

# **The Role of Entrepreneurship Orientation and Competitive Advantage as Strategy to Improve MSME Performance Post Covid-19 Pandemic in Batam City**

**Sunargo**

Program Studi Manajemen, Fakultas Ilmu Sosial dan Humaniora  
(email: sunargo@puterabatam.ac.id)

## **Abstract**

The Indonesian economy after Covid-19 pandemic has caused a decline in various business sectors, including Micro, Small and Medium Enterprises (MSMEs) which have become the government's attention in national economic recovery. Batam City has shown achievements in handling the COVID-19 pandemic quickly, as well as carrying out economic recovery and sustainability. The entrepreneurial orientation view shows an effort to encourage the improvement of MSME performance by referring to the entrepreneurial aspect, namely daring to take risks, act proactively and always be innovative. Meanwhile, competitive advantage is an important effort so that the performance of MSMEs becomes superior. This study aims to examine the entrepreneurial orientation towards improving the performance of MSMEs through the mediation of competitive advantage after the Covid-19 pandemic in Batam. Testing direct and mediation effect using quantitative methods with statistical tools IBM SPSS software with additional features PROCESS Macro and performing sample bootstrapping technique on research. Data collection is 100 respondents using convenience sampling in Batam city. The results of this study indicate that entrepreneurial orientation is an important resource that can determine the recovery of MSME performance through mediation of competitive advantage. This study offers a contribution to literature in MSMEs field by providing empirical evidence on the extent to which entrepreneurial orientation affects the performance of MSMEs by mediating competitive advantage. Based on theory of resource based view that entrepreneurial orientation has been used as a resource for business organizations in the form of encouragement that refers to the entrepreneurial aspect of making competitive advantage so that it results in improving the performance of MSMEs in a sustainable manner.

## **Keywords:**

competitive advantage, entrepreneurship orientation, performance, pandemic Covid-19, MSMEs

## Introduction

The Covid-19 pandemic has had the impact of a global economic downturn in various business sectors, including Micro, Small and Medium Enterprises (MSMEs). Indonesia has been able to deal with the Covid-19 pandemic quickly, despite leaving the problem of a declining economy. Every country is faced with the challenge of how to recover the economy after the Covid-19 pandemic. The government as a policy maker for economic stability has compiled various programs (Nakku et al., 2020), such as the Gerakan Indonesia Bersama program (Geber) and the Pemulihan Ekonomi Nasional program (PEN). The MSME business sector is the government's concern in the recovery of the national economy. Thus, measurable efforts are needed to improve the performance of MSMEs after the COVID-19 pandemic.

Through the collaboration of the government and the community, Batam city has shown achievements in handling the Covid-19 pandemic more quickly. Various economic business activities began to rise again by utilizing resources to create competitive advantages. Economic business activities in Batam continue to strive to make market adjustments quickly, so as to encourage economic growth. Business actors need an entrepreneurial orientation that reflects proactive, innovative, risk-taking, autonomy and competitive aggressiveness to create competitive advantage, resulting in increased performance. Therefore, the study of economic recovery in Batam becomes interesting to do using the variables of entrepreneurial orientation, competitive advantage and performance.

As one of the pillars of the Indonesian economy, the existence of MSMEs plays a very important role in the economic growth of a country. In addition, MSMEs can contribute as a source of employment and maximize

the efficiency of resource allocation and distribution by mobilizing and utilizing resources. The MSME business sector has the general characteristics of being dynamic, innovative, efficient and its small size allows flexibility, direct feedback, short decision-making chains, better understanding, and faster response to customer needs.

The internal problems faced by MSMEs are generally related to the use of resources to create a competitive advantage (Ferreira, Coelho & Moutinho, 2020). Based on resource based view (RBV) theory that every organization that owns and uses valuable, rare, inimitable, organized resources can create a competitive advantage. MSME business actors are faced with the problem of managing the resources needed in terms of innovation ability, daring to take risks and being proactive, aggressive in competition to take advantage of opportunities. This is a dimension of entrepreneurial orientation (Kiyabo & Isaga, 2020).

Meanwhile, external problems that can be identified after the Covid-19 pandemic are adjustments to the market and facing competitors. Business actors must have a competitive advantage, so that they are able to obtain business sustainability in the VUCA (Volatility, Uncertainty, Complexity, Ambiguity) environmental situation which is increasingly influential after the Covid-19 pandemic. Common problems that are often encountered are related to the ability to produce differentiated products, market sensing and market responsiveness. According to Ibrahim & Mahmood (2016) that with a competitive advantage, business actors can improve the performance of MSMEs.

In modern business environment and after the Covid-19 pandemic, MSMEs need recovery efforts and performance improvements that allow them to capture new opportunities and renew their existing market base.

This study estimates that entrepreneurial orientation is a potential source of competitive advantage and a key success factor for MSMEs. It is necessary to confirm the results of research that show the efforts made to restore the performance of MSMEs after the Covid-19 pandemic.

There is not much empirical evidence that shows the success of efforts to improve the performance of MSMEs after the Covid-19 pandemic (Belitski et al., 2022). Previous studies have tested the positive and significant influence of entrepreneurial orientation, competitive advantage and MSMEs performance (Kiyabo and Isaga, 2020; Mahmood and Hanafi, 2013). However, research on the recovery of MSME performance after the Covid-19 pandemic still needs to expand the analysis. This study was conducted to investigate the influence between entrepreneurial orientation, competitive advantage and MSMEs business performance in Batam city. In particular, this study aims to (1) determine the effect of entrepreneurial orientation on MSMEs performance, and (2) determine the effect of mediating competitive advantage on the influence between entrepreneurial orientation and MSMEs performance.

### **Literature Review**

Entrepreneurial orientation (EO) is the ability of business organizations to explore innovative, proactive, and growing thinking in an uncertain environment by applying decision-making, strategy, managerial philosophy, and entrepreneurial behavior (Zighan et al., 2021). This variable has been studied as an important contributor to the success of a business organization which includes dimensions, namely innovation, proactiveness, risk taking, autonomy and competitive aggressiveness. Innovation is needed in business organizations as an ability and willingness to support creativity, new ideas and experiments that can produce new products/services (Tresna & Raharja, 2019).

Proactive capabilities need to be possessed to pursue competitive opportunities and competition in anticipating future demands to create change and shape the business environment. The ability to take risk as an action that consciously expends resources to carry out business activities with a high chance of return but may also lead to a high probability of failure. Entrepreneurial orientation is also shown by the ability to be independent as an attitude of autonomy to not have dependence on other parties. In addition, the ability to compete aggressively to recognize and find opportunities is a determinant in achieving the success of a business organization (Rodríguez-Gutiérrez, Moreno & Tejada, 2015).

This study uses the theory of resource based view (RBV) in explaining entrepreneurial orientation as an intangible resource that plays a role in achieving competitive advantage. MSMEs performance can be achieved by having and using an entrepreneurial orientation as a business organization resource so that it can produce MSMEs performance. The recovery of MSMEs performance after the Covid-19 pandemic can be done by using innovative, proactive, risk-taking, autonomous and competitive aggressiveness resources.

MSMEs business actors after the Covid-19 pandemic require innovative capabilities that reflect the use of new ideas, experimentation and creative processes in creating and introducing new products and technologies, so as to produce superior economic performance. Proactive ability is also required referring to anticipating and acting on future wants and needs in the market, controlling the market by dominating distribution channels and building brand recognition, so as to take advantage of emerging opportunities and create competitive

advantage. Meanwhile, the courage to take risks as a willingness to give a large number of resources to get the results of business activities that may be exposed to great risks. Likewise, autonomy and competitive aggressiveness are needed so that MSME business activities have the resilience to face the challenges of the post-Covid-19 pandemic. This shows that organizations that have an entrepreneurial orientation are more likely to focus their attention and efforts on opportunities, so that they are able to produce increased performance of MSMEs. Based on this framework, the following hypothesis is proposed:

*Hypothesis 1: Entrepreneurial orientation has a positive and significant effect on MSMEs performance*

MSMEs performance is asset growth and sales growth that occurs through business activities and resource utilization. Ibrahim & Mahmood's research (2016) found that entrepreneurial orientation is also a resource that can provide a competitive advantage, so as to produce superior performance for MSMEs businesses. According to the RBV theory, the post-Covid-19 MSME business by using an entrepreneurial orientation as a valuable, rare, not easy to imitate, and manageable resource can achieve superior MSMEs performance recovery. The use of the company's internal resources is a determining factor for competitive advantage in the MSMEs business sector. The performance of business organizations resulting from competitive advantage is largely influenced by entrepreneurial orientation. The recovery of MSMEs performance after the Covid-19 pandemic can be done by creating competitive advantages through efforts to manufacture different products, market sensing and market responsiveness. This can be achieved by implementing an ongoing

entrepreneurial orientation as an important resource for MSMEs. Based on this explanation, researcher proposed the following hypothesis:

*Hypothesis 2: Competitive advantage mediates the effect of entrepreneurial orientation on MSMEs performance.*

## Methods

The approach used to achieve the research objectives uses quantitative methods with questionnaires to collect data. The population used to collect information about this research problem is MSMEs in the city of Batam. Based on data from the Ministry of Cooperatives and SMEs (222) that the city of Batam has a total of 81,575 MSMEs. Determination of the number of samples using the Slovin formula with a 90% confidence level for researchers and an error threshold of 10% due to the consideration of the number of MSMEs that are not operating due to the Covid-19 pandemic. Based on the formula  $n = \frac{N}{1+(N \times e^2)} = \frac{81.575}{1+(81.575 \times 0,1^2)} = 99,87 \approx 100$  samples used in this study. Furthermore, sampling is done by accidental sampling. Collecting data using a closed questionnaire, that is, each respondent can choose the available answers according to the respondent's assessment. The determination of the research location in the city of Batam is due to the large number of micro-enterprises and experiencing rapid development in Batam city (Laporan Perekonomian Kepulauan Riau, 2022) which is currently affected by the Covid-19 pandemic, so it is necessary to make efforts to restore MSMEs performance.

The reliability test uses an internal consistency approach and the validity test uses factor analysis. Further testing of direct influence and research mediation using bootstrapping technique with the help of IBM SPSS software version 25 using the additional feature PROCESS Macro

(Hayes, 2017). The use of this technique is to produce a more accurate estimation value accuracy (Kiyabo & Isaga, 2020).

The measurement of entrepreneurial orientation variables includes the dimensions of being proactive, taking risks, competitive aggressiveness, autonomy, and innovation using a 6-item statement questionnaire. The measurement of the competitive advantage variable consists of different product dimensions, market sensing and market responsiveness using a 6-item statement questionnaire. The measurement of MSMEs performance variables includes the dimensions of asset growth and sales growth using a 4-item statement questionnaire. Each variable measurement uses a 5-point Likert scale ranging from 1 strongly disagree to 5 strongly agree.

## Results

A total of 100 complete and valid questionnaires were collected. The sample consisted of 64% men and 36% women MSMEs business actors. In addition, the sample covers the age group from 26 to 50 years, and the age distribution of respondents is relatively concentrated in the age group of 41–50 years. Among them, 84.6% are married and 15.4% are unmarried. The majority of respondents' education has attained a bachelor's degree in terms of academic qualifications. In addition, 63% of companies have been operating for less than 5 years. The characteristics of the respondents can be briefly shown through the following table:



**Table 1. Characteristics of Respondents**

Category	Description	Presentation
<b>Gender</b>	<b>Man</b>	<b>64%</b>
	<b>Woman</b>	<b>36%</b>
<b>Age</b>	<b>26 – 30</b>	<b>4,2%</b>
	<b>31 – 35</b>	<b>14,9%</b>
	<b>36 – 40</b>	<b>17,0%</b>
	<b>41 – 50</b>	<b>62,8%</b>
	<b>&gt;50</b>	<b>1,1%</b>
<b>Status</b>	<b>Marry</b>	<b>84,6%</b>
	<b>Not married yet</b>	<b>15,4%</b>
<b>Education</b>	<b>High school/equivalent</b>	<b>15,0%</b>
	<b>Diploma/Bachelor</b>	<b>80,0%</b>
	<b>Masters/Doctorate</b>	<b>5,0%</b>
<b>Length of business</b>	<b>&lt; 5 years</b>	<b>63,0%</b>
	<b>&gt; = 5 years</b>	<b>37,0%</b>

Source: Data Processing (2022)

Reliability testing was conducted to determine the internal consistency of the measures used in the study. All research variables can be relied upon for further analysis. It can be shown through Table 2 that the variables of entrepreneurial orientation, competitive advantage and performance have a Cronbach Alpha value of more than 0.7 which is recommended by Hair et al., (2013). Furthermore, the variables were validated using the KMO test  $> 0.50$  and Bartlett's Test of Sphericity was significant 0.000 and the factor loadings value was  $> 0.50$ , so it has met the validity requirements (Hair et al., 2013).

Table 2. Descriptive Statistics

	Mean	SD	Cronbach's Alpha	AVE	CR	1	2	3
Entrepreneurship Orientation (EO)	4,27	0,631	0,801	0,52	0,87	0,72		
Competitive Advantage (CA)	4,36	0,627	0,716	0,72	0,94	0,309**	0,85	
Performance (PE)	4,52	0,546	0,775	0,60	0,85	0,272**	0,337**	0,77

Notes: The bold figures on the diagonal are the square root of the AVEs. \*\* Correlation is significant at the 0.05 level (1-tailed).

Source: Data Processing (2022)

Based on the results of descriptive statistics (Table 2) and hypothesis testing (Table 3), the first regression analysis shows that entrepreneurial orientation (EO) and MSMEs performance (PE) have a significant correlation or influence, so the first hypothesis is statistically supported. The findings are in line with most researchers who found a positive and significant effect between entrepreneurial orientation and company performance (Ibrahim & Mahmood, 2016; Kiyabo & Isaga, 2020; Mahmood & Hanafi, 2013).

Furthermore, the second regression analysis included the competitive advantage (CA) variable as an antecedent to the MSMEs performance variable which showed that there was a positive and significant effect ( $\beta = 0.324$ ,  $p < 0.01$ ). The third regression analysis included entrepreneurial orientation variable (EO) as an antecedent to the MSMEs performance variable (PE) which showed that there was a positive and significant effect ( $\beta = 0.277$ ,  $p < 0.00$ ). The fourth regression analysis included competitive advantage (CA) and entrepreneurial orientation (EO) variables as antecedents to the MSMEs performance variable (PE) which showed that each had a positive and significant effect ( $\beta = 0.255$ ,  $p < 0.00$ ; and  $\beta = 0.265$ ,  $p < 0.01$ ). The mediation test refers to Baron and Kenny's (1986) concept that if the mediating variable is added to the regression equation the effect

becomes zero, then full mediation occurs, but if the effect is only reduced, partial mediation occurs.

**Table 3. Hypothesis Test**

Diret effect models									
Analysis Summary	R	R <sup>2</sup>	Dependent variable	Independent variable	$\beta$	t	Sig.	LLCI	ULCI
1	0.141	0.020	CA	(Constant)		10.115	0.000	2.351	3.418
				EO	0.560	12.059	0.044	0.103	0.393
2	0.319	0.102	PE	(Constant)		11.655	0.000	2.201	3.172
				CA	0.324	4.725	0.001	0.155	0.446
3	0.274	0.075	PE	(Constant)		10.143	0.000	2.142	3.213
				EO	0.277	4.095	0.000	0.153	0.451
4	0.379	0.413	PE	(Constant)		6.202	0.000	1.325	2.503
				CA	0.255	3.711	0.000	0.147	0.379
				EO	0.265	3.558	0.001	0.184	0.331
Indirect effect of EO on PE									
Effect	Bootstrap Standard Error		Bootstrap lower 95% C.I				Bootstrap upper 95% C.I		
0.040	0.030		0.271				0.541		

Source: Data Processing (2022)

Further testing of the mediation effect uses the PROCESS macro SPSS analysis (Hayes, 2017). Indirect effect is done by bootstrapping technique using the Preacher-Hayes method. The test criteria are guided by the Confident Interval (CI) value if there is a zero value in the interval then the hypothesis is rejected, and vice versa (Hayes, 2017). The results of the indirect effect regression indicate that entrepreneurial orientation variable on the performance of MSMEs is mediated by competitive advantage with 95% confidence level interval of 0.271 to 0.541, so that the second hypothesis in this study is statistically proven.

## Discussion

This study contributes to the literature by investigating and testing the influence between entrepreneurial orientation and MSMEs performance, as well as the mediating effect of competitive advantage in Batam city. This study provides practical implications that MSMEs actors need to have a

competitive advantage in order to improve asset growth performance and MSMEs sales growth. This is based on the results of research that competitive advantage has a positive and significant effect on the performance of MSMEs. Meanwhile, competitive advantage can be achieved with an entrepreneurial orientation. The findings of this study are in accordance with the RBV theory approach that competitive advantage comes from the resources owned or controlled by the company. With the orientation of entrepreneurship as a form of intangible resource, it can provide a sustainable competitive advantage.

The results of the study contributed to development of research with consistent findings on Covid-19 pandemic situation in Batam city. The findings of this study are in line with Ibrahim & Mahmood (2016) and Kiyabo & Isaga (2020) that the performance of MSMEs can be achieved by the use of entrepreneurial orientation resources, giving rise to a competitive advantage. This shows the importance of competitive advantage to mediate the influence of entrepreneurial orientation on the performance of MSMEs. This study expands the findings in the MSMEs literature after the Covid-19 pandemic that performance recovery can be done by increasing competitive advantage and entrepreneurial orientation.

With the entrepreneurial orientation of MSMEs after the Covid-19 pandemic in Batam city, it can create a competitive advantage position as a strength in improving MSMEs performance. The findings of this study confirm that entrepreneurship-oriented MSMEs businesses tend to be more risk-taking, proactive, competitive aggressiveness, autonomy, and innovation that leads to improved performance. This shows that MSMEs actors can benefit from efforts to improve entrepreneurial orientation in order to achieve MSMEs sustainability in a dynamic, fast and complex

business environment characterized by business life cycles, globalization, and continuous improvement in technology. In addition, MSMEs actors need to prioritize the source of competitive advantage as a channel in increasing the influence between entrepreneurial orientation and MSMEs performance. Thus, entrepreneurial orientation is a mechanism for continuity and success as a resource to increase competitive advantage so as to achieve the recovery of MSMEs performance after the Covid-19 pandemic in Batam city.

### **Conclusion**

This research has contributed to the literature in the MSMEs field by providing empirical evidence on the extent to which orientation affects the performance of MSMEs by mediating competitive advantage. Entrepreneurial orientation has been used as a company resource in the form of a process of making competitive advantage, resulting in an increase in the performance of MSMEs. This finding confirms that the RBV approach is suitable to explain to produce performance not only requires tangible resources, but also intangible resources such as entrepreneurial orientation. Business actors need to be oriented towards entrepreneurship as an important resource.

The impact of the Covid-19 pandemic has resulted in a lot of decline in various economic activities, so it is necessary to restore with an entrepreneurial orientation. In the modern business environment, today's company performance is praised by intangible resources such as those who dare to innovate using technology, dare to take risks, act proactively, competitive aggressiveness in every business opportunity, and the principle of autonomy that shows no effort. Therefore, MSMEs business actors need to invest not only in resources but also in intangible resources

to create competitive advantage and ultimately improve MSMEs performance.

This study also has some limitations that data sourced from MSMEs in Batam city which allows the results of the study cannot be generalized, so it is necessary to do research with a larger population. Furthermore, the orientation variable is one of the intangible resources, thus enabling the performance of MSMEs to be determined by a combination of other resources capable of creating competitiveness. In addition, performance measurement is limited to the size of MSMEs growth, namely assets and sales. The research findings provide direction for further research to find out other variables that might contribute to learning and government support in restoring MSME performance.

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