

## The Role of Competitive Advantage in Mediating The Effect of Entrepreneurial Orientation on Business Performance

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### ABSTRACT

**Background:** The purpose of this study was to explain the role of competitive advantage in mediating the influence of entrepreneurial orientation on the business performance of the silver handicraft industry in Celuk Village, Gianyar Regency.

**Research Methods:** This research took place in Celuk Village, Gianyar Regency. The sample size in this study was as many as 90 silver handicraft businesses. Data collection was done by distributing questionnaires. Data analysis was performed using the Structural Equation Model (SEM) based on Partial Least Square (PLS).

**Result:** Based on the results of the research that has been done, the following results are obtained: 1) Entrepreneurial orientation positively and significantly affects business performance. 2) Entrepreneurial orientation positively and significantly influences competitive advantage. 3) Competitive advantage positively and significantly affects business performance. 4) Competitive advantage positively and significantly mediates the role of entrepreneurial orientation on business performance.

**Conclusion:** Based on the results of this study, it is hoped that business actors in the silver handicraft industry in Celuk Village, Gianyar Regency can further develop entrepreneurial orientation and competitive advantage by creating products with new ideas and competitive prices in the market to be able to improve their company performance.

**Keywords:** entrepreneurial orientation, competitive advantage, business performance

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### I. Introduction

Bali is an island known as the island of the gods. The various kinds of beauty offered by the Island of the Gods ranging from culture, natural scenery, to souvenirs are the main attraction for the island of Bali to attract the attention of tourists. Silver and gold jewelry is one of 17 types of household scale handicraft businesses that are growing rapidly in Gianyar Regency. The largest silver handicraft center in Gianyar Regency is located in Celuk Village which is located in a strategic location towards East Bali (Putri et al., 2020).

Celuk Village has been known as a center for silver handicrafts since 1976. Almost all local residents make a living as silversmiths. Even though it has been operating since 1976, silver handicrafts experienced a decline in the period 2013 and 2016 which caused many craftsmen to choose to close their businesses.

In 2013, the silver handicraft industry experienced a decline in growth to -13.93. Based on data obtained from the Gianyar Regency Trade and Industry Service (2020), the decline in the performance of the silver handicraft industry in 2016 reached -33.41 percent. The decline in performance in the silver handicraft industry in 2013 and 2016 was caused, among other things, by the increase in raw material prices and the large number of imitation silver products (Alpaca) on the market at that time. Alpaca is made from a mixture of copper, zinc and nickel. Cheap raw materials cause the price of Alpaca to be relatively low, making real silver handicraft difficult to compete in the market. Low quality alpaca products also affect the brand image of silver handicrafts.

In 2017, Gianyar silverware began to revive little by little. In an interview with Liputan6, Putu Sudiadnyani, a silver craftsman, said that one of the things that must be done to maintain his existence in the silver industry is to produce jewelry with distinctive and original designs. This shows that innovation is one of the important keys to developing a silver handicraft center in Celuk Village, Gianyar.

To be able to win the competition, entrepreneurs who are involved in the silver handicraft business must be able to provide more value to consumers by paying attention to consumer satisfaction (Suharto, 2018). The company's ability to act proactively in responding to market changes and the courage to take risks enables the company to create innovative products so that it can form a strong entrepreneurial orientation and be able to provide satisfaction to consumers (Kumalaningrum, 2011).

Entrepreneurial orientation is a process, practice and activity that encourages the growth of entrepreneurial attitudes (Pramesti and Giantari, 2016). Some management literature provides three indicators of

organizational tendencies in the entrepreneurial process, namely innovation ability, risk-taking ability and proactive nature (Soisa et al., 2011). Amid the increasingly fierce level of competition, companies must be able to differentiate and improve business performance in order to dominate the market. The orientation that can be used by MSME entrepreneurs to create more value in the market is entrepreneurial orientation (Setyawati, 2013).

Business performance can be improved by bringing up elements of entrepreneurship and innovation in the business that is currently being worked on (Drucker, 2017; 99). Business performance is the level of achievement or achievement results obtained in a certain period of time. Company achievements include company growth (growth), ability to survive (survive) and profit (profit)

Entrepreneurial orientation is a company's strategic resource that has the potential to generate competitive advantage (Nuvriasari et al., 2018). Entrepreneurial orientation is one of the keys to the success of a company by increasing the company's performance. Companies that apply entrepreneurial orientation provide opportunities for their employees to innovate, be effective, independent and creative (Arifuddin, 2018).

Competitive advantage is considered as an advantage over competitors that is obtained by offering more value to consumers than competitors' offers either by offering products at lower prices or by providing more value to these products (Kotler and Armstrong, 2013: 242). Competitive advantage is expected to be able to achieve profit according to plan, increase market share, increase customer satisfaction, and continue the survival of a business (Leonardus, 2014: 128).

Competitive advantage is the heart of a company's performance to face competition (Suharto, 2018). Competitive advantage arises from a company's desire to create more value for its consumers. Consumers tend to choose products that have a higher value than their expectations. Match prices are offered with a value higher than their expectations. Suitability of the price offered with the value obtained from these products certainly affects customer satisfaction. It is important to develop competitive advantage to increase consumer satisfaction and improve company performance (Suharto, 2018).

There is a research gap in research that examines the effect of entrepreneurial orientation on business performance. Research conducted by Reswanda (2012) states that the effect of entrepreneurial orientation on business performance is not significant. Based on the data of the research respondents, the business turnover studied was classified as a micro scale. Micro-scale businesses in the company's operations do not have a vision and business development is still carried out on a daily scale and has not paid attention to the aspects of developing long-term business strategies so that company performance is not influenced by entrepreneurial orientation.

Research conducted by Md Isa et al (2013), Ibrahim and Mahmood (2016), and Arshad et al., (2014) shows the results of research that entrepreneurial orientation has a positive and significant effect on business performance. Therefore, in this study the competitive advantage variable is added as a mediating variable.

The pre-survey was conducted on ten silver handicraft entrepreneurs located in Celuk Village, Gianyar Regency. The pre-survey was carried out by giving questions through questionnaires and interviews. The pre-survey results show that silver handicraft companies have experienced increased profits in the last three years by setting competitive prices and generating new ideas. Silver handicraft MSME entrepreneurs regularly produce products with design innovation and develop price variations ranging from tens of thousands to be able to reach consumers from all walks of life and be able to compete in the market so that they can improve the performance of these silver handicraft MSMEs.

## **II. Literature Review and Hypothesis Development**

The results of research conducted by Hassim et al. (2011) entrepreneurial orientation has a significant positive impact on business performance. The results of research conducted by Ibrahim and Mahmood (2016) state that there is a significant positive correlation between entrepreneurial orientation and business performance. Research conducted by Oktavio et al. (2019) stated that entrepreneurial orientation does not have a significant effect on business performance. Research conducted by Mohammad et al. (2019) show that entrepreneurial orientation positively and significantly affects business performance. Based on the results of previous research, the formulation of the hypothesis that can be proposed is:

H1: Entrepreneurial orientation has a positive and significant effect on business performance

The results of research conducted by Helia et al. (2015) and Ibrahim and Mahmood (2016) show that entrepreneurial orientation has a significant positive effect on competitive advantage. Research conducted by Zainol et al. (2018) and Medhika et al. (2018) entrepreneurial orientation has a significant positive effect on competitive advantage. Based on the results of previous research, the formulation of the hypothesis that can be proposed is:

H2: Entrepreneurial orientation has a positive and significant effect on competitive advantage.

According to research conducted by Zaini et al. (2014), Ibrahim and Mahmood (2016) and Musrifah and Muwartiningsih (2017), competitive advantage positively and significantly affects business performance.

The same study conducted by Medhika et al. (2018) and show the results that competitive advantage positively and significantly affects business performance. Based on the results of previous research, the formulation of the hypothesis that can be proposed is:

H3: Competitive advantage has a positive and significant effect on business performance.

Based on research conducted by Ibrahim and Mahmood (2016), it is stated that competitive advantage positively and significantly mediates the effect of entrepreneurial orientation on business performance. This research is supported by the results of previous research conducted by Anastuti and Suharyono (2018), which show that significant competitive advantage mediates the relationship between entrepreneurial orientation and business performance. Based on the results of previous research, the formulation of the hypothesis that can be proposed is:

H4: Competitive advantage significantly mediates the effect of entrepreneurial orientation on business performance.

### III. Methods

The research location in this study is Celuk Village, located in Gianyar Regency, Bali. Celuk Village was chosen as the research location because Celuk Village is a silver handicraft center that has long been established in Bali, namely since 1976. Therefore, entrepreneurs in Celuk Village are the right respondents for this study.

The population in this study were all small and medium businesses (umkm) of silver craftsmen in Celuk Village, Sukawati District, Gianyar Regency, Bali which are registered with the Bali Provincial Industry and Trade Office in 2020. In this study, the sampling technique was carried out using a non-probability sampling method. . Non probability sampling techniques do not provide equal opportunities or opportunities for each population to be selected. The non probability sampling technique used in this study is purposive sampling. According to data owned by the industry and trade office in 2020, 203 umkm of silver handicrafts are registered in Celuk Village, Gianyar Regency. In this study, the sample used was 100 silver handicraft entrepreneurs located in Celuk Village. The sample size of 100 MSME silver handicraft entrepreneurs is determined based on the size of the sample according to Roscoe in Sugiyono (2019: 144), which is in the range of 30-500 samples.

In this study, inferential analysis was carried out using statistical test tools, namely structural equation modeling based on PLS (partial least square) and sobel test. In this study, inferential statistical analysis was carried out by SEM based on partial least square (PLS). The use of SEM based on Partial Least Square (PLS) because it can be applied to all data scales, does not require many assumptions, the sample size tested does not have to be on a large scale, can be used to prove theory, and can be used to develop relationships that do not yet have a theoretical basis strong.

The analysis process begins with data collection according to the statement in the questionnaire followed by inputting the smartPLS application. After the data input process, the next step is to describe the research model. The research model is made in the application according to the model under study and the relationship between the variables studied. The next stage is to perform a bootstrapping test to determine the direct effect, indirect effect and the effect of the total variables.

### IV. Results and Discussion

#### Partial Least Square (PLS) Test Results

The research model was analyzed by using partial least square (PLS) with the smartPLS application. In testing the research results, there are two basic model evaluations, namely the outer model and the inner model.

#### 1) Evaluate the outer model

Outer model is a measurement model to measure the validity and reliability of the research model under study. Validity and reliability were measured by three criteria, namely convergent validity, discriminant validity and average variance extracted (AVE).

#### a) Convergent validity test

The research instrument is considered valid if the loading factor value is more than equal to 0.7. Table 1 presents the loading values of all research indicators.

Table 1. Loading Factor

Variable	Indicator	Loading Factor	Description
Entrepreneurial Orientation (X)	X <sub>1</sub>	0,780	Valid
	X <sub>2</sub>	0,796	Valid
	X <sub>3</sub>	0,850	Valid
	X <sub>4</sub>	0,855	Valid
Competitive Advantage (Y1)	Y <sub>1.1</sub>	0,791	Valid
	Y <sub>1.2</sub>	0,800	Valid
	Y <sub>1.3</sub>	0,778	Valid
	Y <sub>1.4</sub>	0,843	Valid

Business Performance (Y2)	Y <sub>2.1</sub>	0,912	Valid
	Y <sub>2.2</sub>	0,929	Valid
	Y <sub>2.3</sub>	0,889	Valid
	Y <sub>2.4</sub>	0,851	Valid

Primary Data, 2020

Based on Table 1, it can be seen that all statements in the study have met the criteria for outer loading, which is equal to 0.7.

b) Discriminant validity test

The discriminant validity test is assessed based on the cross loading value of the measurement with the construct. The indicator is declared good if the cross loading value is more than 0.70. Then the latent construct can predict the indicators on their block better than the other blocks. Table 2 shows the description of the cross loading value of each indicator.

**Table 2. Cross Loading**

	Entrepreneurial Orientation	Competitive Advantage	Business Performance
X <sub>1</sub>	<b>0,780</b>	0,573	0,638
X <sub>2</sub>	<b>0,796</b>	0,582	0,646
X <sub>3</sub>	<b>0,850</b>	0,654	0,690
X <sub>4</sub>	<b>0,855</b>	0,621	0,692
Y <sub>1.1</sub>	0,642	<b>0,791</b>	0,638
Y <sub>1.2</sub>	0,601	<b>0,800</b>	0,542
Y <sub>1.3</sub>	0,488	<b>0,778</b>	0,499
Y <sub>1.4</sub>	0,630	<b>0,843</b>	0,559
Y <sub>2.1</sub>	0,761	0,602	<b>0,912</b>
Y <sub>2.2</sub>	0,741	0,611	<b>0,929</b>
Y <sub>2.3</sub>	0,716	0,649	<b>0,889</b>
Y <sub>2.4</sub>	0,691	0,653	<b>0,851</b>

Primary Data, 2020

Table 2 shows the cross loading value of each indicator has exceeded 0.70 and each construct value has been greater than the value of the other constructs. Thus all variables are declared valid and there are no problems with discriminant validity.

c) Reliability Evaluation

Reliability testing was performed using composite reliability and cronbach's Alpha test. The variable is said to be reliable if the value of composite reliability and Cronbach's alpha is more than 0.70. Table 3 shows the Cronbach's alpha value and the composite reliability value.

**Table 3. Criminant Validity (Cross Loading) Test Results**

Variable	Cronbach's Alpha	Composite Reliability
Entrepreneurial Orientation (X)	0,817	0,879
Competitive Advantage (Y1)	0,917	0,942
Business Performance (Y2)	0,838	0,892

Primary Data, 2020

Table 3 shows that the Cronbach's alpha value and the composite reliability value of each variable was more than 0.70. Thus it can be explained that the construct has good reliability. So the questionnaire used as a tool in research has been reliable or consistent.

2) Evaluate the inner model

The evaluation of the structural model (inner model) has the aim of predicting the relationship between latent variables. The relationship between latent variables can be seen based on the coefficient of determination R-square (R<sup>2</sup>).

a) R-Square Test (R<sup>2</sup>)

Detrmination coefficient R-Square (R<sup>2</sup>) shows how much exogenous variables explain the endogenous variables. The range of values is from zero to one. The closer to one, the independent variable can provide almost all the information needed to predict the variation in endogenous variables.

**Table 4. R-Square (R<sup>2</sup>)**

Variable	R-Square
Entrepreneurial Orientation (X)	
Competitive Advantage (Y1)	0,549
Business Performance (Y2)	0,682

Primary Data, 2020

Table 4 shows that the R-square value of the competitive advantage variable is 0.549, which means that 54.9 percent of the competitive advantage construct is influenced by entrepreneurial orientation. Meanwhile, the other 45.1 percent are influenced by constructs outside the model. The R-square value of the business

performance variable is 0.682, meaning that 68.2 percent of business performance is influenced by entrepreneurial orientation and competitive advantage. Meanwhile, the other 31.8 percent are influenced by other models outside the construct.

b) t-statistic test results

Measurement of t-statistical analysis through the bootstrapping procedure aims to determine the significance value between one construct and another.

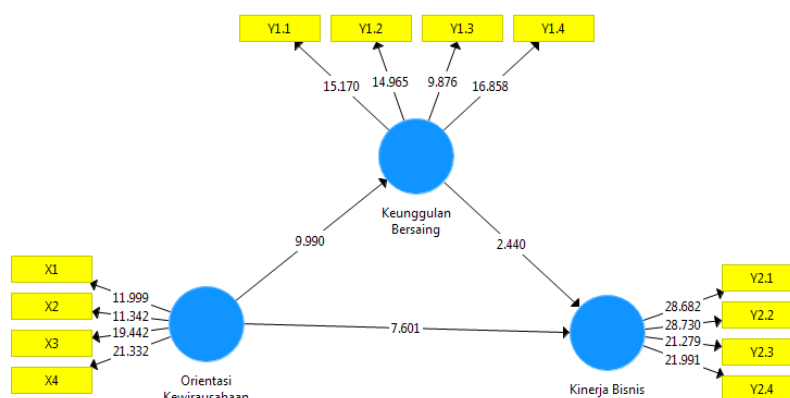


Figure 1. Analysis Model Path Diagram

The model above is called a reflective model, a measurement between indicators that is influenced by the latent construct. The model describes the relationship between the research variables, the variables are depicted with a round shape and arrows as a pointer to the construct relationship to the variables. The model explains that if there is a change in the latent construct, it will affect the indicator change.

*Hypothesis test*

Hypothesis testing is done using the values obtained in the path coefficient test results. The path coefficient displays data on the relationship between variables. The results of the path coefficient test are presented in Table 5.

Table 5. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Competitive Advantage> Business Performance	0,220	0,223	0,090	2,440	0,015
Entrepreneurial Orientation> Competitive Advantage	0,741	0,734	0,074	9,990	0,000
Entrepreneurial Orientation> Business Performance	0,649	0,649	0,085	7,601	0,000

Primary Data, 2020

Testing of the hypothesis using partial least square (PLS) was carried out using the bootstrap method on the results of the questionnaires that had been distributed. The bootstrapping method is useful for seeing the significance value between constructs. The hypothesis is accepted if the bootstrapping test value is greater than 1.96. If the t-statistic value is in the range of -1.96 and 1.96, the hypothesis will be rejected. The t-table value used is 5 percent or 0.05.

This analysis is carried out to determine the strength of influence between constructs directly, to the total effect. Table 5 presents the value of the research results. The indirect effect in this study is the role of competitive advantage in mediating the effect of entrepreneurial orientation on business performance. The amount of the indirect effect is 0.163, with a t-statistic of 2.386 and a p value of 0.017. Thus competitive advantage mediates the effect of entrepreneurial orientation on business performance positively and significantly.

The total effect of the relationship between competitive advantage on business performance is 0.220 with a t-statistic of 2.440 and a p value of 0.015. The total effect of entrepreneurial orientation on competitive advantage is 0.741 with a t-statistic value of 9.990 and a p value of 0.000. The total effect of the relationship between entrepreneurial orientation on business performance is 0.813 with a t-statistic value of 11.511 and a p value of 0.000. These values indicate a significant effect.

**Table 6. Direct, Indirect and Total Effect**

Effect	Construct			Standardized Estimates	T Statistics (O/STDEV)	P Value
Direct	Competitive Advantage> Business Performance			0,220	2,440	0,015
	Entrepreneurial Advantage	Orientation>	Competitive	0,741	9,990	0,000
	Entrepreneurial Performance	Orientation>	Business	0,649	7,601	0,000
Indirect	Entrepreneurial advantage>	orientation>	Competitive Business performance	0,163	2,386	0,017
Total	Competitive Advantage> Business Performance			0,220	2,440	0,015
	Entrepreneurial Advantage	Orientation>	Competitive	0,741	9,990	0,000
	Entrepreneurial Performance	Orientation>	Business	0,813	11,511	0,000

Primary Data, 2020

*The effect of entrepreneurial orientation on business performance*

The results of the bootstrapping test in Table 5 indicate that hypothesis one is accepted. The t-statistic value for H1 is 7.601 with a path coefficient value of 0.649 and a p value of 0.015 indicating the value of the relationship between entrepreneurial orientation and business performance has a positive and significant effect. Based on this research model, the company's business performance will increase if the company is able to develop new ideas, is proactive in responding to market conditions, has the courage to take the risk of failure and is aggressive in introducing new products. The results of this study support the results of a similar previous study conducted by Hassim et al. (2011). This research also supports the results of research conducted by Ibrahim and Mahmood (2016) and Mohammad et al. (2019). So entrepreneurial orientation has a positive and significant effect on business performance.

*The effect of entrepreneurial orientation on competitive advantage*

The estimation results of the structural model in Table 5 show the value of testing the hypothesis of the relationship between entrepreneurial orientation having a t-statistic value of 9.990 with a path coefficient value of 0.741 and a significance value of 0.000. The test value indicates that H2 is accepted, that is, entrepreneurial orientation has a positive and significant effect on competitive advantage. The results of this study are in line with previous studies conducted by Helia et al. (2015) and Ibrahim and Mahmood (2016). The results of previous studies that found the same effect were research conducted by Zainol et al. (2018) and Medhika et al. (2018). Thus, a company can achieve competitive advantage by regularly developing new ideas, taking risks in operations, being proactive in responding to the market, and being aggressive in introducing new products in the market.

*The effect of competitive advantage on business performance*

The t-statistic value of the triple hypothesis presented in table 5 is 2.440 with a path coefficient of 0.220 and a p value of 0.000. This means that competitive advantage has a positive and significant effect on business performance. Thus Hypothesis one is accepted. The results of this study are in line with the results of previous studies conducted by Zaini et al. (2014) and Ibrahim and Mahmood (2016). Supporting research results are research conducted by Musrifah and Muwartiningsih (2017) and Medhika et al. (2018). In order to improve business performance through competitive advantage, it can be done by creating unique products, of high quality, competitive prices in the market and the ability to establish good relationships with consumers.

*The role of competitive advantage in mediating the effect of entrepreneurial orientation on business performance*

Based on the data from Table 5 regarding the indirect influence between entrepreneurial orientation, competitive advantage, and business performance, the t-statistic value is 2.386 with a path coefficient value of 0.163 and a p value of 0.017. This value indicates that competitive advantage partially mediates the effect of entrepreneurial orientation on business performance. The results of this study support the results of previous studies regarding a similar relationship conducted by Ibrahim and Mahmood (2016). The results of this study also support the results of research conducted by Anastusi and Suharyono (2018). The two previous studies stated that competitive advantage partially mediates the effect of entrepreneurial orientation on business performance.

## V. Conclusion

The results of this study have been able to enrich the theory of marketing strategy and business performance. The results showed a positive and significant relationship between entrepreneurial orientation and competitive advantage on business performance. The results showed a positive and significant relationship between competitive advantage and business performance, and was able to show the mediating effect of competitive advantage on the effect of entrepreneurial orientation on business performance. Thus this study has been able to enrich previous research, add to empirical studies and confirm the existence of a relationship between entrepreneurial orientation, competitive advantage, and business performance.

Based on the results of the research that has been done, to be able to improve company performance related to profit, productivity, and export activities can be done by implementing entrepreneurial orientation strategies and competitive advantage. The application of an entrepreneurial orientation can be done by creating silver handicrafts with designs that are continuously updated and adjusted to consumer desires. In addition, companies can also be proactive and aggressive in responding to the market by creating limited edition handmade products. To increase competitive advantage can be done by creating unique products such as a combination of designs that are currently trending in the international world with Balinese designs.

### Research Limitations

Based on research that has been done in the field, there are several limitations in this study. This limitation is that the research was only conducted in Celuk Village so that it cannot be generalized. The possibility of changes to the environment makes it possible to change the results of the research so it is necessary to carry out research on similar topics and relationships in the future. The condition of the community that was hit by the Covid-19 pandemic hampered the process of distributing questionnaires. Most of the respondents in this study were business owners over 40 years of age so that the questionnaire filling had to be carried out directly so that there were no misperceptions in filling out the questionnaire. The pandemic has caused many business owners not to be in their place of business, which hampered filling out questionnaires. In addition, many business owners are reluctant to meet and fill out questionnaires due to health and pandemic reasons.

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