



How to Survive During Pandemic Situation? the Interface between Entrepreneurial Orientation, Market Orientation, and Smes' Performance during Covid-19

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Abstract: *Small businesses are very vulnerable to survive in uncertain situations. This study focuses on the Covid-19 pandemic crisis where many small businesses had to shut down in line with the economic downturn. The previous study acknowledges entrepreneurial orientation as a suitable strategy for small businesses in an uncertain environment. This study explains the effect of entrepreneurial Orientation (EO) on SMEs performance directly and indirectly through Market Orientation (MO) and the role of Market Orientation on SMEs' performance during pandemic situations. The respondents of this study are 154 Small Business in Indonesia. The questionnaire of this study consists of 32 indicators from an independent variable (entrepreneurial orientation) and two dependent variables (market orientation and SMEs' performance). This study uses quantitative methods and Structural Equation Modeling (SEM) with Partial Least Square (PLS) approach. The results highlight that Entrepreneurial Orientation has a positive direct impact on SMEs performance. Meanwhile, the mediating role of Market Orientation does not affect the relationship between EO-SMEs performance. In addition, Market Orientation has no effect on SMEs' performance during pandemic Covid-19.*

Keywords: *Entrepreneurial Orientation, Market Orientation, SMES' Performance, Covid-19.*

1. INTRODUCTION

The Covid-19 pandemic has been the worst recession since post-war history which affected the economy globally [1]. In developing countries such as Indonesia, SMEs endure the negative effects of this outbreak and are on the edge of life. In 2021, 87.5% of SMEs negatively affected by pandemic and 93.3% SMEs experienced loss in profit [2]. On the other hand, SMEs have become the pillars of the national economy. According data from Ministry of Cooperatives and SMEs of The Republic of Indonesia, contribution of SMEs to Indonesia's GDP reached 61.97% in 2021 and helped to create 97% of jobs [3].



The Covid-19 policy in Indonesia has a domino effect for SMEs. In preventing the spread of Covid-19, the Indonesian government implements an extensive social restriction (PSB) policy related to physical distancing on a regular basis. The social restrictions policy effects on the tourism sector which influences on food beverage sectors. Moreover, 27 % of food and beverage micro enterprises were affected, small businesses at 1.77%, and medium enterprises at 0.07% [4].

Micro foundation in strategic management is part of Resource Based Theory. The perspective of Penrose [5] found that resources have a crucial role in firm performance. Micro foundation focuses on the role of the individual to explain strategic phenomena at the micro level [6]. In this case, aspects at the individual level dispose of the success of the business/organization [7][8]. Therefore, managers and entrepreneurs' decision-making enables small businesses to take advantage of new opportunities [9].

In uncertain circumstances, the orientation strategy is vastly influential on the success of a business. In these environmental conditions, companies will tend to be innovative and have an entrepreneurial spirit by seeking competitive advantages to preserve their position in the market [10]. Entrepreneurial Orientation (EO) is a top management strategy that is concerned with being innovative, proactive, and risk taking [11] [12]. Therefore, previous researchers suggested implementing an Entrepreneurial Orientation (EO) strategy to achieve competitive advantage [13] [14].

The concept of Entrepreneurial Orientation (EO) is not a new conceptualization and is a fascinating concept to study in strategic management. Regarding on empirical studies, EO is a superior strategy for businesses in generate superior performance for international companies, large companies and SMEs in diverse markets [15][16][17]. Fatima and Bilal's research [18] looks at the role of individuals who have an entrepreneurial orientation in improving business performance through social skills. The research was conducted on Small and Medium Enterprises in Pakistan [18]. Research conducted in South Korea on technology-based MSMEs found positive results between EO and international business performance [15]. In this case, the study of EO has become a longitudinal study and a relevant strategy for SMEs to date in enhancing business performance.

Entrepreneurial Orientation is not only required by companies but small businesses. EO is an initiative owned by entrepreneurs in making decisions that directly affect business performance [19]. The concept of Entrepreneurial Orientation is further closely related to SMEs than big businesses, because SMEs tend to easily find opportunities in the market [17]. In addition, the role of individuals or SMEs entrepreneurs is especially in markets with conservative network relationships [17].

However, the orientation strategy alone is not enough to increase business performance. EO needs to be strengthened with market knowledge to read what consumers need [20]. Knowledge in reading current and future market needs and responding to them is known as Market Orientation (MO) [21]. Market Orientation is a culture within an organization that involves creating superior value for customers and integrating it with marketing concepts [22].

Previous researchers suggested that companies adopt both MO and EO simultaneously [20] [23] [24]. Entrepreneurial orientation and market orientation are proven to have a significant impact on company performance, both financial and non-financial [25]. Previous research examines entrepreneurial orientation and marketing orientation on company performance,



especially in companies facing a dynamic business environment, with high competition and technology [20] [23][24]. In their study, Boso et al [23] assessed that EO and MO are able to improve business performance in companies in Ghana. Meanwhile, the research conducted by Gruber-Muecke & Hofer [24] regarding entrepreneurial orientation behavior strengthened by market orientation is able to encourage the performance of exporting companies in Austria in emerging markets. Although, previous researchers assessed the crucial role of EO and MO on business performance.

We argue that entrepreneurial orientation is still relevant during pandemic covid-19 situation as uncertainty of environment. Therefore to sustain the SMEs' performance, managers and owners need to adopt entrepreneurial orientation and market orientation in order to catch the opportunity on the market and adjust to consumer needs. Therefore, the newest research shows the contrast result of MO-Business Performance and needs further research to see the effect on different phenomena [26]. The previous research focused on the effect of entrepreneurial orientation on performance and market orientation on business performance [24]. The novelty of this research is that this research explains the mediating role of market orientation to EO and SMEs' performance and the direct effect of EO to SMEs' performance and MO to SMEs' performance during pandemic Covid-19 in Indonesia.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Entrepreneurial Orientation and SMEs' performance

In a dynamic and turbulent business environment, a strategy is needed to improve company performance and maintain competitive advantage. The concept of entrepreneurial orientation is also known as another concept, namely entrepreneurial posture [27] and in some cases known as corporate entrepreneurship [28]. Companies that are proactive in market opportunities can form competitive advantages because they have the initiative to respond to competitors [29]. Entrepreneurial orientation can also be interpreted as an act of exploiting opportunities that have not been found by competitors [30]. Previous researchers saw that entrepreneurial orientation consists of several dimensions such as autonomy, aggressiveness, proactiveness, innovation, and risk taking [31]. In this study, researchers will use three dimensions, namely 1) Innovativeness; 2) Proactiveness; 3) Risk-Taking [32].

Previous research has proven a positive correlation between entrepreneurial orientation and business performance in various countries. Meanwhile, research conducted in 200 family businesses in Padang, Indonesia gave positive results [33]. Wu et al [17] conducted a survey on SMEs in Taiwan involving 412 managers who found that entrepreneurial orientation only affects conservative markets and suggested developing technology and network capabilities which were judged to be generally relevant.

Therefore, an entrepreneurial orientation is needed for businesses that are in crisis situations such as the Covid-19 pandemic. This study uses the entrepreneurial orientation dimension which consists of being proactive, innovative, focusing on opportunities, and taking calculated risks. Based on the description above, the hypothesis is built:

H1. Entrepreneurial Orientation has a positive effect on SMEs' performance during the pandemic Covid-19 crisis



Entrepreneurial Orientation and Market Orientation

In the small business context, building strategic orientation such as Market Orientation and Entrepreneurial Orientation is needed. In emerging markets, companies need to implement strategies that combine opportunity seeking with marketing activities [24]. Previous research has shown that there is a positive relationship between EO and MO. Deutscher et al [20] stated that marketing orientation is an important variable for companies in a dynamic environment. A study conducted on companies with advanced technology in Germany found that EO needs to be supported by a strong MO in increasing company performance [20]. Furthermore, research conducted by [34] on 161 SMEs managers in Mexico found that EO had a positive effect on MO. In this case, to meet consumer demands, companies must be innovative and actively develop solutions and take risks [34]. In addition, companies must be careful in forming market knowledge related to consumer preferences and need to create innovative products and services [20].

Therefore, the role of entrepreneurial marketing is needed to support the entrepreneurial orientation strategy. How businesses need to translate market desires by daring to take risks and innovate through new products to increase business performance. Based on the description above, the hypothesis is built:

H2. Market Orientation positively mediates the relationship between Entrepreneurial Orientation and SMEs' performance during the Covid 19 pandemic

Market Orientation and SMEs' performance

Market Orientation has a central role to improve business performance [20]. Companies that do not apply market orientation find it difficult to maintain their position in the market compared to competitors who create superior customer value provision [35]. The company which practiced market orientation can outperform competitors in creating superior customer value [36]. In achieving business performance, businesses need to look at what is happening in the market. Research on the relationship between market orientation and business performance meets a crossroads. Previous research found a positive relationship between market orientation and improving business performance for MSMEs in Demak [37]. Therefore, previous research on 150 telecommunications vendor companies in Indonesia showed that marketing orientation does not have a positive impact on business performance [26].

Hence market orientation based on value creation, and customer intensity. Based on the description above, the hypothesis is built:

H3. Market Orientation has a positive effect on SMEs performance during the Covid-19 pandemic crisis

The proposed research hypotheses raises an explanatory model of Entrepreneurial Orientation, Market Orientation, and SMEs' performance, as shown in Figure 1.

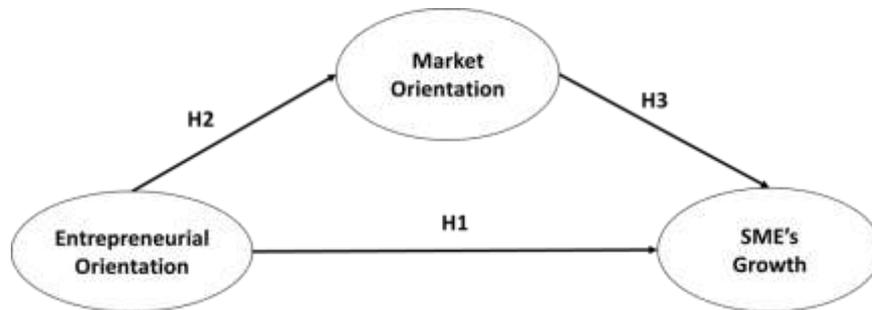


Figure 1. Research Model

This research model is a modification from Gruber-Muecke & Hofer [24]. Gruber-Muecke & Hofer [24] view EO and MO as independent variables that have a positive effect on business performance where the two variables are not related. Therefore, this research focuses on analyzing the role of marketing orientation as a mediator between entrepreneurial orientation and SMEs' performance and the direct effect of EO-SMEs' performance and MO-SMEs' performance. This study believes that EO needs MO as a mediator to gain better SMEs' performance [20]. This study uses three dimensions of entrepreneurial orientation: innovative, proactiveness, risk-taking and two dimensions of market orientation: customer intensity, and value creation.

3. RESEARCH METHOD

3.1 Data Collection and Sample

The population in this study is small business domiciled in Indonesia. In this study, we do not distinguish between areas with the assumption that there are no differences in specific characteristics between small businesses in Indonesia, especially in the field of Food and Beverage. So that this sample population is taken in Indonesia from various provinces.

This study focuses on small businesses in Indonesia regarding "Law No. 28 of 2008 concerning Micro, Small and Medium Enterprises" with the following characteristics: 1) Annual assets more than 50 million - 500 million rupiah; 2) Annual profits more than 300 million -2.5 billion rupiah. We are interested in exploring small businesses because small businesses depend on individual owners in forming capabilities. On the other hand, small businesses have implemented strategies and are suitable in the realm of strategic management studies. Primary data of this study is conducted through quantitative research. We gather data from online questionnaires through Google Form. The total number of respondents are 154 managers and owners of small businesses in the food and beverage sectors. We collect the data starting from June to December 2021. Before starting to gather the data, we obtain a questionnaire checking first to 10 entrepreneurs. This aims to make sure that the respondents understand each question. In this study, hypothesis testing uses Structural Equation Modeling (SEM) analysis with Partial Least Square (PLS) method. This study uses a five-point likert scale (1=strongly disagree to 5=strongly agree).

Table 1 Demographic of the research sample

	Category	Frequency	Percentage
Area	Jakarta	56	36,4%
	West Java	22	14,3%
	Lampung	21	13,6%
	Riau	17	11%
	Banten	13	8,4%
	Others	25	16,2%
Type of F&B	Production	50	33%
	Service	104	67%
Length of Business Activity	1-5 years	108	70.1%
	6-10 years	30	19.5%
	> 10 years	16	10.4%
Number of Employee	<5 persons	58	33.9%
	6-10 persons	45	26.3%
	> 10 persons	60	39.8%
Total		154	100%

Source: Authors (2022)

From the table 1, it can be seen that most of our respondents are Coffee shop and restaurant (67%) rather than production such as frozen food (33%) from Jakarta (36,4%), West Java (14,3%), Lampung (13,6%), Riau (11%), Banten (8,4%), and Others (16,2%). Most of the small businesses have a length of business activity 1-5 years (70.1 %), 6-10 years (19,5%), and >10 years (10.4%). In addition, small businesses with more than 10 employees (39.8%) dominate <5 employees (33.9%), and 6-10 employees (26.3%).

3.2 Measurement Model

This study consists of 32 question indicators from the independent variables, namely entrepreneurial orientation (EO) and the dependent variable market orientation (MO) and SMEs Performance. The measurement of entrepreneurial orientation variables consisting of risk-taking, innovativeness, and proactiveness using a question instrument refers to previous research by Astuti, Afiff, & Balqiah [38]. In the innovation variable, the number of instruments used are five question indicators (IN-1 to IN-5). While the Risk-taking variable uses 5 five question indicators (RI-1 to RI-5). Meanwhile, the measurement indicator of business performance refers to the question instrument that has been used by Ali Asghar, Rose, & Chetty [39] from previous research. Business performance consists of 5 indicators (SP-1 to SP-5).

This study uses SEM with the PLS method through two stages, namely structural model analysis and measurement model analysis [40]. Analysis of the measurement model to see the requirements as a valid and reliable model through SmartPLS 3 software. In this study, each indicator has met the convergent validity criteria by measuring Standardized Loading Factor

(SLF) and Average Variance Extracted (AVE), Reliability criteria with Composite Reliability (CR) and Cronbach Alpha (CA), as well as discriminant validity through the Fornel-Laker Criterion, and the Multicollinearity criteria.

Structural model analysis was used to see between the variables tested. In this study, cross-validated redundancy (Q²) has been tested and has met the requirements of Q² 0 and tested on Coefficient of determination (R²). The results of the structural model analysis can be seen in figure 2.

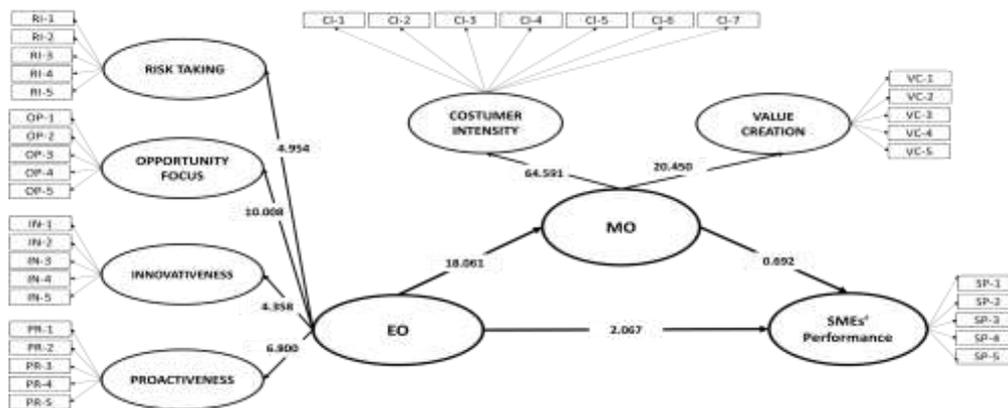


Figure 2. The results of structural model

4. DISCUSSION

Table 2 Hypothesis Testing

Hypotheses	Original sample	T Statistics >1.96	P Values ≤ 0.05	Status
H1 Entrepreneurial Orientation → SMEs' performance	0.291	2.198	0.028	Supported
H2 Entrepreneurial Orientation → Market Orientation → SMEs' performance	0.054	0.589	0.556	Not Supported
H3 Market Orientation → SMEs' performance	0.074	0.579	0.551	Not Supported

Source: SmartPLS3 Output 2022 (authors)

The results show that entrepreneurial orientation has a direct effect on improving the performance of SMEs during the Covid 19 pandemic (**H1 is accepted**). This can be seen from the original positive sample value of 0.291, the T-statistic value of 2.198 (> 1.96), and the P value of 0.047 (≤ 0.05). In this case, entrepreneurs who look for opportunities proactively and dare to take risks and always innovate are able to increase SMEs'



performance during the Covid-19 pandemic. In this case, the innovative, proactive and opportunity-seeking behavior by businesses will increase SMEs' performance which is better in crisis situations. This study empirically supports Acosta, Crespo, and Agudo [34] and Gruber-Muecke & Hoeger [24] that there is a positive influence between EO and business performance.

The results of this study indicate that marketing orientation does not mediate the relationship between entrepreneurial orientation and SMEs performance (**H2 is rejected**). This can be seen from the T-statistic value of 0.589 and the P value of 0.556. The results of this study contradict Deutscher et al [20] who consider that MO is very valuable for companies in strengthening their entrepreneurial orientation strategy. The research was conducted on companies with a high technology base [20]. In a pandemic situation, the company's strategy to proactively and innovatively read market demands are not enough to induce performance of the food and beverage business. Moreover, external factors such as the Covid-19 condition are closely related to social restrictions which allow small businesses to experience little interaction with customers.

From table 2, that marketing orientation has no effect on business performance during the pandemic (**H3 is rejected**). This can be seen from the T-statistic value of 0.579 and the P Value of 0.551. In this case, creating value for customers and customer intensity has not become the main strategy implemented by the food and beverage business in improving business performance of the food and beverage business when facing a crisis. The thing that needs to be understood from the lack of market orientation for small businesses is that market orientation requires costs. This study contrasts with Wibisono, Universari, & Budiati [37]. However, the result of this study is in line with Kurniawan et al [26] that market orientation does not have a significant effect on increasing business performance. However, market orientation can be strengthened by business process agility [26]. This can be influenced by other factors such as owned networks such as social networks and business networks [16].

5. CONCLUSION

This study explains entrepreneurial orientation and market orientation to improve SMEs performance during pandemic Covid-19 in the Food & beverage industry. This research gives a deeper understanding regarding the context of entrepreneurial orientation and market orientation in direct and indirect relation in the crisis situation. From this study, it can be seen that EO is the only strategic orientation that facilitates higher performance SMEs. Therefore, business needs to concentrate on being proactive, innovative, and calculated risk to get better performance during the crisis situation. Small businesses practicing entrepreneurial orientation with innovativeness, risk-taking, proactiveness are impacting on SMEs' performance. The more SMEs implement EO, the higher performance.

This result contrasts with previous study that MO has a positive impact on business performance. Furthermore, the application of MO is not sufficient for higher performance during the pandemic situation. Hence, customer intensity and value creation small business behavior implied by MO has not enough to lead to higher SMEs' performance. This research also demonstrates that entrepreneurial orientation through market orientation does not enhance business performance in responding to Covid-19 situation.



This research comes up with implication for managers to improve the performance of small business in food and beverage sector, through the understanding of these: 1) Managers have to constantly look for new and creative products or methods to improve business performance; 2) Managers have to pursue the opportunities that are only profitable for business in the future; 3) Managers have to understand the real what's customer need to differ from competitor in exceeding customer value.

There are some limitations of this research that need to be pointed out for future research. First, this study only focuses on the relationship between EO and MO. Future research can add external factors as moderation variables such as social networks, Internet of Things (IoT), and competitive intensity. Second, this study relies on subjective data from managers and owners to measure SMEs' performance. Future researchers can measure from objective data such as financial statements to validate the findings. Third, further researchers can test in different industries and large organizations with the assumption that they will give different results. As the literature suggests, entrepreneurial orientation and market orientation are not only for SMEs but also can be applied to large organizations. So, it can be compared whether entrepreneurial orientation and market orientation can provide the same results in both different types of organizations.

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