The Effect of Entrepreneurial Orientation and Network Capability on Business Performance with Government Policy as a Moderation Variable (Study on Export Orientation SMEs in Malang)

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This article examines the effect of Entrepreneurial orientation and network capability on business performance. This study used a partial least square (PLS) analysis with data from SMEs that are export oriented in Indonesia, specifically in Malang. Entrepreneurship orientation and network capability have a significant positive effect on improving SME business performance. However, government policies do not support entrepreneurial orientation policies and network capabilities in SMEs, resulting in the inability to regulate entrepreneurial orientation policies and network capabilities on UKM business performance in Malang.

Introduction

Entrepreneurs are very much needed in the life of society, the nation and the state. The existence of entrepreneurs in a country means that the economy for each country has good economic indicators, which are characterised by field work, increased income, increased prices, and higher export volumes than import volumes (Balance of Payments Surplus). For this reason, in a country the number of entrepreneurs is 2% of the total population (Kominfo, 2017).

One of economic sector is contributing to develop Small and Medium Enterprises (SMEs) in Indonesia. It was recognised that SMEs play a very important role in economic growth because they also follow many characteristics from large businesses. One of them is because UKM is a dense business, exists in all locations, is more dependent on local materials, and is the main provider of goods and services for basic needs of the community related to low or poor (Sahban, 2015). Small and Medium Enterprises (SMEs) are business organisations, with certain requirements, where entrepreneurs take part in producing goods and services to meet consumer needs. The number of SMEs was increase the number of Indonesian SMEs in the largest number of SME development. The number of SMEs in Indonesia is very significant and increased from 53,823,732 in 2010 to 55,206,444 in 2011). However, it is seen from their performance shows that an existence with less encouraging because it has not optimal performance in UKM in Malang Regency (Local Government of Malang Regency, 2017). This phenomenon is the research problem of this study.

Some studies of variables that affect business performance of SMEs, such entrepreneurial orientation (EO), which has been proven by Acosta et al. (2018); Arshad et al. (2014); Zhang and Zhang (2012); Soares et al. (2014) and; Irwin et al. (2018) show that entrepreneurial orientation (EO) has a positive and significant effect on the business performance of SMEs. SMEs who have innovative behaviour and who are risk taking and proactive will increase their competitiveness and obtain better performance.

Another variable observed in this study is network capability (NC). The study conducted by Acosta et al. (2018) showed that network capability has a positive and significant effect on SME business performance. SMEs must make network capability (NC) a key factor in the success of internationalised SMEs that affects the performance of SMEs.

The above phenomenon, an existence for two variable antecedents (EO and NC), which has a positive and significant influence on the businesses performance of SME, provides research opportunities for how to improve the role of two antecedent variables. The solution to be carried out in this study is to make government policy (Government Policy / GP) make a moderator variable.

The studies of Zacca et al. (2014); Acosta et al. (2018) and; Walter et al. (2006) showed that the EO variable had a positive and significant effect on the NC variable. But, studies from Zacca et al. (2015) and; Parida et al. (2017) showed that NC has a positive and significant effect on the dimensions of EO. These two reciprocal theoretical findings indicated a theoretical research opportunity (theoretical gap). This also suggests a theoretical gap as the second research gap. For this reason, researchers will prove this reciprocal relationship.

Theoritical Framework

Company performance, which in this case is related to the performance of SMEs into empirical and theoretical multidimensional constructs has been studied in a number of research studies (Hakala, 2013; G Tom Lumpkin and Dess, 1996; Ray, Barney, and Muhanna, 2004 in Huseinet et al., 2017). In general, there are two approaches used to measure organisational performance: subjective and objective. Measurement of subjective performance is based on self-reporting, while objective measures are based on financial data. Ellis (2006) in Husein et al. (2017) suggest that it was used by subjective measures of company performance rather than objective measures, with the criterion to provide accurate and consistent results. In addition, Jabeen and Mahmood (2014) argued that company owners / managers are often unwilling and hesitant to provide financial data relating to business matters. Given these facts, this study was adaption on non-financial indicators from Kirca et al. (2005) said that to measure company performance as follows customer satisfaction, employee satisfaction, innovation, and growth. Cocca and Alberti (2009) reviewed a framework for assessing performance measurement systems in SMEs. The framework was included in three categories such as performance measures, overall performance measurement systems, and performance measurement processes. Successful SMEs are shown by several indicators (Unger et al., 2011), namely (1) Size; (2) Growth; and (3) Profitability.

Stevenson and Jarillo (1990) analogised the study of Entrepreneurial Orientation (EO) concepts of entrepreneurial management, reflecting the processes, methods, and organisational styles on acting in an entrepreneurial manner. Dess and Lumpkin (2005) stated that companies who actually want to increase the success of corporate entrepreneurship must be entrepreneurial oriented. Entrepreneurial Orientation (EO) is a characteristic at the company level because it reflects on company behaviour (Covin and Slevin, 1989; Miller, 1983). More specifically, Miller (1983) introduced a specific dimension of entrepreneurial orientation over three dimensions: innovativeness, proactiveness, and risk taking. This research was an adoption of the concept and measurement of Entrepreneurial Orientation (EO) put forward by Miller (1983); Covin and Slevin (1989); and Kreiser et al. (2002) because they are relevant to the research context that will be carried out in SMEs. Thus, it can be said that SMEs with Entrepreneurial Orientation (EO) are SMEs who are willing to innovate, be proactive in looking for new opportunities, have the courage to take business risks including ability, innovation, and the courage to carry out export activities. Some studies also concluded that Entrepreneurial Orientation (EO) has a positive influence on improving the performance of SMEs (Arshad et al., 2014; Irwin et al., 2018; Husein et al., 2017; and Zhang and Zhang, 2012; Acosta et al., 2018; Soares et al., 2014).

Based on this, the research hypothesis proposed is as follows:

H1: Entrepreneurial Orientation (EO) has a significant positive effect on improving the business performance of SMEs

A company's ability must be considered and plays an important role in the ability of the network (network capabilities). It will allow the company to coordinate and collaborate between companies, obtain market knowledge or information from external parties, and to have fast internal communication processes (Zhang and Zhang, 2012). Network capability business refers to the ability demonstrated by a set of two or more connected business relationships in which each exchange relationship is between business companies that are conceptualised as collective actors' (Emerson, 1981 in Kenny and Fahy, 2011)). To emphasise the ability of the network, Kenny and Fahy (2011) in their study used network theory. Using a network perspective as a framework, several key elements of this perspective required further elaboration in the context of this research. As a result, this section deals with concepts of integration, organisational size, the role of trust, learning and exchange of knowledge / information.

In addition, Covin and Slevin (1991) in Zhang and Zhang (2012) asserted that the strength of the relationship between EO (Entrepreneurial Orientation) and business performance will depend on the extent to which organisational capabilities support the EO. This showed that the more levels of network capability increase, the more positive the contribution of Entrepreneurial Orientation (EO) to business performance. Kenny and Fahy (2011) in their study concluded that the ability of a good business network in a company will help the business develop well to an international level. This is also supported by Zaccaet al. (2014), Walter et al. (2006), and Acosta et al. (2018).

Based on theoretical and empirical description, the following research hypotheses can be proposed:

H2: Business network (NC) capability has a significant positive effect on SME business performance

The government, both directly and indirectly, has quite a crucial role in the formation and improvement of company performance, especially SMEs that have an export orientation. CNN Indonesia in its coverage on April 13, 2018 reported that the government together with Bank Indonesia established four policies to encourage export-oriented industries. The policy was expected to encourage faster and better economic growth. The policy indicators are described as follows:
a. Providing ease between licensing and fiscal incentives for export-oriented industries, especially in the regions.

b. Reducing logistics costs in the domestic industry through increased capacity and efficiency of connectivity, water and electricity infrastructure.

c. Improving the quality of human resources through strengthening cooperation between industry and educational institutions, then providing incentives in the form of super deduction.

d. Expanding national industrial export markets by increasing bilateral and multilateral cooperation agreements through accelerating the negotiation process of cooperation agreements with large markets and exploring non-traditional new markets.

Doh and Kim (2014) in their empirical study suggested that government support can improve the ability of SME innovation in Korea. The government assistance policy which is proxied by technology development assistance funds is proven to be able to influence SME innovation as one of the dimensions of entrepreneurial orientation. So, it will impact on improving the business performance of the SME. This was also stated by Shamsuddoha et al., (2009) who said that government assistance was associated with market development significantly, both directly and indirectly, influenced the process of internationalisation of SMEs. It can be said that government policy will strengthen the ability of SMEs to improve / expand their business networks so that SMEs will be able to perform well.

Based on theoretical and empirical reviews the research hypotheses are:

H3: Government policy moderates the effect between Entrepreneurial Orientation (EO) and business performance of SMEs

H4: Government policy moderates the effect between network capabilities and business performance of SMEs

Methodology

This research used explanatory research with a quantitative approach. The approach is positive with features prioritising theory and previous research to build a framework of concepts and hypotheses. It used a quantitative analysis tools and prioritised the generalisation of research results. This research will only focus on UKM in Malang with several considerations. First, an extent of the object of research (UKM East Java) and the sample is only in the area of Malang Regency. It has hoped that by focusing on one particular area the research will be more in-depth. Second, it was easy to implement, considering that the location of SMEs in the Province of East Java is very large, so funds are organised and energy, costs, and time can be eliminated. Third, researchers are already familiar with the study area. The study population was all SMEs registered in the Malang District Industry Office that are export oriented. The total number of SMEs registered in Malang Regency is around 170 (result of an interview with Malang Regency Industry Office, 2019). However,

there are only 62 export-oriented SMEs in the field. The database consists of 62 SMEs that received incentives or participated in workshops or network events organised by the government to stimulate the internationalisation of companies. Data collection consists of three stages; first, contact all SMEs to ensure that they are eligible and willing to participate in our research. Second, schedule an on-site visit to collect data. Third, trained surveyors visited SMEs for interviews and data collection. To avoid miscommunication, the surveyor contacted by SMEs one week before the site visit.

Partial Least Square

To test models and hypotheses, this study used Partial Least Square (PLS) analysis, which provides a powerful solution to maximise the variance of latent bound variables. PLS was a powerful analytical method because it accommodates data between various size scales and can also be used for small sample sizes, at least recommended ranges from 30 to 100. PLS automatically outputs in the form of a complete path diagram with direct influence from path coefficient and also provides an equipped table of indirect effects and indirect effects simultaneously, which can reduce the risk of users making mistakes in quoting or drawing errors in their output. PLS were open of source software used to design PLS tests with path modelling and latent variables. To evaluate SEM, this tool includes two sets of linear equations such as assessment of the outer and inner models. Evaluation of external models are involved in testing the reliability of each individual measurement and to ensure the reliability of internal consistency in the model (Henseler and Sarstedt, 2013). The coefficient of determination (R^2) refers to the amount of variance explained for each endogenous latent variable and is considered as the main criterion for the assessment of the inner model (Hair et al., 2012).

Moderation Test

To examine the moderating effects of government policy, this study uses interaction terms that include moderation and independent variables (Henseler, 2012). The structural equation model interaction approach involves entrepreneurial orientation ($X1$), network capability ($X2$), and government policy (Z), which includes a combination of entrepreneurial orientation and network capability as independent variables, then government policy as moderating variables. The concept of moderation effects implies a change in the relationship between independent variable and dependent variable on the moderating variable account. The moderation effect occurs if the moderating variable changes direction of the relationship between dependent and independent variables (Baron and Kenny, 1986).

The moderation effect is also known as the interaction effect which involves the interaction between two independent variables. Interaction occurs when the two variables interact, if the

effects of one variable are different depending on the level of the other variable. The interaction effect is applied in correlation and experimental data, but the moderation effect is more relevant for models that test causal hypotheses. Specifically, the moderating effect requires a background of causal theory before data analysis (Wu and Zumbo, 2008). To explain the effects of moderation on the relationship between entrepreneurial orientation (X1) and business performance (Y), the interaction approach in the structural equation model was involves between entrepreneurial orientation (X1) and government policy (Z), which includes a combination of X1 as an independent variable and Z as a moderating variable. Likewise, with the moderating effect on the relationship / influence of network capability (X2) and business performance (Y), the interaction approach will involve the network capitalisation and government policy, which includes X2 as an independent variable and Z as a moderating variable.

Results

Characteristics of Respondents

Based on the age of respondents, the majority had an age of 50-59 years with a percentage of 40% compared to the percentage of ages > 60 years being only 6%. It can be concluded that the SMEs who have exported more are in the productive age, which is 94% of the rest which are unproductive ages (over 60 years old) are only 6%. If seen from the education level, the majority of respondents have education levels up to tertiary level with a percentage of 63% compared to other levels of education (elementary, junior high, and high school) at only 47%. It can be concluded that current SMEs have been oriented towards getting higher education. Based on the length of time working in UKM, the majority of research respondents have worked for 10-19 years with a percentage of 44%. This shows that SMEs have been in business long enough, so they have gained a lot of experience and can be used to running a business.

In addition, based on the participation of SMEs in the SME community, the majority of respondents are members of the SME community with a percentage of 79% compared to 21% of those who are not affiliated. This shows that there are many SMEs who realise an importance to join a community. SMEs can also get broad insights from the community. The majority of products exported by respondents are handicrafts with a percentage of 40%. This shows that consumers from abroad have a high interest and enthusiasm to buy handicraft products produced by SMEs in Malang, with an average of most SMEs in Malang starting their export activities around 2015-2019. Most export SMEs in Malang (with a percentage of 40%) carry out their export activities 1-3 times a year with a net profit of less than 60 million per year. Around 63% of the export destination markets are in Asia because the Asian region

has similar characteristics to those of Malang City so it is easy for SMEs to export to these countries.

PLS Analysis Results

To test the consistency of many items on the research instrument according to the respondents' assessment several tests were used, such as composite reliability, Cronbach alpha value, and average extracted variance (AVE). The construct was declared reliable if the composite reliability value and a Cronbach alpha value are above 0.70 (Ghozali, 2008) and the average value of the extracted variance is above 0.6. Based on the test results, it was known that the entrepreneurial orientation, network capability, business performance, and government policy variables have a composite reliability, an alpha Cronbach size greater than 0.70 and extracted variance average value of more than 0.6. Entrepreneurial orientation, network capability, business performance, and government policies mutually reinforce their latent variables or are able to measure their latent variables (see Table 1).

This research developed a structural equation model that represents the results of the variable moderation test. In PLS, the main criterion for assessing the inner model is to use a coefficient of determination (R2) that describes that the total variance and is explained by each latent endogenous variable. The test results show that the entrepreneurial orientation variable has an influence with the predictive power of the whole model of 0.812 or 81%, the network capability variable has an influence with the predictive power of the whole model of 0.917 or 92%, the business performance variable has an influence with the predictive power of the whole model of 0.860 or 86%, and government policy variables have an influence with the predictive power of the whole model of 0.828 or 83% (see Table 1).

In addition, testing of the inner model can also be seen from the evaluation of predictive relevance of Stone-Geiser Q-Square test for predictive relevance. Based on the Q-Square test t a value greater than 0 (zero) means the model has a predictive relevance, while a Q-square value less than 0 (zero) indicates that the model has less predictive relevance (Ghozali, 2008). The Q-Square results above indicated that the model has predictive relevance, because it has a value of 0.643 or greater than 0 (zero) meaning the model is very good to use it.

Table 1: Composite Reliability and R2 Test Criteria

| Variables	Composite Reliability	Cronbach's Alpha	AVE	R square
Entrepreneurial Orientation (X1)	0.872	0.708	0.773	0.812
Network Capability (X2)	0.885	0.840	0.608	0.917
Business Performance (Y)	0.852	0.846	0.686	0.860
Government Policy (Z)	0.871	0.703	0.771	0.828

To test the hypothesis proposed to find out what variables have significant influence, the p-value is determined. If the p-value is less than 0.05, then H0 is accepted or called significant and vice versa, if the p-value is greater than 0.05, then H0 is rejected or is insignificant. PLS output results show that the direct influence of entrepreneurial orientation on business performance with an estimated value of 0.320 and alpha < 0.01. This indicated that Hypothesis 1 was accepted. The output also proved that Hypothesis 2 is accepted. Network capability has a significant effect on SME business performance with an estimated value of 0.410 and alpha < 0.01 (see Table 2).

To assess the moderating effect of government policy variables (Z) on the relationship between entrepreneurial orientation (X1) and business performance (Y) as well as on network capability (X2) and business performance (Y) (hypotheses 3 and 4) relationships, PLS provides an interaction approach by adding the interaction terms X1 x Z and X2 and Z to each path. The results show that the interaction between entrepreneurial orientation and government policy has an estimated value of -0.092 and an alpha value of 0.389, hence H3 is rejected. Likewise, the interaction of network capability and government policy shows an estimated value of 0.045 and an alpha value of 0.635. This indicates that H4 was rejected (Figure 1).

Table 2: Hypothesis Test

Variables	Estimation values	Alpha (P.Value)	Significant
X1 → Y	0.320	< 0.01	Significant
X2 → Y	0.410	< 0.01	Significant
X1 * Z → Y	-0.092	0.389	Not Significant
X2 * Z → Y	0.045	0.635	Not Significant

Figure 1: Estimation Model
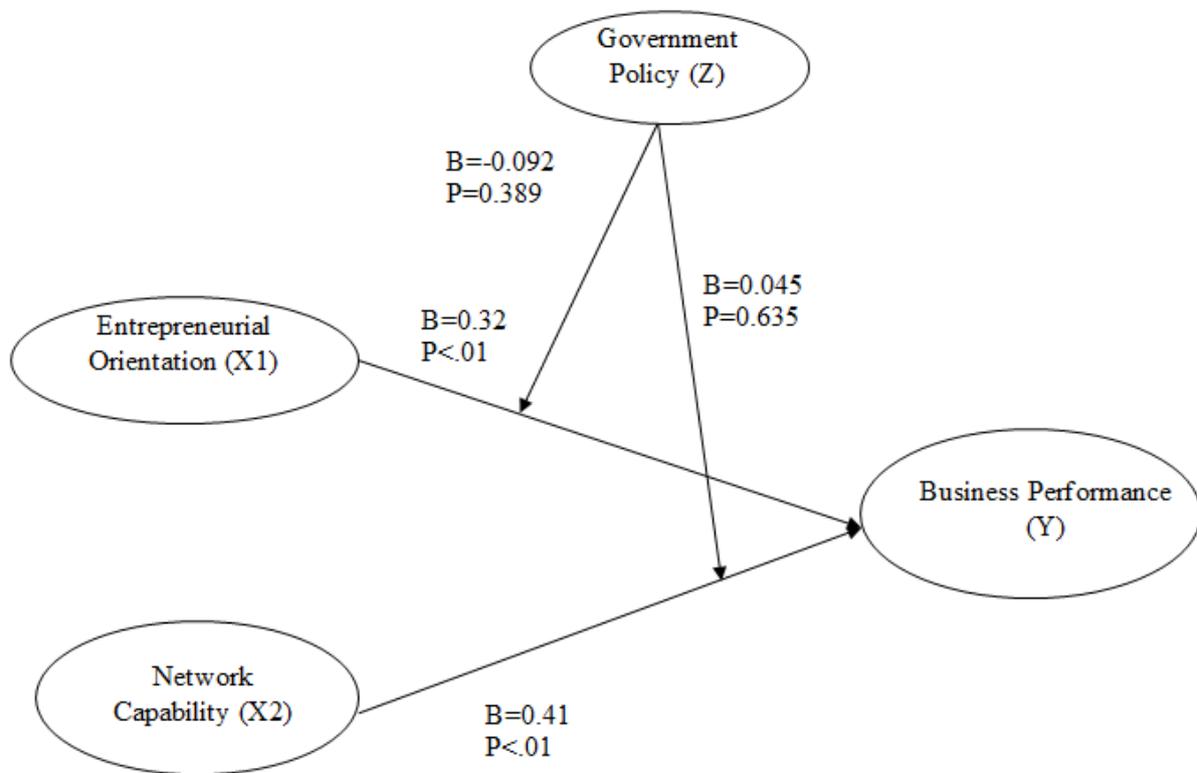
Discussion

This study analyses the SME activities in Malang and provides empirical data showing entrepreneurial orientation has a significant direct effect on SME business performance. This gives an understanding that a higher entrepreneurial orientation of business actors can improve business performance. Innovativeness indicators have the highest contribution in the formation of entrepreneurial orientation constructs for business actors. This finding supports studies conducted by Acosta et al. (2018); Arshad et al. (2014); and Zhang and Zhang (2012). Therefore, if SMEs with an export orientation can be innovative and proactive in developing strategies and accepting risk, they will provide better business performance, such as increased profitability and productivity and the development of a wider market.

This research also shows that empirical evidence on network capability is formed by four indicators: coordination, relational ability, knowledge of partners, and internal communication and that these also have a direct influence on the business performance of SMEs. This shows that a process of coordination and internal communication carried out by business actors, so a business performance will be directed. In addition, accurate SME knowledge of its business partners and qualified relational capabilities will also have an impact on increasing productivity, profitability, and market domination of the SMEs

concerned. This finding supports the findings of studies conducted by Zacca (2015); Ajayi (2016); Kenny and Fahy (2015); Papastamelou (2016); (Acosta et al., 2018); and Weerawerdana et al. (2007) which also stated that network capability is a deciding factor in the acceleration of SME internationalisation.

The role of government policy variables as moderating variables is characterised by an interaction test between government policy variables with entrepreneurial orientation and network capability. The analysis shows that there is no strong evidence that government policies strengthen the influence of entrepreneurial orientation on the performance of export-oriented SMEs in Malang, as well as the influence of network capability on business performance. So, it can be said that government policies are not able to moderate the influence of entrepreneurial orientation and network capability on the business performance of SMEs. If seen from the negative value of the interaction coefficient between entrepreneurial orientation and government policy, government policy weakens the influence of entrepreneurial orientation on the business performance of SMEs. This is juxtaposed with research conducted by Lin, et al. (2014) which stated that resources related to government policies, such as funding, can have a negative impact on the business performance of incubator institutions in China. This means that more government policy resources are, the less likely the incubator will develop operational and network capabilities needed for the performance on the incubator service. The results of this study contradict Ntiamoah et al. (2016); Enioala and Entebeng (2015); Njinyah (2018); Hoque (2018); and Ibrahim (2017).

This can occur because some SMEs argued that sometimes government policies related to SMEs do not see the needs of SMEs, such as coaching policies for SMEs. Most coaching in the form of training provided by the government is not in accordance with the needs of SMEs, so training is carried out only to a minimum to fulfill responsibilities. In addition, the training process is not finished completely, which sometimes does not pay enough attention to evaluation / monitoring and sustainability programs from the implementation of the training. The results of interviews with respondents also showed that the implementation of training programs provided by several government agencies often occurred at the same time, this resulted in the hesitation and confusion of SMEs to follow. The results of interviews with 12 export SMEs show that the ability and success of export SMEs in increasing their sales volume is largely supported by information technology such as the use of social media, websites, and other information media, so that most export activities are carried out directly from export SME producers to customers / buyers.

Implication

Associated with the development of science, the results are effect on entrepreneurial orientation and network capability on the business performance with organisations.

Government policy moderator variables have produced several theories such as that if entrepreneurial orientation has a positive and significant effect on business performance, then network capability has a positive and significant effect on business performance from government policies. It has not strengthened by the influence between entrepreneurial orientation and the performance of export SMEs, nor has government policy strengthened the influence of network capability on export performance (there is no statistical evidence of government policy to strengthen the influence of entrepreneurial orientation and network capability on business performance).

For policy holders (practitioners and other stakeholders) this research provides several practical contributions, among others, to improve the concept of entrepreneurial orientation. It is necessary to pay attention to the proactive attitude towards the introduction of new ways to produce goods and to be proactive in introducing new technologies in processes. Eventually, innovations in production systems can improve network capability conceptually, so it is important to consider developing informal relationships with partners, taking consideration before working with potential partners and exchanging information between departments.

However, this research also has limitations and did not tested the role of IT (information technology) on the performance of export SMEs. In the era of the Industrial Revolution 4.0, information technology also affected the development of export SMEs and there was no accurate data related to the number of export SMEs either at the Municipality and Regency level.

Conclusion

The effect between entrepreneurial orientation and network capability on the business performance of organisations with government policy moderator variables. It was shown that entrepreneurial orientation and network capability have a direct effect on the performance of SMEs, which shows that the higher the level of entrepreneurial orientation and ability of the organisation network of SMEs, the greater the opportunity for SMEs to have a good business performance. However, government policies are not able to strengthen the influence between entrepreneurial orientation and network capability on SME performance. So, it is concluded that government policy does not have a moderating role on the effect between entrepreneurial orientation and network capability on business performance SME in Malang.

For future research, it should be use many information technology data by export SMEs in the export SME business activities and needs to be included indicators of the sustainability of government policies related to the sustainability between the implementation of training and business development of export SMEs. Meanwhile, SME activists should pay attention to

how to produce goods, new technologies and innovations in production systems for the purpose of enhancing entrepreneurial orientation, as well as paying attention to the development of informal relationships with partners, taking into consideration prospective partners, and exchanging information between departments for the purpose of improving network capability.

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