SMIs should run their Business Strategy because this is a natural way of business competition. In addition, SMI owners need to compile Business Strategy documents that have been planned previously (Gilmore et al., 2001).

This study combines the role of intervening variables, namely Business Strategy on entrepreneurship orientation influence on the performance of SMI business. This intervening model was previously developed by Lechner & Floyd (2012). According to them, entrepreneurship orientation is related to Business Strategy. In addition, Business Strategy becomes the intermediation or intervening variable between entrepreneurship and performance orientation. Companies with a larger entrepreneurship orientation tend to develop several different types of strategies and influence performance (Lechner & Floyd, 2012).

The next factor used is E-commerce adoption. This is related to the strategy decision to use technology because e-commerce in Indonesia is developing. Some of e-commerce adoption researchers have examined a number of internal and external factors that influence adoption decisions in SMIs and the results have a positive impact (Loane, 2006; Saffu et al., 2008).

## 2. LITERATURE REVIEW

### 2.1. Dynamic Capability

The theory of dynamic capabilities first developed by Teece and Pisano (1994), related to the organizational ability to create; reshape; assimilate knowledge and skills; and stay ahead in an ever-changing competitive environment. According to Teece and Pisano (1994), the development of a paradigm is needed to explain how competitive advantage is gained and maintained. Drnevich and Kriauciunas (2011) found in his research that dynamic capabilities have a positive influence on the process of forming new organizations, products, and suppliers. In addition, the heterogeneity of dynamic capability contributes positively and indirectly influences the organization's performance. According to Nedzinskas et al (2013), greater dynamic capabilities will result in better organizational performance.

### 2.2. Business Strategy

Bennett and Smith (2002) determine business strategy as a process of assessment on business performance, setting business target and business plan periodically. Chong & Chong (1997) identifies four types of business strategies that are often used by companies:

- a. Prospector. Companies that categorized as prospector strategy user are companies that constantly seek new market opportunities by competing through new products

as well as market development and experimenting with potential responses to environmental trends, so competitors must always respond.

- b. Defender. Characteristics of companies that fall into this category tend to have less dynamic properties. A company is categorized as defender strategy user if it operates in a relatively stable production area, the product offered is limited compared to its competitors and the company rarely makes adjustments in the technology, structure, method of company operations, and predictable direction of future changes.
- c. Analyzer. Analyzer Strategy is a combination of prospector and defender strategy. The Company operates in two types of domains of relatively stable market products and keeps making changes. If it is in a stable area, the company will operate regularly and efficiently using previously formulated structures and processes.
- d. Reactor. Reactor strategy is a corporate strategy whose top managers often accept the changes and uncertainties that occur within their organization, but do not respond effectively so that this type of company does not have a strategy to constantly adjust its information technology to the changing environment.

### 2.3. Entrepreneur Orientation

Entrepreneurship orientation theory developed by Miller (1983) and later refined by Covin and Slevin (1989). The term refers to the entrepreneurship orientation of managerial attributes to take risks, innovate and be proactive. The entrepreneurship orientation (EO) refers to the managerial characteristics of risk taking, innovativeness and proactive (Covin and Slevin, 1989). Kreiser et al (2013) explained that entrepreneurship orientation is a positive effect on company performance. Kroeger (2007) argued that entrepreneurship orientation is positively related to firm performance. Positive relationships include the company's planning and performance processes which are not supportive. The uncertain environment has shown that there is an influence between entrepreneurship and performance orientation.

### 2.4. E-Commerce Adoption

The first reason, e-commerce adoption positively affects the performance of SMIs by providing enhanced business processes and simplified management. Secondly, the use of e-commerce can improve marketing ability. Some studies have found that e-commerce plays an important role in reducing transaction costs while enable the handling of internal business processes in SMIs to be more efficient (Santarelli and D'Altri, 2003; Lohrke et al. 2006). Such collaborations include the maintenance and development of relationships with clients, channel partners, suppliers and network partners (Auger, 2005; Loane, 2006).

## 3. METHODOLOGY

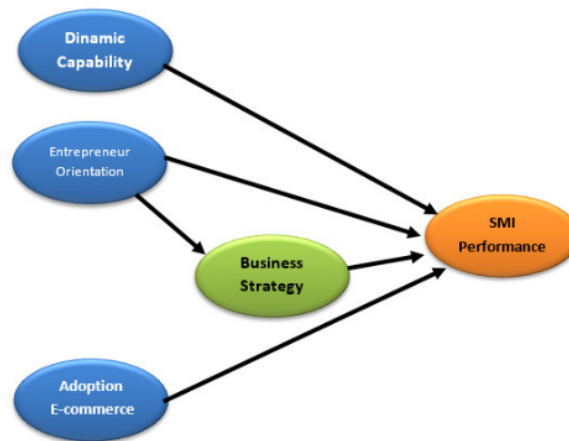
The type of research used was explanatory with quantitative approach. The explanatory research according to Sugiyono (2006) was a study that explains the causal relationship between the variables that affect the hypothesis. The location of the research was in Tulungagung and Trenggalek districts of East Java Province. The population of this study was the Small and Medium Industry in food manufacturing. The sampling technique was conducted by random sampling. The sample size in this study was 38 samples.

This research uses two equations, namely:

$$\text{SMI Performance} = \alpha + \beta_1 \text{ Dinamic Capability} + \beta_2 \text{ Business Strategy} + \beta_3 \text{ Entrepreneurship Orientation} + \beta_4 \text{ Adoption E-commerce} + e \dots\dots\dots (1)$$

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$$\text{Business Strategy} = \alpha + \beta_1 \text{ Entrepreneurship Orientation} + e \dots\dots\dots (2)$$



Source: Researcher (2018)

**Figure 1** Research Model

## 4. RESULT

Validity test is analyzed by comparing the value of r-score (in Person Correlation column) with r-table (df = n-k). If r-score > r-table, then the question items are valid, and if r-score < r-table, then the items was invalid. In this study, the number samples are 38, so n = 38, then n-2 is 36, so the r-table for 36 samples is 0.2709.

SPSS results show that all items of question the r-scores are greater than r-table, so it can be concluded all question items is declared as valid. A construct or variable is said to be reliable if the Cronbach Alpha > 0.60 (Ghozali, 2011). From the output of SPSS, Dynamic capability, Business Strategy, and entrepreneurship orientation variables shown Cronbach Alpha values greater than 0.60, so it can be concluded that the construct of the given question is reliable.

**Table 1** Regression Results

Variabel	Coefficients	t-statistic	Probability
<b>Dynamic Capability – SMI Perf</b>	0,651	2,213	0,034
<b>Business Strategy - SMI Perf</b>	0,338	0,963	0,343
<b>Entrepreneur Orientation - SMI Perf</b>	0,906	2,558	0,015
<b>Adoption E-Commerce - SMI Perf</b>	0,545	2,051	0,048
<b>Entrepreneur Orientation – Business Strategy</b>	0,768	6,821	0,000
<b>(Indirect – Sobel Test)</b>			
<b>Entrepreneur Orientation - Business Strategy - SMI Perf</b>		0.953	0,340
<b>f-statistic</b>		26,030	0,000
<b>Ad R<sup>2</sup> Square</b>	0,730		

Source: SPSS Output (2018)

Based on the results of statistical t-test, Dynamic Capability generates a critical ratio value of 2.213 with a significance value (p-value) of 0.034. This significance value is smaller than the probability level of 0.050, and then it means that Dynamic Capability has a significant



positive effect on SMI Performance. The results of this study are similar to the results of Nedzinskas et al (2013) research showing the relationship between Dynamic Capability and company performance has a positive relationship. According to Teece and Pisano (1994), the company's competitive advantage stems from Dynamic Capabilities embedded in the daily high performance within the company, embedded in the company process, and conditioned by its performance development process.

Business Strategy variable has a critical ratio value of 0.963 with a significance value (p-value) of 0.343. This significance value is greater than the probability level of 0.050, it means that Business Strategy has no influence on SMI Performance. This is in contrast to research from Ansir (2009) which shows that the entrepreneurship orientation and the external environment have a significant effect on Business Strategy, either partially or simultaneously. Then the entrepreneurship orientation, the external environment and Business Strategy have a significant effect on corporate performance (Bennett and Smith, 2002).

Entrepreneurship orientation has a critical ratio value of 2.558 with a significance value (p-value) of 0.015. The significance value is less than the probability level of 0.050, it means that the entrepreneurship orientation has a positive significance to the performance of the SMI. Kreiser et al (2013) explains that entrepreneurship orientation has a positive effect on company performance. Empirical results also show the same thing that entrepreneur-oriented companies perform better than not adopting entrepreneurship orientation (Wiklund and Shepherd, 2003)

The adoption of e-commerce has a critical ratio value of 2.051 with a significance value (p-value) of 0.048. This significance value is smaller than the probability level of 0.050, meaning that the adoption of e-commerce has a significant positive effect on SMI Performance. Previous research has also shown that adoption of e-commerce in SMIs improves the efficiency of internal business processes as well as expanding the supply chain (Kim et al., 2008). Other studies have also found that e-commerce plays an important role in reducing transaction costs while enabling more efficient handling of internal business processes, resulting in performance of SMIs increasing (Santarelli and D'Altri, 2003; Lohrke et al., 2006).

Based on the results of Sobel test statistic, the role of Business Strategy variable as an intervening variable between entrepreneurship orientations towards SMI performance has a significant value (p-value) of 0.340. The significance value is greater than the probability level of 0.050 will mean Business Strategy is not an intervening variable between entrepreneurship orientations towards SMI performance.

## 5. CONCLUSION

This research showed that the factors of Dynamic Capability, Entrepreneurship Orientation, and Adoption of e-commerce were able to influence the performance of SMI in food manufacturing in Tulungagung and Trenggalek districts, but the Business Strategy did not affect the Performance of SMIs. In examining the role of intervening variables, the Business Strategy does not become an intervening variable between the Entrepreneurship Orientation on SMI performance. Future research may extend the research model and re-examine whether the Business Strategy can be optimized by people who have a good entrepreneurship orientation level.

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