

**PROFILE AND STATUS OF ENTREPRENEURSHIP ORIENTATION  
AND KNOWLEDGE CREATING SMEs IN INDONESIA**

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**Abstract**

*SMEs have a strategic role in supporting the development of a country from the economic sector, both developing countries and developed countries. In developing countries, SMEs are recognized as engines of economic growth and key contributors to sustainable Gross Domestic Product (GDP) of all countries. Entrepreneurial activities can provide job creation opportunities. Entrepreneurs must have creativity, courage to face risks, dynamism in dealing with problems and understanding opportunities, but they also need direction and wisdom from existing networks. Entrepreneurial orientation can improve organizational performance oriented to knowledge-based resources by focusing on utilizing knowledge resources in exploiting opportunities. In today's competitive competition, where the only certainty is uncertainty, knowledge is considered the main distinguishing factor for business success as seen from the innovation ability of the company. Knowledge creation is considered an asset in competition and success. Knowledge creation and knowledge characteristics are able to stimulate organizational creativity and improve organizational performance. Entrepreneurship orientation and knowledge creation play important roles to build SMEs competitiveness.*

Key words: Entrepreneurship orientation, knowledge creation, SMEs competitiveness

**Introduction**

The target of economic development today is not only the growth of large-scale industry, but also the people's economy. People's economic growth is marked by the development of the small and medium enterprise (SMEs) sector. SMEs have a strategic role in supporting the development of a country from the economic sector, both developing countries and developed countries. In developing countries, SMEs are recognized as engines of economic growth and key contributors to sustainable Gross Domestic Product (GDP) of all countries (Baidoun et al., 2018), including in Indonesia. Entrepreneurship is considered as a solution to overcome economic problems, especially in order to encourage the economy to be able to grow and be able to increase technological development (Dissanayake, 2013; Anis, Christiananta, Ellitan, 2018).

The COVID-19 pandemic as an impact on multi-sectors, the worst impact

is on the public health sector which causes an increasing number of fatalities, other impacts that must be addressed are the economic and business sectors. The tourism sector, trade sector, and industrial sector also had a significant impact. The Indonesian government has begun to impose restrictions with social distancing and physical distancing policies since early March 2020, this has led to a decline in economic growth to minus 2.2% throughout 2020 (Fauzia, 2020). Responding to the disaster, the government still gave a signal that the economic cycle must be maintained. This encourages business actors including SMEs to mapping out what kind of strategy is the most appropriate in an effort to survive and improve their organizational performance in the face of the COVID-19, because during the pandemic it also affects changes in consumer behavior so as to create a new lifestyle (Pramudita, 2020).

Entrepreneurial activities can provide job creation opportunities (Sondari, 2014). This can be used as a belief that when Indonesia experienced an economic crisis that devastated the Indonesian economy in 1998, the economy after that year was felt so heavy for all industrial sectors, but entrepreneurs with business models. SMEs proved to be tough to survive the crisis, even able to grow and develop so that many studies stated that the SME business was the savior of the nation's economy at that time (Permana and Ellitan, 2020). Table 1. shows that the micro and small sector businesses have a contribution to the economic sector and have a role in employment.

**Table 1. Number of Small and Medium Enterprises in 2014 - 2018**

Year	Total of Business Units		Total manpower	
	Number of Business	% Growth	Manpower	% Growth
2014	57.895.721		114.144.082	
2015	59.262.772	2,31%	123.229.386	7,37%
2016	61.651.177	3,87%	112.828.610	-9,22%
2017	62.922.617	2,02%	116.431.224	3,09%
2018	64.194.057	1,98%	116.978.631	0,47%

Source : ADB Asia SME Monitor 2020 database, accessed 26 March 2020

Along with increasing population growth, as well as accompanied by increasing people's purchasing power and changes in lifestyle, which prefer to eat outside the home, the food and beverage business or culinary business is growing and developing (Rapatata, 2014). Each type of small and medium-sized industry has different problems from each other, so that some can develop rapidly, but some are only able to survive and not even a few have to go out of business (Setiawan & Suwarnigdyah, 2014). According to Forbes contributor Neil Patel who is cofounder of Crazy Egg, Hello Bar and KISS metrics, only 10% of new businesses survive and thrive, while the other 90% are created to fail. This paper will discuss about entrepreneurship orientation and knowledge creation of

Indonesia SMEs

### **Entrepreneurship and SMEs Survival**

Entrepreneurship is defined as a process to do something new and or different as an effort to prosper for himself and provide added value to the surrounding community (Kao et al., 2002). Entrepreneurs must have creativity, courage to face risks, dynamism in dealing with problems and understanding opportunities, but they also need direction and wisdom from existing networks. Entrepreneurship is a value creation that uses unique resources to obtain or exploit opportunities, this requires an entrepreneurial event and an entrepreneurial agent. What is meant by entrepreneurial events is everything related to the conceptualization and implementation of a company, while entrepreneurial agents are related to individual or group characteristics regarding the attitude of responsibility to fight for successful entrepreneurial events (Morris & Lewis, 1995). Entrepreneurship has two components, the first is an attitude component related to the willingness of individuals or groups to seize new opportunities and to take on a responsible role to make creative changes, this leads to something that is interpreted as entrepreneurial orientation, while the second component is behavior that is involves a series of activities needed to evaluate opportunities, define business concepts, predict and obtain the necessary resources to run good business processes so as to obtain the expected organizational performance (Stevenson & Jarillo, 1990).

The success and sustainability of entrepreneurship is often linked to the aspect of luck, the weakness that is often done by SMEs business actors is the lack of knowledge resources, the orientation of running a business focuses on technical aspects without considering strategic business aspects (Dewantoro and Ellitan, 2021). In addition, planning is not formally prepared, cost control is not carried out in a structured manner and most decision-making initiatives are only carried out by a few individuals, especially by business owners and are more intuitive in nature (Mile, 2007). Therefore, it is interesting to be able to conduct a study that is able to illustrate the phenomenon in the current context whether entrepreneurs seek the success of an entrepreneurial activity connected through a strategic management approach. The rate of business failure is higher if the implementation of a formal strategy is not carried out (Castrogiovanni, 1996), without a clear or formally structured strategy, the business has no basis in ensuring business continuity to create and or maintain a competitive advantage.

As a science, strategic management was pioneered by universities in the United States, namely the University of Pennsylvania and Harvard University. Strategic management was originally referred to by Harvard University as a policy (policy), which was interpreted as the direction of the company or the direction of the business itself. Until the early 1970s, the approach used in the study of strategic management was cross-disciplinary (Rumelt et al., 1994). The field of strategic management is dominated by two theories, the first is the theory developed by Porter in the 1980s regarding the theory of Industrial Organization or called Industrial Organization (I-O). In the I-O view of industrial

environmental factors as a determinant of an organization's competitive advantage (Porter, 1981). The second theory is the theory developed by Barney in the 1990s, namely the Resource-Based View (RBV) theory, this theory argues that organizational resources are a determinant of an organization's competitive advantage. In RBV theory, organizational performance depends on the internal resources of the organization (Barney et al., 2001). Resources are classified into two parts, the first is tangible resources which include capital, assets and other facilities, and the second is intangible resources which consist of knowledge, skills and reputation resources (Barney et al., 2006). Accuracy in formulating, implementing and controlling a strategy greatly impacts organizational performance.

Performance is a measure of the success achieved by the organization which is measured within a certain time (Lawler, 2000), performance is also an indicator of the success of a manager/business actor, because performance is the impact achieved by the organization as a result of the behavior of members in an organization (Gibson & Astana, 1998). In general, the performance of a company is measured from the financial aspect which includes the amount of profit achieved, the rate of return on investment (ROI), the rate of return on assets (ROE) (Denison & Mishra, 1995 Ellitan, 2018) Performance can also be measured through non-financial aspects, among others measured through sales growth rate, production cost improvement rate, and work productivity improvement rate (Prieto & Revilla, 2006), or measured through market share, acceleration of new product launches, product quality, marketing effectiveness and customer satisfaction (Carton & Hofer, 2006).

Pestigating the influence of entrepreneurial orientation on the performance of SMEs is a concern for research, because every effort or action that involves decision making must begin with an interest or orientation to do so. Entrepreneurial orientation can be a way of measuring how a company is organized, and is an important entrepreneurial contribution to organizational performance (McGrath, 1996). Entrepreneurial orientation can increase the performance benefits of knowledge-based resources owned by the company (Wiklund & Shepherd, 2005). Several determinants of entrepreneurial orientation can come from the external environment, as well as from internal organizational (Covin & Slevin, 1991). Entrepreneurial orientation is a way to find out how management/entrepreneurs can exploit existing opportunities. Dimensions of entrepreneurial orientation include innovativeness (ability to innovate), proactivity (proactive), and propensity for risk taking (tendency to take risks) (Miller, 1983).

The managerial process of a company that is able to achieve a superior position compared to its competitors can be caused by the entrepreneurial orientation of management/entrepreneur (Puspita, Christiananta, Ellitan, 2020). Covin & Slevin conducted two studies at different periods with different results. Entrepreneurial orientation which is explained through innovation, risk taking and proactive attitude of top management/entrepreneur has a significant correlation to performance (Covin & Slevin, 1986), other empirical research found that entrepreneurial orientation is not significantly correlated to

organizational performance (Covin et al., 1994). ). Entrepreneurial orientation with profitability and company growth has a significant relationship (Zahra, 1991). Entrepreneurial orientation can improve organizational performance oriented to knowledge-based resources by focusing on utilizing knowledge resources in exploiting opportunities (Wiklund & Shepherd, 2003), This is possible because entrepreneurial orientation facilitates organizational efforts to act on information from the internal and external environment (Lumpkin & Dess, 1996).

### **The Role of Knowledge Creation**

Knowledge and the ability to create and utilize knowledge are considered the most important sources of competitive advantage for companies. Knowledge is a “dynamic human process in which there is a justification of personal belief in truth.” Knowledge is also relative to a given situation. "Without a context, knowledge is only information, or in other words it is not knowledge." In order to create knowledge, individuals perform social interactions. According to Nonaka (1994) there are two types of knowledge contained in every organization, namely tacit and explicit knowledge.

Tacit knowledge includes mental models, beliefs, and persuasion of everyone in the organization. This tacit knowledge resides within the individual and is difficult to express in words. Tacit knowledge can also be seen as knowledge contained in organizational culture, for example motivation and adaptability shown by workers who work in a particular company culture, such as ideas, perceptions, and ways of thinking. Meanwhile, explicit knowledge is knowledge that can be codified, shared, and communicated to others. Explicit knowledge can be expressed in words and numbers, disseminated in the form of data, specifications, and manuals. Examples are books, reports, documents, letters and so on. One of the most well-known theories of organizational knowledge formation is the Nonaka & Takeuchi knowledge creation process model or better known as the Nonaka's Spiral of Knowledge model. According to Nonaka & Takeuchi,<sup>4</sup> knowledge creation occurs through a process of converting tacit knowledge to explicit; and the process is by means of socialization, externalization, combination, and internalization (SECI).

Knowledge is the result of one's reflection and experience, so that knowledge is always owned by individuals or groups. Knowledge is interpreted in language, rules and procedures, and concepts (Irma & Rajiv, 2001). There are two critical dimensions in understanding knowledge in an organizational context, namely knowledge in the form of tacit and explicit knowledge. Tacit knowledge is defined as knowledge gained from various experiences and is difficult to define, and generally this knowledge is shared through discussion or stories. Tacit knowledge is defined as knowledge that is personal, tends to be specific, and generally difficult to formalize and communicate to other individuals (Ellitan & Muljani, 2019). Explicit knowledge is knowledge that has been formulated, generally presented in writing. In organizations the process of sharing knowledge can help in terms of achieving organizational goals. Explicit knowledge is also understood as knowledge that can be transformed in a formal and systematic form

(Nonaka & Takeuchi, 1995).

In today's competitive competition, where the only certainty is uncertainty, knowledge is considered the main distinguishing factor for business success as seen from the innovation ability of the company (Nonaka, 1994). Previous research confirms that effective knowledge management can facilitate the communication and exchange of knowledge needed in the innovation process, and further enhance innovation performance through the development of new insights and capabilities (Argote et al., 2003; Nonaka & Takeuchi, 1995). Knowledge management can play an important role in supporting innovation as part of an entrepreneurial orientation (Huang & Tsai, 2009). The effectiveness of an organization to act in a radical way is highly dependent on how the organization acquires and utilizes new sources of information (Nonaka, 1994). New knowledge has a positive effect on improving organizational performance from past conditions by allowing organizations to use information to control operations and exploit knowledge as a source of more innovative strategic responses to changing market opportunities (Zuboff, 1988).

### **The Importance of Integration of Entrepreneurship Orientation and Knowledge Creation in Building SMEs Survival**

Business success is influenced by several factors, one of which is how the business is able to make a plan in managing the company, as a beginner it requires a knowledge creation process to ensure increased performance and sustainability of the business. Knowledge creation is considered an asset in competition and success (Nonaka and Takeuchi, 1995). Knowledge creation and knowledge characteristics are able to stimulate organizational creativity and improve organizational performance (Chung, 2019). Companies with knowledge management capabilities will use resources more efficiently and be more innovative and perform better (Darroch, 2005).

Zubielqui et al., (2019) in their research empirically shows the importance of knowledge creation to improve the performance of SMEs and at a certain company scale level, knowledge creation contributes to organizational performance (Omerzel et al., 2011; Vidic, 2018) while Mehralia et al. , (2018) concluded that the creation of knowledge measured through the dimensions of socialization, combination, internalization and externalization did not have a significant relationship to company performance measured through the BSC perspective, namely financial, customer, internal business processes and learning & growth. Alharthy, (2018), empirically shows that knowledge creation has a positive effect on organizational resilience capability, also shows that organizational resilience capability has a significant positive effect on organizational performance, but the relationship between knowledge creation, especially on the dimensions of adoption ability and organizational performance is not significant in the context of banking companies. in Saudi Arabia.

Muthuveloo, (2017) conducted research on the manufacturing industry in Malaysia where the results of the analysis showed that tacit knowledge management had a significant effect on organizational performance, but among the four dimensions, namely socialization, internalization, externalization and combination, only socialization and internalization contributed to the influence

significant to organizational performance. The spread of Covid-19 which has a serious impact on the economy and purchasing power. This study will also analyze the significance of entrepreneurial orientation and social capital as exogenous variables and knowledge creation as a mediator in influencing the performance of culinary business organizations at this time.

The effect of entrepreneurial orientation on performance in several previous studies has different results, especially differences in the effect of each dimension of entrepreneurial orientation on performance. Social capital that describes the social relationships of business actors certainly has a different effect on performance if you pay attention to the context of place and time, this is reflected in previous research that has been described previously. Knowledge creation in this study is a mediating variable between entrepreneurial orientation and social capital on organizational performance, the context of the type and size of the organization and the context of location/country are the differences proposed in this study.

Entrepreneurial orientation related to innovation ability has a positive effect on non-financial business performance (Cho & Lee, 2018); entrepreneurial orientation is a strategic pillar that has significant implications for better performance for organizations (Criado et al., 2018). The results of research conducted by Semrau et al., (2016) show that all dimensions of entrepreneurial orientation which include innovation, proactiveness and willingness to manage risk have a positive and significant effect on the performance of SMEs, but not all dimensions of the entrepreneurial orientation variable have a significant influence on the performance of SMEs. organizational performance, research conducted by Cho & Lee (2018) states that innovative and progressive affect non-financial business performance, but the tendency to take risks does not affect financial business performance and non-financial business performance.

The majority of research states that business orientation can improve organizational performance (Murphy & Callaway, 2004; Murphy et al., 1996; Gupta & Govindarajan, 1984; O'Shea et al., 2005; Covin and Slevin, 1989; Miller, 1983; Zahra , 1993; Cho & Lee, 2018; Criado et al., 2018; Semrau (2016), but Auger et al., 2003 and Madhoushi (2011), did not find a significant relationship between entrepreneurial orientation and performance, Hart (1992) instead proves that entrepreneurial-type strategies can worsen organizational performance, Miller and Friesen (1982) warn that excessively increasing entrepreneurial orientation can be detrimental to company financial performance

.Entrepreneurial orientation has a significant impact on organizational performance when it gets the mediating effect of other variables, Peng & Lin (2017) uses dynamic capability variables in the form of absorptive capacity and boundary-spanning as mediating variables, and the results of the study show the relationship of entrepreneurial orientation and organizational performance gets stronger when receiving the mediating effect of the absorptive capacity variable, while the mediating effect of the boundary-spanning variable actually weakens it. Joeng et al., (2019) examined the direct and indirect effects of entrepreneurial orientation on organizational performance, the knowledge creation process was operationalized as a mediating variable to explain the relationship between

entrepreneurial orientation and organizational performance. The results of another study indicate that the significance of the direct effect of entrepreneurial orientation on organizational performance is reduced when the indirect effect of entrepreneurial orientation through the knowledge creation process is included in the total effects model; consequently, entrepreneurial orientation is positively related to organizational performance, and the knowledge creation process plays a mediating role. in this relationship (Li et al., 2009).

## **Conclusion**

From the discussion and the results of previous studies, it shows the role of entrepreneurial orientation in building the competitiveness and survival of SMEs. SMEs actors need to have mutual trust, commitment and an optimistic attitude. The high level of competition in SMEs is marked by the actions of competitors attacking each other through prices, promotions and products, so that profits are running low, and capital is increasingly limited. This requires a high entrepreneurial orientation in dealing with it. The relationship between entrepreneurial orientation and the creation process is mutually reinforcing in creating business performance. For this reason, SMEs actors need to share information among their fellow employees in the process of creating knowledge with business performance, meaning that the process of learning by doing, sharing knowledge and transferring knowledge is a must for SMEs actors to be able to increase their aggressiveness in seeking information on market conditions, current consumer needs, to deal with competitors' actions. Knowledge creation provides opportunities for companies to increase efficiency and maintain competitive advantage.

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