

# Management Capabilities, Market Orientation as Mediation Influence of Entrepreneurial Orientation on Business Performance

(Study of Small Food Micro Industrial Companies in Gorontalo Province), INDONESIA

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**Abstract:-** This research examines and analyzes the influence of entrepreneurial orientation on business performance through management capabilities, and the market orientation of gorontalo micro small micro industries (IMK). The population is food IMK in Gorontalo with a sample of 76 respondents to the owner of food IMK in Gorontalo. This research uses quantitative approaches and data analysis using PLS (Partial Least Square). The results of this study show that the orientation of entrepreneurship has a significant effect directly on management ability and influences business performance. However, because management skills have a positive and significant effect on business performance, management skills are not proven to mediate the influence of entrepreneurial orientation on business performance. The market orientation proved to have a significant positive effect mediating the influence of entrepreneurial orientation on business performance as partial mediation.

**Keywords:-** Entrepreneurial Orientation, Management Ability, Market Orientation, Business Performance.

## I. INTRODUCTION

Small businesses in each country have an important role in the development and economic growth of a country. Not only in developing countries but also in developed countries. In addition to its contribution to gross domestic product (Tambunan 2008), it also plays its role in labor absorption, income creation, and economic drivers of society (Zahra, 1991 & Meredith, 1997). Small businesses in Indonesia are often associated with domestic economic and social problems such as high levels of poverty, large numbers of evictions, income distribution inequality, uneven development processes between urban areas and rural areas, and urbanization problems. Small businesses are expected to make a significant positive contribution in efforts to address these problems.

Urata (2000) states that the problems faced by small businesses can be grouped into two, namely financial and non-financial problems (Business management). Financial problems include (1) Lack of conformity (mismatch) between available funds and funds that can be accessed by small businesses. (2) The absence of a systematic approach in the

funding of small businesses. (3) High transaction costs. (4) Lack of access to formal sources of funds. (5) Interest on loans. (6) The number of small businesses that are not yet bankable. Non-financial (business management) issues include: (1) Lack of knowledge of production technology and quality control caused by lack of opportunities to keep up with technological developments as well as lack of education and training. (2) Lack of knowledge of marketing, caused by limited information that can be reached by small businesses about the market, as well as limited small businesses to provide products / services that are in accordance with the wishes of the market. (3) Limitations and lack of skilled and creative human resources, and (4). Lack of understanding of small business management towards financial management. From data from the Central Statistics Agency (2012), shows the population of large business units (reaching 99%), while small and medium-sized micro-businesses are only able to contribute less than 10% to the total national business output. The existence of performance and productivity inequality between MSMEs and large-scale businesses indicates weak performance and productivity of MSMEs which are allegedly strong due to the weak character of entrepreneurship and the lack of optimal managerial role in managing businesses in a fast-changing business environment.

The problems faced by small and medium-sized industries in Gorontalo Province are no different from the IMK problem at the national level. Internally, marketing problems (e.g. product quality standards, demand for products, lack of product variation, implementation of promotional activities and price competition), unstable supply and price of raw materials and other supporting materials (e.g.: scarcity of raw material supplies and prices of raw materials that tend to fluctuate, linkage between the sector), as well as managerial aspects and business orientation (business oriented) small entrepreneurs, This is an increasingly serious problem for small entrepreneurs.

The problem externally is the government's efforts to grow small and medium enterprises (SMEs), although from year to year continue to be refined, but felt not entirely conducive so that there is competition with large-scale businesses, lack of information related to science and technology, aspects of capital and limited market access and information that causes the products produced cannot be marketed competitively both in the national market and

international. Data from the Ministry of Industry, Trade and Cooperatives of Gorontalo Province (2013) The production growth of Micro and Small Manufacturing Industry (IMK) in the first quarter of 2013 of Gorontalo Province increased by 0.17 percent compared to the fourth quarter of 2012. Meanwhile, for the growth of Micro and Small manufacturing industry production (IMK) in the first quarter of 2013, Gorontalo Province decreased by 7.79 percent compared to the first quarter of 2012, while for the growth of production of Micro and Small Manufacturing Industry (IMK) in the first quarter of 2013 nationally decreased by 1.12 percent while for the growth of Micro and Small Manufacturing Industry (IMK) in the first quarter of 2013 increased by 7.22 percent. This phenomenon proves that the growth of the processing industry in particular (food industry) in Gorontalo has a fairly low number.

To create new opportunities, an entrepreneur is expected to have the ability to implement management functions in accordance with the concept of entrepreneurial orientation (Lee & Peterson, 2000). Companies that tend to have a higher level of entrepreneurial orientation will act independently and are encouraged to always update (innovativeness), dare to take risks (risk-taking), be proactive (proactiveness), and compete more aggressively (aggression).

Miller (1983) describes the construct of entrepreneurial orientation by defining a company as well as engaging in product marketing innovation, business risk, and innovation, in general the entrepreneurial orientation refers to management strategies in relation to innovation, proactiveness, and risk-taking (Lumpkin and Decs, 1996; Miller, 1983; Khandwalla, 1977; Covin and Slevin, 1999). Entrepreneurial orientation has been suggested as an important attribute of the company in improving performance (Covin and Slevin 1989; Lumpkin and Dess 1996, Decs et al. 1997; Lee and Peterson, 2000).

Research on the influence of entrepreneurial orientation consisting of elements (1) innovating, (2) acting proactively and (3) managing risk on performance or growth results showed a significant positive effect on business performance (Vitale and Miles, 2003); Riyanti (2003); Nurhayati (2004); Solichin (2005); Sangen (2005). Lee and Tsang (2001); Stewards, Carland, Watson and Sweo (2003); Chadwick et al. (2004); Hughes and Morgan (2007); The results showed results that had not been consistent and varied.

Furthermore, research that tests the variables of management's ability to performance was researched by Sirat (2002); Nurhayati (2004); Muryati (2004); Maupa (2004); And Suci (2008), found the results obtained that management skills have a significant strong effect on productivity and business performance. Nurhayati (2004) examined the influence of entrepreneurial skills whose results were insignificant on performance. Yin (2012) also demonstrates managerial ability and organizational culture is insignificant on performance. However, the managerial capabilities of hotels have a significant impact on customer satisfaction. Latif (2002) examines management's ability to perform, where management skills can contribute to business

performance and can be measured by indicators: (1) Verbal communication, (2) Managing time and pressure, (3) Managing individual decision decisions, (4) Recognizing, assigning and solving problems, (5) Motivating and influencing others, (6) Delegation, (7) Setting goals and articulating vision, (8) Self-awareness, (9) Build a team, (10) Organize conflicts. His research found the basic assumption that some pharmacists become managers when they are required to manage other businesses.

The entrepreneurial orientation has a direct relationship with market orientation (Matsuno et al. 2002). Miller (1983) explained that entrepreneurship orientation is an orientation to strive to be first in market product innovation, dare to take risks and take proactive actions to beat competitors. Kohli and Jaworski, (1990) stated a manager who has the courage to take risks and accept failure will tend to prefer to introduce new products to respond to changing consumer demand. Vitale et al. (2002); Keh et al. (2006) stated that the better the implementation of market orientation and the ability of the company's entrepreneurial orientation, the more business performance will increase. Sinkula and Baker (2009) stated that the entrepreneurial orientation reflects the extent to which the company's growth goals are triggered by authentication and exploitation of untapped market opportunities. In contrast, market orientation reflects the impact of the company's strategic market planning resulting from the implementation of customer and competitor intelligence.

## II. FOUNDATION OF THEORY

### 2.1 Entrepreneurial Orientation

The term entrepreneurial orientation has been used to describe entrepreneurship as organizational behavior (Lumpkin and Dess, 1996, 2001, Knight, 1997; Wiklund and Shepherd, 2005; Covin and Slevin, 1991). Miller (1983) describes his entrepreneurial orientation as "one that engages in product-market innovation, does little risky endeavor, and first comes up with 'proactive innovation, as well as delivering a punch to beat competitors'. In his view, Miller (1983) stated that the orientation of entrepreneurship can be determined based on three dimensions, namely proactive (proactive), innovative (innovative) and courage to take risks (risk - seeking). Hisrich et al. (2005) and Cashmere (2006) argue that an entrepreneurial orientation is creating something new and different, the same as creating value for self and its environment (Venkataraman, 2001). Lumpkin & Dess (1996) gives the understanding that entrepreneurship orientation refers to a company orientation strategy to obtain style, practice, and decision-making methods. Furthermore, the entrepreneurial orientation reflects how a company operates compared to what is planned.

### 2.2 Management Skills

Winardi (2005: 94) defines managerial ability to be the ability to take actions of planning, organizing, implementing, and supervision carried out to determine and achieve the goals that have been set. Latif (2008) states that managerial ability basically has 3 important components, namely appropriate behavior, motivation and ability (skill). In this

study management ability was measured by 10 indicators, used in Latif's research (2008: 379), namely: (1) Verbal communication; (2) Manage time and pressure; (3) Make individual decisions; (4) Recognize, assign and solve problems; (5) Motivate and influence others; (6) Delegation; (7) Define goals and articulate visions; (8) Self-awareness; (9) Build a team; (10) Organize conflicts.

**2.3 Market Orientation**

Ruekert (1992) describes market orientation as the rate at which business units (1) obtain and use information from customers, (2) develop a strategy that will discover customer needs, and (3) implement strategies by listening to customer needs and shortcomings. Narver and Slater (1990) suggest that the dimensions of market orientation include customer orientation, competitor orientation, interfunctional coordination, long-term focus, and profitability. The market orientation construct in his research Vitale et al. (2002) includes knowledge of the market, dissemination of market information, and the contribution of marketing activities which are further used as indicators of market orientation variables in this study.

**2.4 Business Performance**

Glancey (1998) defines performance as referring to the level of achievement or achievement of a company in a given period of time. Jauch and Glueck (1988) describe performance is referring to the level of achievement or achievement of a company in a given period of time. The performance of a company is very decisive in the development of the company. The company's goal is essentially maximizing the value of the company reflected in various measures of performance. The performance of small companies can be seen in profitability and the development of sales levels. According to Covin and Slevin (1999) the procedure of measuring the performance of small and medium-sized industries can be done by assessing respondents' perceptions based on the scale of financial measures, such as sales rate, sales growth, gross profit, profit-to-sales ratio, capital return rate, and operating net income. The study used three indicators in measuring business performance: sales growth, profit growth, and asset growth.

**III. RESEARCH METHODS**

The population in this study is the entire small micro industrial enterprise (IMK) food processing owned and managed by its owner who is still actively operating and registered with the office of the provincial government of Gorontalo based on the population above, then the sample withdrawal is done using a propositional random sample technique, with the number of samples obtained as many as 76 units of small and medium-sized food industries. **Data analysis techniques** used in this study are grouped into two, namely descriptive analysis techniques and partial least square analysis (pls).

**IV. RESULTS OF RESEARCH AND DISCUSSION**

**4.1 Characteristics of Respondents**

Characteristic respondents described the characteristics of food IMK as a sample in this study. The number of male respondents was 8 people (10.5%) and female respondents as many as 68 people (89.5%). The results showed that the majority of respondents were women. Based on the level of education, respondents with elementary education as many as 7 people (9.2%), junior high education as many as 13 people (17.1%), high school education as many as 46 people (60.5%), and Diploma and Bachelor education as many as 10 people (13.2%). The results showed that the majority of respondents were with high school education.

**4.2 Linearity Assumption Test**

The linearity relationship in this study relates only to the modeling of structural equations i.e. the relationship between latent variables in structural models is linear. Data linearity testing aims to see if the model used is a linear model. Here is table 2 which presents the results of the test of the linearity of the variables used.

**Results of Linearity Assumption Testing**

Free Variable	Bound Variable	Sig .	Description
Entrepreneurial Orientation (X1)	Management Skills (Y2)	0.002	Linear
Entrepreneurial Orientation (X1)	Market Orientation (Y2)	0.013	Linear
Entrepreneurial Orientation (X1)	Business Performance (Y3)	0.019	Linear
Management Skills (Y1)	Business Performance (Y3)	0.022	Linear
Market Orientation (Y2)	Business Performance (Y3)	0.001	Linear

**4.3 Evaluation of Goodness of Fit Model**

Structural models are evaluated with attention to R-square (R2) and Q2 (predictive relevance models). Q2 (predictive relevance model) which measures how well the observation value is generated by the model. Q2 is based on the coefficient of determination (R2) of all endogenous variables. The magnitude of Q2 has a value with a range of 0 < Q2 < 1, the closer to the value of 1 means the better the model. The following results of the calculation of goodness of fit or coefficient of determination (R2) of the three endogenous variables are presented in table 3 below.

**Table 3 goodness of fit (R-Square) Value**

Exogenous Variables	Endogenous variables	R Square
Entrepreneurial Orientation (X1)	Management Skills (Y1)	0.70082
Entrepreneurial Orientation (X1)	Market Orientation (Y2)	0.62937
Entrepreneurial Orientation (X1) Management Skills	Business Performance (Y3)	0.68782

(Y1) Market Orientation (Y2)		
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variables not contained in the study model. Therefore the model is said to be good or the model is said to have a good estimation value.

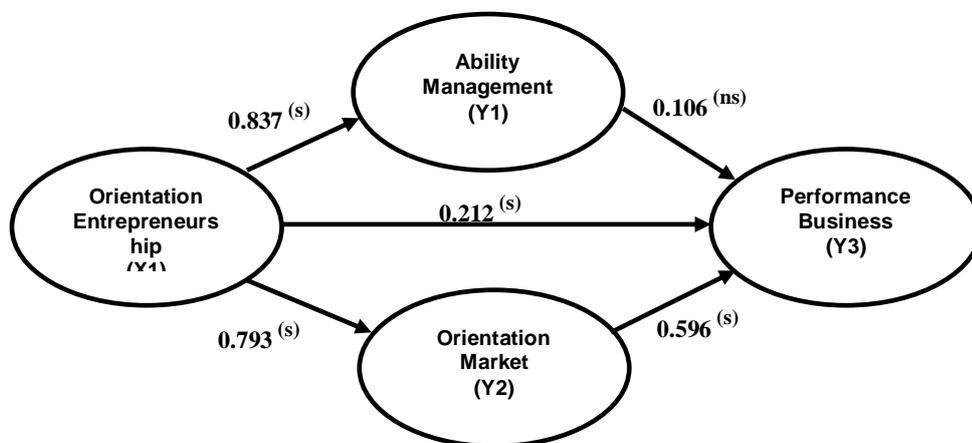
Based on the goodness of fit value above, the Q2 value is:

$$\begin{aligned}
 Q2 &= 1 - (1 - R1^2) (1 - R2^2) (1 - R3^2) \\
 &= 1 - \{(1 - 0,701) (1 - 0,629) (1 - 0,688)\} \\
 &= 1 - 0,035 \\
 &= 0,965
 \end{aligned}$$

The Q2 value above indicates that the predictive relevance value is 0.965. This suggests the accuracy or accuracy of this research model can explain the variable diversity of entrepreneurial orientation, management ability, and market orientation towards business performance by 96.50%. The remaining 3.50% was explained by other

**4.4 Partial Least Square Analysis (PLS)**

The results of PLS analysis of five direct influences between variables there are four direct influences that have a significant effect and one direct influence that has an insignificant effect. The entrepreneurial orientation variable (X1) has a significant effect on management ability (Y1), market orientation (Y2), and business performance (Y3). The market orientation variable (Y2) has a significant effect on business performance (Y3). The variable that has an insignificant effect is the management ability variable (Y1) to business performance (Y3).



Description: s = significant; ns = insignificant

Figure 1: path coefficient diagram and direct influence hypothesis testing

Table 4. Path Coefficient Results and Direct Influence Hypothesis

Exogenous Variables	Endogenous variables	Path Coefficient	t-statistics t <sub>critical</sub> = 1,960	Description
Entrepreneurial Orientation	Management Capabilities	0.83715	19.03934	Significant
Entrepreneurial Orientation	Market Orientation	0.79333	14.67918	Significant
Entrepreneurial Orientation	Business Performance	0.21163	2.42983	Significant
Management Capabilities	Business Performance	0.10583	0.86123	Insignificant
Market Orientation	Business Performance	0.59565	5.54245	Significant

Table 5. Results of Path Coefficients and Hypotheses of Indirect Influence (Mediation)

	Mediation Variables	Endogenous variables	Path Coefficient	t-statistics t <sub>critical</sub> = 1,960	Description	Mediation Conclusions
Entrepreneurial Orientation	Management Capabilities	Business Performance	0.08860	0.85917	Insignificant	Not mediation.
Entrepreneurial Orientation	Market Orientation	Business Performance	0.43939	4.47453	Significant	Partial Mediation

The results of indirect influence testing there is one indirect influence (mediation) that has a significant effect and one indirect influence (mediation) that has an insignificant effect. The entrepreneurial orientation variable (X1) has no significant effect on business performance (Y3) through management ability (Y1). The entrepreneurial orientation

variable (X1) has a significant effect on business performance (Y3) through market orientation (Y2).

The results of hypothesis testing show that: (1) Hypothesis 1 is accepted, where the better the entrepreneurial orientation, the more business performance will increase. (2)

Hypothesis 2 is rejected, where the better the entrepreneurial orientation will improve business performance through management skills. (3) Hypothesis 2.1 is accepted, where the better the entrepreneurial orientation the better management ability. (4) Hypothesis 2.2 is rejected, where the better the management ability, the better the business performance will increase. (5) Hypothesis 3 is accepted, where the better the entrepreneurial orientation will improve business performance through increased market orientation. (6) Hypothesis 3.1 is accepted, where the higher the ability of entrepreneurial orientation, the better the implementation of market orientation. (7) Hypothesis 3.2 is accepted, where the better the market orientation, the better the business performance increases.

## V. DISCUSSION

### 5.1 Pengaruh Langsung Orientasi kewirausahaan dan Kinerja Bisnis

The results of the analysis of entrepreneurial orientation variables on business performance showed a positive and significant influence. Thus the results of this study can prove empirically that the higher the entrepreneurial orientation will improve business performance. These results indicate that the orientation of entrepreneurship is able to explain the variation in changes in the business performance of IMK Pangan in Gorontalo Province.

Empirical facts according to respondents' assessments show that risk-taking attitudes are indicators that take precedence and have outer loading values that are considered important in reconfiguring entrepreneurial orientation. Based on the actual conditions perceived by respondents and the evaluation of measurement of business performance variables at the Food IMK in Gorontalo, it can be concluded that those who have a dominant contribution are indicators of asset growth with a loading factor value of 0.871, but the implementation has not been done well. This is seen and empirical facts are shown with an average value of 3.96, indicators of sales growth and profit growth have the same mean value that is considered the most prioritized or prioritized in the achievement of business performance.

The findings of this study show that the implementation of a good entrepreneurial orientation is able to improve business performance. This supports Wiklund & Shepherd's theory (2003) that the existence of innovative, proactive, and good risk-taking capabilities in the process of integration of entrepreneurial orientation can improve business performance. Kreiser et al. (2002) suggest that performance measurement is a picture of the ability of small industries to make standards of measurement of entrepreneurial orientation (innovation, proactive, and risk) well.

### 5.2 Influence of Entrepreneurial Orientation and Management Ability

The results of this study showed that the orientation of entrepreneurship has a positive and significant effect on the management ability of an entrepreneur at IMK Pangan in Gorontalo. The results of this study found 4 important things in reflecting the indicators of management skills that

must be considered by an entrepreneur at IMK Pangan Gorontalo, namely (1) The desire to achieve business goals (2), have confidence and a picture to be achieved, (3), have confidence in every action, (4). It has a nature of openness, especially for employees and their environment. The results of this study strengthen the sacred theory (2008; 201), where he proposed a framework of management capability concepts reviewed from the characteristics of business actors. According to Suci that an entrepreneur has a clear goal to be achieved (path goal), the ability to make changes and innovation to make changes better and profitable in the midst of uncertainty, open in decision making, and confident and able to overcome conflicts that occur in the company.

The findings reinforce the theory of entrepreneur oriented (Zimmer and Scarborough (2005), that entrepreneurial orientation encourages entrepreneurs to carry out activities in the management process such as planning a business through opportunity identification, organizing and staffing through the collection of other human resources. Directing and Coordinating through the implementation of industrial production processes and other businesses. In addition, this study also supports the findings of this finding also supports the results of Riyanti's research, (2003) that the fundamental basis of management's ability in business management is, namely, (1), Ability to manage business independently (entrepreneurial), (2) Planning in managing business, (3) Implementing established business plans and (4) Carrying out analysis of the company's external environment.

### 5.3 Influence of Management Ability on Business Performance

Based on the results of the test showed that management ability has a positive but insignificant effect on business performance and it can be concluded that the hypothesis that states the better the management capability, the improved the business performance will be rejected. Results show that IMK that has good management skills does not have to be worthy of good performance. The results of this study found that variable measurement of management ability is more dominantly reflected by the ability to manage conflicts, but in its implementation the priority is the ability to know, assign and solve problems, motivate and influence others.

The results of this study are in line with previous studies namely Nurhayati (2004), and Yin (2012) that the ability of the manager is not significant in business performance, Nurhayati Research (2004), Nurhayati Research (2004), in export-oriented small businesses in East Java. This study examined the influence of internal factors, external factors, entrepreneurial skills on strategy, competitive advantages and export-oriented small business performance in East Java. From the research obtained the following results: the ability of entrepreneurs (entrepreneurial skills) is not significant effect on the performance of small business export oriented. The findings of this study are different from previous studies namely Sirat, (2000); Latif (2002); Nuthail (2001); Muryati & Maupa,(2004); Suci (2008), Duygulu & Kurgun (2009); Emadzade et.al (2012) stated that management's ability has a significant effect on

business performance. Latif's research (2002) on management ability that proposes a management model tested on pharmacy students (pharmacists) is a review of relevant management literature, related to the effectiveness of management capabilities, and describes a model based on research. According to Latif (2002), management skills can contribute to business performance and can be measured by the following indicators: (1) Verbal communication, (2) Managing time and pressure, (3). Make individual decisions, (4). Recognize, define and solve problems (5) Motivate and influence others (6) Delegating, (7) Define goals and articulate vision (8) Self-awareness, (9) Build teams, (10) Organize conflict.

#### **5.4 The Effect of Entrepreneurship Orientation on Market Orientation**

The results of the analysis showed that the coefficient of the direct influence path of entrepreneurial orientation on the market orientation of Gorontalo food IMK had a significant effect. The findings of the study showed that the implementation of a good entrepreneurial orientation then the market orientation is getting better. Facts show the implementation of entrepreneurial orientation is able to improve and contribute both to the market orientation of GORONTALO food IMK, meaning that the implementation of entrepreneurship orientation internally is influenced by the perception of food IMK entrepreneurs in terms of risk taking, and create new innovations by using market oriented strategies in defeating competitors. Furthermore, the entrepreneurial orientation has a direct relationship with the market orientation in developing products in the creation of market product innovation. This finding is in accordance with the opinion of Matsuno et al. (2002), stating that the orientation of entrepreneurship is believed to have a direct relationship with market orientation. Miller (1983) explained that entrepreneurship orientation is an orientation to strive to be first in market product innovation, dare to take risks and take proactive actions to beat competitors.

Empirical facts show that the integration of market orientation is perceived quite well by Gorontalo food IMK entrepreneurs. Market orientation variables reflected by indicators namely; Market knowledge, dissemination of market information, and marketing contributions have been implemented well and need to be improved by Gorontalo food imk entrepreneurs. Entrepreneurship orientation and market orientation that is well perceived by a Gorontalo food IMK entrepreneur will have an impact on business competition and be able to face a market that is always turbulent (turbulence). Thus the innovative, proactive, and risk-taking courage possessed by Gorontalo food IMK entrepreneurs is indispensable in building the ability of entrepreneurs to implement the intelligence of customers and competitors so that Gorontalo food IMK entrepreneurs are able to formulate and implement strategic plans in the market.

The results of the study are in line with Kohli and Jaworski's (1990) findings that a manager who has the courage to take risks and accept failure will tend to prefer to introduce new products to respond to changing consumer

demand. Being proactive in an entrepreneurial context relates to the perspective of looking ahead and tending to take initiative by anticipating and pursuing new opportunities and by participating in seizing the market (Lumkin and Dess, 1996). The dimension of proactivity in entrepreneurship is believed to encourage the identification of new market opportunities (Miller and Friesen, 1982; Vekatraman, 1989), the ability of proactive attitude and innovation possessed by entrepreneurs will increase market intelligence (Kohli and Jaworski). The courage to take business risks, always make changes and innovations, compete more aggressively in the market will make it easier for IMK to conduct market intelligence, namely knowledge of the market, dissemination of market information, and evaluating marketing contributions.

These findings are different from sinkula and baker's (2009) study in which entrepreneurial orientation and market orientation are two interconnected concepts, but have different influences on business performance. The entrepreneurial orientation reflects the extent to which a company's growth goals are triggered by the authentication and exploitation of untapped market opportunities, while the market orientation reflects the impact of the company's strategic market planning resulting from the implementation of customer and competitor intelligence.

#### **5.5 The Effect of Market Orientation on Business Performance**

The results of the analysis obtained a positive and significant market orientation on the performance of Gorontalo food IMK. This is supported by the empirical fact that the better the market orientation, the better the business performance is expected to increase. The findings also reflect that the implementation of market orientation reflected by knowledge of the market, dissemination of market information, marketing contributions can improve competitiveness and business performance. In the Food IMK Gorontalo is able to face a volatile market (turbulence).

The results of this study reinforce the findings affirmed by Riana (2010), that knowledge of the market, dissemination of market information, marketing contributions can improve competitiveness and business performance in small and medium-sized industries. This means that the implementation of market orientation reflected through knowledge of the market, dissemination of market information, effective marketing contributions are able to improve business performance.

Market orientation can be carried out well if supported by knowledge of the market, dissemination of market information, market contribution. The form of knowledge about the market is maintaining relationships with business partner, paying attention to regulatory trends about the business, weaknesses and strategies of competitors and customer needs. The dissemination of market information is essential with regard to customer information innovation, distribution channels as well as employee issue policies. In addition, the need for marketing contributions related to marketing communication, planning and translating the

implementation of marketing strategies, so that there is the same perception in marketing decision making. Thus the implementation of market orientation is reflected through knowledge of the market, dissemination of market information, marketing contributions bring changes to sales growth rate, profit growth, asset growth, companies.

The results of this study reinforce The Narver & Slater (1994) finding that market orientation is a strategic orientation that can affect business performance. Furthermore, Ruekert (1992) proposed measuring market orientation to the performance of business units, namely: obtaining and using information from customers, developing a strategy that will find customer needs, and implementing strategies by listening to customer needs and shortcomings. This finding is in line with Narver & Slater (1994) in exploring the role of market orientation to the company's performance that companies that apply a good market orientation will affect the company's performance. Furthermore, a business that has a high level of market orientation tends to have implications for profits.

The findings of this study differ from Hassim et al. (2012) that market orientation shows a negative effect on company performance. The reason for the role of market orientation has not been able to reflect the impact of the company's strategic market planning caused by the implementation of customer and competitor intelligence in several small companies.

### **5.6 The Effect of Entrepreneurship Orientation on Business Performance through Management Skills**

The results of the analysis showed that the coefficient of the path of influence of entrepreneurial orientation on business performance mediated management ability obtained positive and insignificant value. These results prove that the entrepreneurial orientation has not been markedly able to improve business performance through management capabilities. Thus it can be interpreted that management ability is not as a mediation variable.

This study shows empirical evidence and new findings that entrepreneurial orientation is capable of contributing well to management ability, but through good management skills cannot improve business performance. Thus the implementation of an entrepreneurial orientation reflected through innovative, proactive and risk-taking, and the role of management skills reflected in the ability to manage conflicts, the ability to recognize, assign and solve problems, motivate and influence others, cannot explain the improvement in food IMK business performance reflected by sales growth, profit growth, and asset growth.

Based on empirical findings that the management ability of Gorontalo food IMK entrepreneurs is not too concerned. That the management ability carried out by entrepreneurs has not referred to the existing theoretical standards, the implementation of management skills is limited to a few things and everything is done familiarly and refers to the roots of Gorontalo culture, namely *dulohupa* (*mufakat*) and *moharagawa* (*mutual respect*). Management

skills and abilities are not all needed in the implementation of IMK, but what is needed by entrepreneurs is to have innovation, proactive, manage risk and work has capital in trying, because food business is an easy business to do because this business is rooted from the previous parents, so that the improvement of business performance is not necessarily through managerial capabilities in the company.

Empirical evidence of this study dreams that the implementation of management capabilities in Gorontalo food IMK is still not fully implemented using eight behavioral aspects of management capabilities in small micro industrial companies. When viewed from the level of educational characteristics of respondents in this study varies, namely; SMA 60.5%, SMP 17.1 and SD 9.2%, so as to equip and transfer various knowledge about leadership and management skills, have not been able to provide the impact of improving business performance. Second, empirical evidence found that food IMK business people involved in the company do not yet have a good commitment that the company's strategic programs, especially those related to innovation, share knowledge in efforts to improve business performance.

These findings are not in line with the results of research conducted by Latief (2008); Duygulu et al (2009), Degraevl (2011), and Emadzade et al, (2012), have shown that the role of management capabilities is a strong basis for innovation, decision making, in improving business performance.

### **5.7 The Impact of Entrepreneurship Orientation on Business Performance through Market Orientation**

Based on the results of the analysis of the path of influence of entrepreneurial orientation on business performance mediated by market orientation obtained positive and significant coefficient values. The results of these findings mean that the entrepreneurial orientation is able to improve business performance, and through a good market orientation will, then business performance will improve. This means that the entrepreneurial orientation reflected by the risk-taking attitude of an entrepreneur will create a market orientation that is reflected through the dissemination of market information so as to improve the business performance of Gorontalo food IMK.

The findings of this study support Kohli and Jaworski (1990); Vitale et al. (2002); Keh et al. (2006); Sinkula & Baker (2009); Raduwan and Mahmood (2011). Kohli and Jaworski (1990) argue that a manager who has the courage to take risks and accept failure will tend to prefer to introduce new products by way of disseminating market information to respond to changing consumer demand. Vitale et al. (2002) and Keh et al. (2006) show that the better the implementation of market orientation and entrepreneurial orientation capabilities of companies, Then the performance of the business will increase. Sinkula & Baker (2009) states that entrepreneurial orientation and market orientation are two concepts that are interconnected, but have different influences on business performance. The entrepreneurial orientation reflects the extent to which a company's growth

goals are triggered by the authentication and exploitation of untapped market opportunities. In contrast, market orientation reflects the impact of the company's strategic market planning resulting from the implementation of customer and competitor intelligence.

Gorontalo food IMK entrepreneurs on the implementation of market orientation are formed by companies related to knowledge about the market, dissemination of market information, good marketing contributions facilitate the process of market information, market knowledge and facilitate the production process so as to make IMK maintain competitive advantage. On the other hand, companies can recognize changes that occur in the market, consumers, competitors and the development of information technology in the business world. In addition, gorontalo food IMK capabilities can dig up information from consumers related to changing market tastes and the company's ability to develop new knowledge in an effort to improve business performance.

### Contributions and Implications of Research

This research contributes to the development of theories and concepts about entrepreneurial orientation relationships in efforts to improve business performance both directly and mediated by management capabilities and market orientation based on grand theory resources based view (Barney, 1991; Grant, 1997; Narver and Slater (1990); Gima (2001); Vitale et al. (2002); Baker & Sinkula (2009).

The results of this study support Drucker's entrepreneurial skills theory (1985) that self-employment is a person's ability to create a product that was originally a mediocre business. However, by applying management concepts and management techniques (i.e. by question, what value is valuable to customers), standardization of products, designing processes and equipment, and basing training on job analysis can improve existing resources and create new markets and customers.

The results of this study contribute to the development of previous research findings on management capabilities (Latif, 2001; Holy, 2008; Duygulu and Kurgun, 2009; Yin, 2012; Emadzade, et al. 2012)} that high managerial ability can contribute to employee satisfaction and business performance. The concept of management ability in this research is one of the new concepts because there has not been much research that discusses, especially management ability as a mediation variable. The reason is that this research locus and characteristics of respondents, as well as the type of business is different from previous research concepts about specialized management capabilities in small industries that are studied in depth. The empirical findings of the study also contributed in extrapolating the role of management capabilities in food IMK both directly and as mediation, although the results had an effect but not significant on the business performance of GORONTALO Food IMK. The results of this study support previous research from Kohli and Jaworski (1990); Lumkin and Dess (1996) state that a manager who has the courage to take risks

and accept failure will tend to prefer to introduce new products to respond to changing consumer demand.

## VI. CONCLUSION

The results of this study show that a good entrepreneurial orientation is able to improve business performance. The implementation of innovative attitudes, proactive, and good risk-taking courage has an important role in supporting the achievement of an entrepreneurial orientation, so as to contribute to the improvement of the business performance of the small micro food industry in Gorontalo. Furthermore, the management ability of Gorontalo small micro food industry entrepreneurs does not contribute to business performance either directly or as a mediation variable, while market orientation contributes to the business performance of gorontalo small micro food industries, either directly or as a mediation variable.

Entrepreneurship orientation is able to contribute both to management ability and business performance, but through the role of management ability can not improve business performance. The implementation of entrepreneurship orientation cannot explain the improvement in food IMK business performance, this shows that management's ability is not able to act as a mediation of the relationship between entrepreneurial orientation and business performance, and it can be interpreted that management ability is not as a mediation variable.

Entrepreneurial orientation is able to improve business performance through a good market orientation role. The role of market orientation in the model is called partial mediation. This means that the implementation of an entrepreneurial orientation can affect business performance directly and can be mediated by market orientation.

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