

## **Effect of Entrepreneurial orientation on business performance moderated by Government Policy (Study On SMEs In Timor Leste )**

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**ABSTRACT:** *This study purpose is to analyze and explaining effect of entrepreneurial orientation on business performance with government policy as a moderating variable. This research was conducted at capital city of Dili, Baucau and Maliana District outside 13 districts in Timor Leste. This study populations are 275 SMEs from three districts (Dili, Baucau and Maliana) in Republica Democratica de Timor-Leste (Timor Leste) State. This study uses saturated samples. There are 157 questionnaires collected with response rate is 57.1%. Data Analysis Techniques is Generalized Structured Component Analysis (GSCA). Study result shows that entrepreneurial orientation affect on on business performance. It means better entrepreneurial orientation can improve performance of small and medium enterprises. Government policy can not moderate effect of entrepreneurial orientation on business performance. It shows that government policy does not have direct effect and moderating effect to improve SMEs performance.*

**KEYWORDS:** *Entrepreneurship Orientation, government policy, Business Performance.*

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### **I. INTRODUCTION**

Small and medium enterprises (SMEs) have function to help government to move economy to develop economic in Republica Democratica de Timor-Leste (Timor Leste) State. People's economy is based on fair market mechanism with principles of fair competition and can boost economic growth. Economists argue that small and medium enterprise sector has proven their durability in various economic conditions and able to withstand from various conditions of competition with big business. It should be well understood that small firms play an important role in economic development of a country (Moeljadi, 2000). Reality shows that majority of small and medium enterprises sector in Republica Democratica de Timor-Leste (Timor Leste) State has not been addressed seriously by government. For example, they did not get funding, even with a relatively small capital. But with hard work of owners, the production process can run, though with relatively slow development due to various obstacle and limited company's individual abilities, particularly with regard to entrepreneurial orientation.

Their businesses are only limited to cope with life need, even most of them still expect to switch to other professions that are considered easier, lower risk, so vision and mission of their business for future is not clear. SMEs with the advantage actually should be exploited. According Pariwocoro (2001), small and medium enterprises is an activity with following characteristics: flexibility in face obstacles in operations can easy to move another business, capital is not always depend on external capital but can evolve with its own capital strength, able to repay the loan with high interest rates. People's economy can be viewed as an economy that organized by ability and potential of community and aimed to improve society welfare. This means that economic development rests on society development which aims to ensure the realization of: (i) community empowerment, (II) increasing the capacity of communities to develop and to cope with changes happened and (III) an increasing society bond as a social economy system. SMEs role is expected by all parties, not just themselves but also by community. Cantilion in 1755 (in Ekualand and Herber, 1990) states that circulation of goods/services were performed by entrepreneurs. Entrepreneur's role also has benefits in developed countries as United State of America (USA). Karatko and Hodgetts (2004: 5) states that "the US success has at least three entrepreneur components (1) large firms; (2) new entrepreneurial companies have been blossoming; and (3) smaller firms have been founded, including many established by woman, minorities and immigrants"

Zimmerer stated entrepreneurship is “applying creativity and innovation to solve the problems and exploit opportunities that people face everyday”. Entrepreneurship is the application of creativity and innovation to solve the problem and attempt to exploit opportunities every day. Entrepreneurship is a combination of creativity, innovation, and courage to face the risk that done by working hard to establish and maintain new business.

Various theories and research in entrepreneurship explain importance the role of entrepreneurial orientation and its impact on business performance (Casson, 1982; Burch, 1986; Hirsch, 1986; Riyanti, 2003; Vitale, 2003; Nurhayati, 2004). Effect of entrepreneurial orientation on business development (venture growth) as measured by growth of sales and growth of profit by Lee and Tsang (2001). Lee and Tsang (2001) identify entrepreneurial orientation consists of following elements: (1) need for achievement (2) an internal locus of control (3) self-reliance, and (4) introversion. Steward et al (2003) also examined the following entrepreneurial aspects : (1) achievement (2) innovation and (3) risk of goal orientation by comparing the attitudes of entrepreneurs in USA with an Russia. Similarly Vitale and Miles (2003) examine the effect of entrepreneurial orientation elements consist of : (1) Innovating, (2) acting proactively and (3) managing risk on performance or growth.

Entrepreneurship reaches all private business activities both large and small, government and state enterprises (Marbun, 1996). SMEs are a type of industry that is able to 'survive' in times of economic crisis. With concept of labor-intensive production, SME is become hope for Developing Countries to improve the condition of economy (Neshamba, 2003). From results of above studies, particularly on SMEs in Timor Leste, it is known that development of SMEs can be said still has not shown superior performance. Low adaptation process to consumers demands make SMEs are not responsive to market demand. It makes SMEs can not develop. Research can be recognized the benefit to practical world if issues raised are based on gap in real conditions of research object with conditions considered ideal by science.

SMEs in Timor Leste have the same problem with other countries. They can not able to demonstrate superior performance in filling/control the existing market niches. Entrepreneur himself as a driver of SMEs is often not able to catch the symptoms of consumer tastes change. According to Glancey, Grey and Pettigrew (1998) it is cause by motivation of individuals to start a business (start-up condition). Individual motivation factor is only based on 'economic pressure' to make businesses, become creative in their business and only have the purpose to get alone, but without having the purpose of business development (growth). In other words, industrial environmental factors were neglected.

Morris (2005) states "that successful entrepreneur generally has competencies of knowledge, skills and individual quality (Quality of Entrepreneurship). Knowledge alone is not enough for entrepreneur, but also must be accompanied by managerial skills, conceptual skills, skills to understand, communicate and relate, skills to formulate the problem and how to act, and use the skill, and other specific technical skills. So it can directly affect on quality of entrepreneurship of member business performance (results of operations), because entrepreneur is a person who always results oriented.

Thurik and Wennekers (2004) stated that government policy to control economy by involving participation of consumer technology and stability will drive business performance. Several empirical studies shown role of government policy on small business performance improvement. Rasiah (2002) stated self-government is proactive in supporting the development of small and medium enterprises in form of public training and providing market information. Sullivan (2002) stated the role of local governments to promote economic development by providing subsidies. Moha Asri Abdullah (1999), Dimitris (2004) stated capital subsidy has significant effect on four dimensions of efficiency, profitability, and capital structure and productivity growth of the company. Stuart (2000) stated that technological cooperative relationship between large companies and small companies can attract customers that can ultimately increase sales. Based on empirical study of entrepreneurial environment in various countries, it shows that countries begin to set rules and regulations that little offering tax and other incentives, sponsoring training and counseling services to entrepreneurial start to rise and new business development (Fund 2001). Longenecker, Moore and Petty (1994) stated that small business success in face of the global crisis and able to grow not only determined by the program and help from government, but the more important is what is inside of business itself namely entrepreneurial aspects. Government role has very large role in promoting SMEs through various policies to boost business performance in SMEs. Government policy may improve the quality of human resources through training in small businesses, strengthening capital by providing ease of access to capital, and encourage partnerships and provide protection against small businesses and thus expect an increase in business

performance. Therefore, authors want to explore government policy variables that measured by three indicators were taken from three previous researchers (Antonio et al., 2003; Dimitris, 2004, and Stuart, 2009) namely frequency of training, access to capital access, and partnerships.

SMEs performance can be improved by research how government role as a moderating variable to improve SMEs performance in Timor Leste. The study is also intended to answer all the challenges and obstacles either now or in future that will be able to provide a very significant contribution to economic development in Timor-Leste.

## **II. REVIEW OF THEORY**

### **Entrepreneurial Orientation**

Michael Harris (2000: 19) stated that "that successful entrepreneur is generally has competencies as knowledge, skills and quality of individual (Entrepreneurship attitude). Knowledge alone is not enough for entrepreneur, but also must be accompanied by managerial skills, conceptual skills, skills to understand, communicate and relate, skills to formulate problem and how to act, and using a skill set, and other specific technical skills. Only have knowledge and skills are not enough. Entrepreneurs should also have attitude, motivation, and commitment to their job. Competence can be defined as knowledge, skills and abilities of individuals that directly affect the results, because entrepreneur is a person who always results oriented. Intellectual capital can be expressed in terms of ideas that are used as the main capital that accompanied by knowledge, abilities, skills, commitment and responsibilities as additional capital. Idea is main capital that will create other capital. Geoffrey G. Meredith, 1996 (in Suryana 2006: 24) stated entrepreneurship traits as confident and optimistic, and result-oriented tasks, take risks and like challenges, leadership, originality, and future-oriented. Arthur and John M. Mempel Kuriloff (1993 in Suryana 2006: 25) reinforce that entrepreneurial characteristics in form of values and entrepreneurial behavior such as commit, moderate risk, see opportunities, objectivity, feedback, optimistic money and proactive management.

### **Government policy**

Dernirbag et al. (2006) concluded that success of small and medium enterprises have a direct impact on economic development both in developed and developing countries. Small and medium enterprise has ability to create jobs with minimum cost. They are pioneers in world of innovation and have a high degree of flexibility that allows the business to meet customer needs (Brock and Evans, 1989; Acs and Audretsch, 2007). This sector has important role that expected to continue with government and stakeholders have a clear reference to factors that affect the business performance improvement. Thurik and Wennekers (2004) stated that government policy to control the economy by involving technology and consumer participation will drive business performance. Several empirical studies show government policy role on small business performance improvement. Rasiah (2002) show self-government is proactive to support development of small and medium enterprises by public training and providing market information. Sullivan (2002) stated local governments promote economic development by subsidies.

### **Business Performance**

Companies performance can be seen from level of sales, profit rate, return on capital, turnover and market share achieved (Jauch and Glueck, 1988). SME growth constraints was come from inherent weaknesses in internal SMEs, namely: lack of knowledge and technology for production, lack of knowledge in marketing and skill constraints in resources (human and financial) and the lack of knowledge and management capabilities (Tambungan, 2009). Sanchez & Marin (2005) measures the performance of small and medium enterprises (SME's) with reference to three aspects, namely profitability, productivity, and market. Profitability aspect sees business performance from point of financial targets achievement as planned by company. Financial goals are generally focused to achieve revenue, profit, cash flow, rate of return on capital employed, rate of return on investment or economic value added. Productivity is based on company achievement in its business activities to meet customer wants and needs, as well as employee's productivity. Business performance is based on market aspects in terms of achievement of product sales, market position and market share.

**III. RESEARCH METHOD**

This is an explanatory research that intends to explain relationship and influences between variables. Quantitative research is used to more emphasis on theories test through measurements of study variables numerically and performs data analysis with statistical procedures test the hypothesis. This research was conducted capital city of Dili, Baucau and Maliana in Timor Leste. Saturated sample was used where all members of the population used as a sample with amount of 275 SMEs. There are 157 questionnaires were collected by response rate is 57.1%. Data Analysis used is Generalized Structured Component Analysis (GSCA).

**IV. RESULT**

This study results is shown in Table 4.1 below.

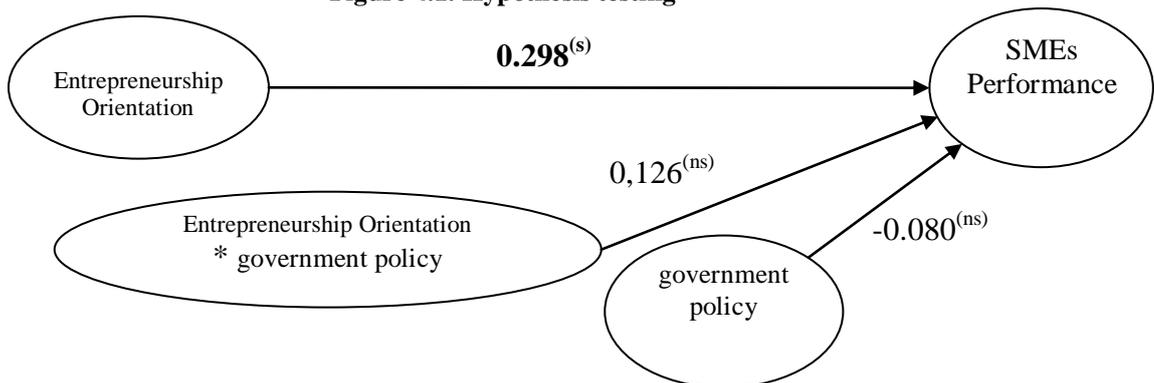
**Table 4.1 Results of Hypothesis Testing**

No	Variables Relationship		Path Coefficient	CR	P	Description
1	Entrepreneurship Orientation	SME Performance	0.261	2.27	0.000	Accepted
2	Government Policy	SME performance	-0.080	0.19 <sup>ts</sup>	0.8496	Non Moderation
	Relationship of Entrepreneurship Orientation* Government Policy	SME performance	0.126	0.29 <sup>ts</sup>	0.7722	

Note: ns = not significant; \* = Significant at  $\alpha = 5\%$

Table 4.1 shows positive relationship between Entrepreneurship Orientation on Business Performance, while government policy was not significant on Business performance. It can explains that government policy does not become a moderation variable. Hypothesis testing can also be presented in graphical form as a path diagram in Figure 4.1 below.

**Figure 4.1. Hypothesis testing**



Note: s = significant, ns = not significant

**V. DISCUSSION**

**Effect of Entrepreneurship Orientation on Business Performance**

Research results show that entrepreneurial orientation has significant effect on Business Performance. This shows that higher entrepreneurial orientation can increase business performance. This result strengthen research of Idrus (1999) that self-confidence, task result oriented, risk takers in form of time, money and health and soul, leadership attitude, authenticity, future oriented, greatly affect on success or performance of a business.

This study results are consistent with research of Moeljadi (1999) who showed that company's internal factors, especially entrepreneurial orientation of employers generally relatively to affect the ability of its business. Holy (2009) shows that entrepreneurial orientation has positive and significant effect on performance

of SMEs embroidery in East Java. Other research of Lukiastuti (2012) also showed that is entrepreneurial orientation has a significant impact on business performance of SMEs Batik in Sragen, Central Java. Likewise Risnawati and Noermijati (2011) argued entrepreneurial orientation have direct effect, positive, and significant on Primary cooperative performance in Palu, Central Sulawesi.

This hypothesis testing results was consistent with Li, et al (2008) that there is a positive relationship between entrepreneurial orientation and firm performance. Furthermore, Giriand Yick Tse (2006) also suggests that there is a positive correlation between the forms of entrepreneurial orientation strategy with performance. Similarly, this results consistent with Lumpkin and Dess (1996), Wiklund and Sheppard in Li, Y., et al (2008) which states that organization's entrepreneurial orientation is desire to improve and support the creativity, flexibility and risk considerations, where entrepreneurial orientation involves a willingness to innovate, take risks, autonomy, become more proactive and more aggressive than competitors to market opportunities. If this behavior or culture within company or organization will create competitive advantage and achieve better performance. Furthermore, Dess et al., (1997) in Benito et al., (2008) states that performance improvement of entrepreneurial orientation is needed in uncertain competitive environment. Similarly, SMEs's entrepreneurial orientation is needed to face global competition in order to improve its performance.

This study reinforces the research of Idrus (1999) that self-confidence, task result oriented, risk takers in form of time, money and health and soul, leadership attitude, authenticity, future oriented, greatly affect on success or performance of a business. This result shows that SMEs in Timor Leste has a good performance in terms of maintaining the quality of products, to meet production targets, produced in accordance with a predetermined time and able to produce a new product on market.

#### **Effect of Entrepreneurship Orientation on Business Performance Moderated By that Moderated by Government Policy.**

Test results proved that effect of entrepreneurship orientation on Business Performance does not moderated by government policy. This shows that government's policy does not become moderating variable and the independent variables are also not affected.

Empirical study of entrepreneurial environment in various countries shows that countries which set rules and regulations with little tax and other incentives, sponsoring training and counseling services to start new business will makes growth in new business (Fund 2001). Research of Sandee et al. (2000) cluster the furniture industry in Jepara (Central Java); giving a conclusion that public intervention has greater contribution to success. Rely solely special assistance scheme for SMEs irrespective of wider environment that is strongly influenced by public policy will create no or small success. This extends the results of research Longenecker, Moore and Petty (1994) that small business success in face of global crisis and able to grow not only determined by program and help from government, but the more important is internal business itself namely entrepreneurial aspects.

Thurik and Wennekers (2004) concluded that government's policy to control the economy by involving the participation of technology and consumer stability will increase business performance. Several empirical studies show government policy role on small business performance improvement. Rasiah (2002) stated self-government is proactive in supporting the development of small and medium enterprises in form of public training and providing market information. Sullivan (2002) stated the role of local governments to promote economic development by providing subsidies. Moha Asri Abdullah (1999), Dimitris (2004) stated capital subsidy has significant effect on four dimensions of efficiency, profitability, and capital structure and productivity growth of the company. Stuart (2000) stated that technological cooperative relationship between large companies and small companies can attract customers that can ultimately increase sales.

Government has a huge role to promote small businesses through a variety of policies to boost business performance in small businesses. Government policy may improve quality of human resources through training for small businesses, strengthening capital by providing easy to capital, and encourage partnerships and provide protection against small businesses and thus expect an increase in business performance in small businesses.

Optimal role of government is realized through a facilitator, regulator and catalyst. As a facilitator, government has a role in facilitating SMEs to achieve the goal to develop SMEs. If SMEs have weaknesses in areas of production, government's job is to give training. For SMEs with fund weakness, government's job is to help find a solution in order small businesses able to obtain necessary fund but must be done carefully. Government role as a facilitator of small businesses can accelerate the process of SMEs development to become

more advanced and have an entrepreneurial spirit to transform into a large business. Government functions as a regulator is to make policies that facilitate SMEs to develop business, maintain a business environment that conducive to investments through interest rates and make the rules of business rivalry. This last function is catalyst to accelerate the growth of small business development.

## VI. SUGGESTION

### Suggestions for the next researcher

- 1) Future research should take a different location in territory of Republica Democratica Timor Leste to get data to describe the overall condition of SMEs in the region.
- 2) Future research should take samples at other types of business because there are many growing SMEs.
- 3) Future research should use good government policy as independent variables as well as a moderating variable to find how large effect of government policy to increase SMEs performance.

### Suggestions for practitioners and government.

- 1) Practitioners should be able to establish good cooperation
- 2) SMEs that spread across the territory of Republica Democratica de Timor-Leste should participate and assist the development of SMEs. Government should always provide aid, policies, and continuous monitoring of the SME business continuity so that it can develop continuously.

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