

THE ROLE OF COMPETITIVE ADVANTAGE MEDIATION IN THE RELATIONSHIP OF ENTREPRENEURSHIP ORIENTATION, BUSINESS STRATEGY, AND BUSINESS PERFORMANCE IN INDONESIAN STREET FOOD SME

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Abstract: This study aimed to investigate the mediating role of competitive advantage in the relationship between entrepreneurial orientation, business strategy, and business performance in Indonesian street food SMEs in North Sumatra. A total of 384 questionnaires were used for analysis using regression analysis, IBM SPSS Statistics 24, path analysis for hypotheses testing. The results show that competitive advantage acts as a mediating variable in the relationship between entrepreneurial orientation and business performance. However, a competitive advantage does not mediate the relationship between business strategy and performance. Competitive advantage is an important thing that SMEs must own, which cannot be imitated by competitors, given the increasingly fierce level of competition. SMEs must have an entrepreneurial orientation and have the ability to formulate business strategies. This study contributes to building a theory of the importance of competitive advantage for SMEs, which can affect SME business performance. Competitive advantage is influenced by entrepreneurial orientation and business strategy and the ability to plan and implement business strategies so that they can survive in the competition.

Keywords: Entrepreneurial orientation, competitive advantage, business strategy, business.

Introduction

Small and medium enterprises (SMEs) experience very tight competition, with similar products. Tight competition in the era of globalization requires MSMEs to increase competitiveness by providing added value to customers and organizations can choose strategies to compete in a broad market or market segments (Latifah et al., 2021). Facing changes in consumer behavior patterns, high raw material prices, low quality of human resources (HR) managers and employees of SMEs, limitations in terms of finance, are things that can hinder the development of SMEs. SME development itself is determined by business performance. Performance is a representation of the objective dimensions of the success of a business when compared to other companies or groups of companies that are relevant in a certain period (Rubio & Aragon, 2009; Lekovi & Marić, 2015; Erista et al., 2020). Meanwhile Mashenene & Kumburu (2020) defines that the company's performance results from a unique pool of resources, which are not easily imitated and replaced. Where Rubio & Aragon (2009) use the dimensions of internal processes, open systems, rational goals, and human relations to measure business performance.

The high and low performance of the SME business causes the business development of an SME to be fast or slow. Business performance is generally related to profitability, customer satisfaction, market share, and several other business performance indicators, both in terms of financial and non-financial. Organizations that show higher performance in the market will be successful, while those that show lower performance may end up in failure. To grow, SMEs

need to assess the performance of their operations and resources over time; which will ensure that resources are used efficiently according to pre-defined objectives and that necessary actions are taken promptly (Mashene & Kumburu, 2020). When the environment is dynamic and firms have considerable access to capital, small business performance seems likely to be improved by a more inward-focused orientation that better exploits this abundance of opportunities by focusing on efficient exploitation (Wiklund & Shepherd, 2005).

Several studies on SME business performance with various antecedents and showing different results. Business performance is influenced by competitive advantage (Potjanjaruwit, 2018), temporary Rosli Mahmood (2013) found that competitive advantage mediates the relationship between entrepreneurial orientation and performance. Qamariah & Muchtar (2019) examined competitive advantage as mediation in the relationship of human capital and social capital to the business performance of culinary SMEs in North Sumatra, Indonesia, but the results showed that competitive advantage did not act as a mediation. This shows that there is a gap in the mediating role of competitive advantage and its effect on business performance. Competitive advantage itself can be interpreted as what is observed in the superiority of the market position, superior customer value, or the achievement of lower costs, the resulting market share, and performance from the aspect of profitability (Day & Wensley, 1988; Lee & Hsieh, 2010; Hwang et al., 2020). SMEs must be able to assess the competitive advantage they have, so they can assess their position in the competition. This is done by introducing the business environment, determining how many similar competitors there are, and benchmarking against competitors. However, the weakness of SMEs is that they have never done environmental scanning, and assume that competition is normal, and assume that consumers will choose SMEs that can provide competitive prices.

Meanwhile, Hutahayan (2019) conducted research on SMEs that produce Indonesian specialties in East Java, found that entrepreneurial orientation significantly affects SME business performance, and business strategy affects SME business performance and uses business strategy as mediation in the relationship between entrepreneurial orientation and business performance. Entrepreneurial orientation is important for SMEs and can be considered as a driver influencing the survival and growth of SMEs (Alvarez-Torres et al., 2019). High EO gives the business the ability to discover and/or discover new opportunities that can differentiate it from other companies and create a competitive advantage (Wiklund & Shepherd, 2005). But research by Erista et al. (2020) only confirm the effect of risk-taking and innovativeness on company performance, among several proposed dimensions (needed for achievement, an internal locus of control, self-reliance, extroversion, being proactive, risk-taking, and innovation). By using different variables, Hernandez-Perlines & Rung-Hoch (2017) who conducted a study in Spain confirmed that entrepreneurial orientation is a good predictor of the success of family firms, and positively affects firm performance. In addition, entrepreneurial orientation has a moderating effect on the relationship between CSR and family firm performance (Hernández-Perlines & Rung-Hoch, 2017). Avlonitis & Salavou (2007) researched active and passive entrepreneurs and found that there are differences between active and passive entrepreneurs characterized by a willingness to take high-risk actions and before competing. Nonetheless, proactive as opposed to risk-taking was found to be an important contributor to the performance of new products introduced by both groups. More specifically, the product innovation dimensions (i.e., new product uniqueness) and the EO dimensions (i.e., proactiveness) were statistically significant concerning product performance (Avlonitis & Salavou, 2007). Furthermore Avlonitis & Salavou (2007) emphasized that active entrepreneurs tend to have better new product performance than passive entrepreneurs. The role of EO as moderating is carried out by Rashid et al. (2020) and conclude that EO significantly moderates the effect of market orientation on a business performance run by women in Pakistan.

In a study conducted on SMEs in Ghana, Donkor et al. (2018) found that strategic planning had a strong positive effect on the performance of SMEs in Ghana, moderated by market dynamism. Strategic planning consists of what business strategies will be taken by SMEs to be implemented. How strategic planning can be done by SMEs, will certainly affect the competitive advantage generated, so that it can have an impact on business performance. Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage, executed by SMEs to achieve competitive advantage and high business performance (Liao, 2005). Organization-level strategy plays an important role in explaining variations in organizational profitability and long-term performance. Cost leadership and differentiation strategies have an impact on business performance, in addition, business strategies significantly moderate the relationship between entrepreneurial competence and business performance (SU Rehman et al., 2021). Research conducted by Latifah et al. (2021) on SMEs in Yogyakarta, Solo and Semarang, show that differentiation strategy has no direct effect on performance, but innovation has a direct effect on performance.

We intend to examine the mediating role of competitive advantage in the relationship between entrepreneurial orientation and business strategy on the business performance of SMEs engaged in culinary street food in Indonesia. The underlying reason for this research is that the measurement of business performance so far has been mostly carried out in large businesses, and very rarely done in SMEs. In this study, we measure SME business performance using non-financial performance, where so far most researchers have focused on financial performance. The measured financial performance is from a consumer perspective because customers are the lifeblood of a business and in fact, the quality of a business is determined by the quality perceived by its customers (Shearn, 2012).

Literature Review

SME Business Performance

Company performance is the overall result during a certain period of business processes (Hutahayan, 2019; Erista et al., 2020). Latifah et al. (2021) define MSME performance as the result of the company's strategy implemented to achieve the target market and financial goals, with measurements covering long-term profitability, sales growth, resources (liquidity and investment capacity), and customer loyalty. Based on the basic principles of Resources Based Value, the success of an organization depends primarily on utilizing its pool of valuable resources to achieve superior performance (Ho et al., 2016). Companies can achieve better performance through effective use of their organizational resources and capabilities compared to their competitors (Ismail et al., 2021).

The performance of SMEs is influenced by business strategy, where AU Rehman & Anwar (2019) measure non-financial performance with dimensions of Customer satisfaction, Employees satisfaction, Quality in products and services. Temporary Jusoh & Parnell (2008) use several dimensions of non-financial performance, namely: On-time delivery, Customer complaints, Customer satisfaction, Customer loyalty. Khan et al. (2010) using performance measurement based on the Balanced Scorecard perspective, one of which is the Customer perspective, which consists of Number of customer complaints, Number of new customers, After-sales service, On-time delivery of product/service, Number of customer suggestions, Customer satisfaction survey, Organization image and brand. Non-financial business performance (with dimensions of the relationship with suppliers, customer loyalty, and employee satisfaction) is influenced by manufacturing competitive capabilities, with dimensions of delivery dependability and quality, but flexible product innovation capability shows an insignificant relationship with non-financial performance of SMEs in manufacturing

(Ho et al., 2016). Meanwhile Hutahayan (2019) measures business performance with dimensions of Excellence, Business assets, Product quality, Production targets, Timeliness, New products, Employee productivity, Sales Volume, Market position, Market growth

Competitive advantage

The era of global competition requires companies to create added value for their customers by creating a uniqueness that distinguishes them from their competitors so that they become the center of attention of consumers and ultimately increase the company's profitability (Latifah et al., 2021). When competitive advantage is defined as a firm's ability to create more economic value than its least efficient competitor, then in reality the meaning shown is closely related to its outcome in terms of economic value (Sigalas et al., 2013). Competitiveness is conceptualized as having three dimensions, namely potential, process, and performance, and this concept is also characterized by long-term orientation, controllability, relativity, and dynamism (Man et al., 2002).

Based on the literature review on the competitiveness of SMEs, Man et al. (2002) have distinguished between three main aspects that affect the competitiveness of SMEs, including the company's internal factors, the external environment, and the influence of entrepreneurs. These factors in turn affect the company's performance. Many studies have highlighted several company-specific factors such as financial, human, and technological resources, organizational structures and systems, productivity, innovation, quality, productivity, image and reputation, culture, product/service diversity and flexibility, and customer service (Man et al., 2002). In addition, to achieve a competitive advantage, organizations are required to monitor many market issues (such as competition for price and market share, marketing and product competition, number of competitors, competitor actions) (Khan et al., 2010).

Many researchers state the factors of competitive advantage, namely exploitation of all market opportunities (Sigalas et al., 2013), cost leadership, and differentiation (Lechner & Gudmundsson, 2012). Lechner & Gudmundsson (2012), found that cost leadership has a greater impact than differentiation and stated that differentiation and low-cost strategies play an important role for SMEs, and this is supported by SU Rehman et al. (2021). Bennett & Smith (2002) use dimensions in Competitive advantage consisting of price, marketing, and promotion skills, speed of service, establish a reputation, cost advantage, product or service design, product or service quality, specialized expertise, product or service, range of expertise, product or service, flair and creativity, personal attention to client needs. Meanwhile, for SMEs engaged in manufacturing, Ho et al. (2016) use Price, Quality, Flexible product innovation, Delivery dependability as a competitive advantage. This shows that there are many dimensions of competitive advantage that can be used, according to the SME sector, but in general competitive advantage is measured by quality, cost leadership, and differentiation. Cost leadership strategies are assessed on five items: offering a variety of products/services; the ability to achieve operating efficiency; offering competitive prices for products/services; control over operational costs and overheads; and achieving innovation in the production process or service offering (Acquaah & Agyapong, 2015). The differentiation strategy is measured by four items: offering new products/services that are developed, improving or improving existing products/services; innovation in the marketing of Products and Services; advertising and promotion of products/services (Acquaah & Agyapong, 2015).

Entrepreneurial orientation

Entrepreneurial orientation refers to the decision-making processes, practices, and activities that lead to new entries, involving the intentions and actions of key players functioning in a dynamic generative process aimed at the creation of new ventures. (Lumpkin

& Dess, 1996). Entrepreneurial orientation is the hallmark of a business person who never gives up, dares to take risks, can innovate, and uses creativity as an effort to improve (Erista et al., 2020). On the other hand, EO refers primarily to the “how”, i.e. the entrepreneurial process; focusing on questions such as: How did you arrive at entrepreneurship? Although of the five dimensions of EO considered, namely innovation, risk-taking, proactiveness, autonomy, and competitive aggressiveness, empirical investigations have highlighted that risk-taking and innovation are important dimensions that explain EO performance in SMEs in Mexico (Alvarez-Torres et al., 2019).

Lumpkin & Dess (2001) which only examined the dimensions of pro-active and competitive aggressiveness, found that pro-activity showed a strong positive relationship with performance, but competitive aggressiveness was negatively related to sales growth and only weakly related to profitability and return on sales. In a different year Wiklund & Shepherd (2005) found that entrepreneurial orientation affects small business performance, with dimensions of proactiveness, innovativeness, and risk-taking. By adding the networking capabilities variable, Ajayi (2016) found that Risk-taking, proactiveness, innovation, were significantly and together were predictors of SME export performance in Nigeria in terms of overall sales growth.

In different countries, it is shown that risk-taking has a positive and significant effect on the performance of SMEs in Thailand and Vietnam, and is correlated with three performance measures (i.e. business growth, job creation, and net income), while risk-taking is positively correlated with job creation (Swierczek & Ha, 2003). Different things were discovered by Lechner & Gudmundsson (2012), where the effect of innovativeness on performance is positive and significant, while the effect of risk-taking is significant but negative, and the effect of proactiveness is negative.

Business Strategy

Business strategy is a multidimensional concept and considers the role of business strategy in risk management, which companies follow to reduce various types of costs and to offer unique products that may not be offered by competitors (AU Rehman & Anwar, 2019). It can also be said as an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage (Liao, 2005). Meanwhile, Acquaaah & Agyapong (2015) and Agyapong et al. (2016) Called the term competitive strategy, which deals with the pattern of decisions or choices made by company managers by determining in which markets they will compete and how businesses can add more value for buyers to gain an advantage over competitors. The dimensions of the company's strategy-making process can be seen as a whole series of organizational activities that involve planning, decision-making, and strategic management (Lumpkin & Dess, 1996).

The findings reveal that the company must formulate a business strategy, i.e. a unique strategy must be built for product development and innovation processes that cannot be imitated by competing companies, which is appropriate to obtain superior performance (financial and non-financial) over competitors (AU Rehman & Anwar, 2019). Temporary (Bismala & Handayani, 2017) confirm the core competencies possessed by SMEs that can be used to formulate competitive strategies, namely human resources, price, product, development, capacity, place, administration, and promotion.

Strategies in small firms may or may not be created intentionally or unintentionally, and generally emerge through a series of incremental adjustments to the opportunities and threats the firm faces over time (Boohene et al., 2008), strategy formulation, implementation of plans designed to achieve goals, and evaluation to obtain feedback in formulating future strategies, with indicators of differentiation strategy, cost strategy, and focus strategy (Hutahayan, 2019).

The company develops strategies for operations, marketing, cost, and risk reduction, new product development, and entering new markets, with the ultimate goal of improving performance (AU Rehman & Anwar, 2019). In small companies, business strategy is inferred from activities in the main functional areas namely finance, human resource management, marketing, production, operations, information, and communication technology (Boohene et al., 2008). The development of SME business strategies will drive business performance, so SMEs must develop their business plans, set targets, and evaluate their business achievements regularly (Setyawan Agus et al., 2015).

Research result Latifah et al., (2021) on SMEs shows that the strategy does not affect performance directly, meaning that the differentiation strategy applied by SMEs does not have a direct impact on improving performance, but by including innovation as a mediation it has a positive and significant effect. Innovation is correlated with the organization's need for greater competitiveness and also affects business performance (Latifah et al., 2021). Particularly in the SME sector, all competitive strategies are considered less risky and more reactive as they face a shortage of resources and a lack of external support (AU Rehman & Anwar, 2019).

Business strategies that can be used by SMEs are Cost-reduction, innovation, quality improvement (Liao, 2005; Michie & Sheehan, 2005). Innovation does not only focus on product design but also innovation in other aspects, such as customer service, product marketing innovation, product distribution innovation, and after-sales service innovation (Latifah et al., 2021). Innovation, which is in line with this strategy, allows the company to develop uniqueness that can increase added value for customers. As a value, and innovation must be a tangible and useful product, process, or work procedure (Efendi et al., 2020). The essence of innovation is structured knowledge that is formalized into a new work through technical discoveries in the field (Efendi et al., 2020).

Business strategies that can be used include raw material prices, production process costs, product distribution costs, product prices, quality products, more useful products, special services, varied products, certain service segments, market selection, product suitability, selling price matching (Hutahayan, 2019).

Method

There are many small and medium enterprises engaged in street food culinary in Indonesia, and they are not recorded, so the number is unknown. For the determination of the sample in this study, the researcher used the Cochran method, where the researcher determined a significant level of 5%, level 95% confidence (1.96), the margin of error of 5%, so it was determined that the number of samples in this study was 384 people. Data was collected by giving questionnaires to be filled out by respondents, and this data collection was carried out directly. This ensures that all respondents fill out the questionnaire so that the response rate is 100%.

In measuring business performance, researchers use non-financial performance. Non-financial performance in this study is measured from the perspective of consumers with the dimensions of customer satisfaction (3 items), on-time delivery (2 items) (Khan et al., 2010), Customer intimacy (3 items) (Craig & Moores, 2005). In measuring the competitive advantage of street food SMEs, the researcher uses the dimensions of exploitation of all market opportunities (2 items)(Sigalas et al., 2013), cost leadership (3 items), and focus (1 item) (Al Badi, 2018). For the entrepreneurial orientation variable, the researcher uses the dimension *Pro-activeness* (2 items), Innovativeness (2 items), Competitive Aggressiveness (2 items), Autonomy (2 items), Risk-taking (2 items). Meanwhile, for business strategy, researchers used the dimensions of marketing management (4 items), production management (4 items)(Hutahayan, 2019).

Measurements were made using a Likert scale with 5 points, with a value of 1 (strongly disagree), 2 (disagree), 3 (disagree), 4 (agree), and 5 (strongly agree). Researchers tested the validity and reliability to ensure the consistency of the instrument in measuring the research variables. The reliability value of the entrepreneurial orientation variable is 0.613, and the instrument validity value ranges from 0.298 to 0.641. The reliability value of the business strategy variable is 0.646, and the instrument validity value ranges from 0.508 to 0.606. Meanwhile, the reliability value of the competitive advantage variable is 0.621, with instrument validity values ranging from 0.466 to 0.596. The reliability value of the business performance variable is 0.625, with the instrument validity value ranging from 0.436 to 0.615.

Result and Discussion

SMEs who became respondents in this study consisted of 217 male entrepreneurs (57%) and 167 female entrepreneurs (43%), with ages ranging from 20 years to 59 years.

The first hypothesis linear regression test done to find out whether entrepreneurial orientation and business strategy affect competitive advantage or not. Entrepreneurial orientation ($\beta = 0.092$; $p = 0.025$) and business strategy ($\beta = 0.225$; $p = 0.000$), and simultaneously the effect of entrepreneurial orientation and business strategy on competitive advantage ($F = 13,239$; $p = 0.000$; $R^2 = 0.060$). The second linear regression test was carried out to find out whether entrepreneurial orientation, business strategy and competitive advantage affect business performance or not. Entrepreneurial orientation ($\beta = -0.080$; $p = 0.044$), business strategy ($\beta = 0.101$; $p = 0.039$), competitive advantage ($\beta = 0.192$; $p = 0.000$) and simultaneously the effect of entrepreneurial orientation, business strategy and competitive advantage on business performance ($F = 8850$; $p = 0.000$; $R^2 = 0.058$). Meanwhile, the intervening effect provided by competitive advantage on the relationship between entrepreneurial orientation and business strategy on business performance is described as follows:

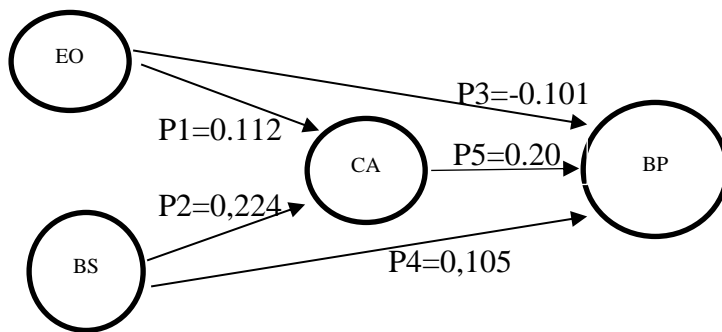


Figure 1. Structural Model

From the structural model above, it can be seen that the indirect effect occurs. Where the indirect effect of the entrepreneurial orientation variable on business performance with a competitive advantage as an intervening variable is (0.0224), and this value is greater than the direct influence of entrepreneurial orientation on business performance (-0.101) so it can be concluded that competitive advantage acts as an intervening variable between entrepreneurial orientation. on business performance. The indirect effect of the business strategy variable on business performance with a competitive advantage as the intervening variable is (0.0448) and this value is smaller than the direct effect of entrepreneurial orientation on business performance (0).

This research strengthens the research conducted by Rosli Mahmood (2013), where competitive advantage mediates the relationship between entrepreneurial orientation and performance. This shows that a high entrepreneurial orientation has an impact on competitive

advantage. Entrepreneurship orientation, which consists of proactiveness, Innovativeness, Competitive Aggressiveness, Autonomy, and Risk-taking, is an important aspect of entrepreneurship. How pro-active entrepreneurs run their business is very important, especially in looking for existing opportunities. Innovativeness is needed by entrepreneurs so that they can innovate in all their business activities so that companies can be involved and support the emergence of new ideas, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin & Dess, 1996). Competitive aggressiveness requires entrepreneurs to be able to be head-to-head towards new entrants. All entrepreneurs face various risks, in markets, finance and production. How they can face risks, anticipate and make the right decisions, is one form of entrepreneurial orientation that entrepreneurs must-have. An entrepreneurial orientation may be especially important for small newcomer companies struggling to develop a management team, manage resources efficiently, and develop strategies (Lumpkin & Dess, 1996). EO may be more strongly linked to performance when combined with the right strategy and the right environmental conditions (Lumpkin & Dess, 1996), in this case, is a competitive advantage.

Business performance is influenced by competitive advantage (Potjanjaruwit, 2018), meaning that to achieve high business performance, the business must have a competitive advantage. Street food in Indonesia offers a variety of culinary delights that have many similarities, so to have high performance, entrepreneurs must have a competitive advantage offered to consumers. Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage, executed by SMEs to achieve competitive advantage and high business performance (Liao, 2005).

However, competitive advantage was found not to mediate the relationship between business strategy and business performance. Whereas business strategy is very important in influencing competitive advantage. The right business strategy is a competitive advantage for SMEs, such as consumer segmentation strategies, by developing a specific marketing mix for each targeted market segment (Hunt & Arnett, 2004). Street food in Indonesia offers a variety of culinary delights that have many similarities, so to have high performance, entrepreneurs must have a competitive advantage offered to consumers. Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage, which is carried out by SMEs to achieve competitive advantage and high business performance (Liao, 2005). Business strategy is very important because it indicates the ability of SMEs to run their business. Business strategy can be sourced from the company's functions (production, marketing, finance, and human resources), and added to other existing functions.

Conclusion

Based on the results of the study, it can be concluded that competitive advantage acts as a mediating variable in the relationship between entrepreneurial orientation and business performance. However, competitive advantage does not mediate the relationship between business strategy and performance. Competitive advantage is an important thing that must be possessed by SMEs, which cannot be imitated by competitors, considering the increasingly tight level of competition. SMEs must have an entrepreneurial orientation and have the ability to formulate business strategies. This study contributes to building a theory about the importance of competitive advantage for SMEs, which can affect SME business performance. Competitive advantage is influenced by entrepreneurial orientation and business strategy as well as the ability to plan and implement business strategies so that they can survive in competition.

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