Entrepreneurial Orientation in the Business Profit Development Center of SMEs in Java: The Critical Role of Islamic Values

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Abstract
Small and medium enterprises (SMEs) are urged to enhance their business operations in the rapidly evolving technological landscape. The emphasis on entrepreneurial orientation has played a crucial role in both economic and societal development. Islamic values, which are rooted in fundamental religious principles, have significant potential to shape entrepreneurial behaviors. This research aims to provide a framework that enhances the performance of SMEs. The results of this research emphasize the significant role of Islamic values in amplifying entrepreneurial orientation. This research reveals that adopting Islamic principles has the potential to significantly improve the business performance of SMEs in Central Java. In addition, SMEs benefit from a significant boost in their performance by embracing Islamic values, such as proactiveness, a commitment to learning, and the willingness to take risks.

Keywords: Islamic value, proactive, risk-taking, learning orientation, business performance

INTRODUCTION
The growth of small and medium-sized enterprises (SMEs) in Indonesia holds strategic importance, given their potential to bolster the local economy and serve as a primary livelihood for many, enhancing the overall well-being of the populace. Despite the inherent potential of SMEs, they continue to grapple with a myriad of challenges, preventing several from realizing
enhanced revenue streams. Although regional administrations and private entities have implemented programs to improve the performance of SMEs, these endeavors are typically short-lasting and are without sound supervision. As a consequence, persistent unresolved problems emerge. The imperative to foster new entrepreneurs within the SME sector becomes apparent, especially in light of the frequent setbacks faced by these enterprises and their underwhelming contribution to the GDP, when juxtaposed with their number of operating units and workforce. Concurrently, SMEs face stiff competition in both local and broader markets, which can either fortify or undermine the correlation between entrepreneurial acumen and SME performance in Central Java. Those SMEs that cognize the intense competitive landscape often strive for excellence, relentlessly honing their entrepreneurial capacities with a focus on innovation, proactive strategies, and risk-taking endeavors (Forber, 2018; Rauch et al., 2019). However, one striking observation remains. The performance of some small businesses is below average. This is probably due to the inability to develop and expand. This paves the way for exploring an entrepreneurial model anchored in Islamic values, which could potentially catalyze the business performance of SMEs in Central Java.

LITERATURE REVIEW

Islamic Values

The study of epistemological value is a distinguishing factor between Western and Islamic science perspectives. In the Islamic paradigm, knowledge is value-laden and imbued with purpose. As posited by Sumarna, value is the very essence of knowledge. Having knowledge without values is comparable to possessing a dead body, making it worthless (Sumarna, 2006: 183). The Qur’an is replete with values that can serve as the bedrock for knowledge acquisition and development, such as tawhid (monotheism), faith, maslahah (public benefit), sincerity, ‘adl (justice), ihsan (kindness), istikhlaf (vicegerency), ukhuwwah (brotherhood), and shiddiq (truthfulness).

Tawhid underscores the quintessential tenet of the Islamic faith: monotheism. This principle asserts the inherent equality in creation, highlighting that only Allah, The Almighty, the sovereign of the cosmos, is worthy of worship. Human beings, distinct from other creatures, are not merely consumers of life’s pleasures but bear the noble responsibility of
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Corporate orientation pertains to a company’s strategic stance on specific business facets, including decision-making approaches, methodologies, and practices. As such, it mirrors a company’s approach rather than its specific actions (Lumpkin & Dess, 1996). Miller (1983) encapsulated the essence of an entrepreneurial firm by describing it as an entity engaging in product-market innovation, pursuing moderately risky ventures, and pioneering “proactive” innovations to outpace competitors. The consensus among various researchers highlights entrepreneurial orientation as an amalgamation of three core dimensions: innovation, proactivity, and risk-taking (Covin & Slevin, 1989, 1990, 1991; Knight, 1997; Miller, 1983; Namen & Slevin, 1993; Wiklund, 1999; Zahra & Covin, 1995; Zahra, 1993a).

This orientation encompasses a predisposition towards innovating to refresh market offerings, venturing into novel and uncertain products, services, and markets, and establishing a more proactive stance than
competitors towards emerging market opportunities. In the present context, the innovation dimension denotes a tendency to actively participate in and advocate for original concepts, experiments, and creative undertakings that diverge from conventional approaches (Lumpkin & Dess, 1996).

As a facet of innovation, marketing innovation empowers companies to scout for fresh opportunities. Conversely, proactivity implies a forward-thinking approach, envisioning future market dynamics and initiating early action to establish a competitive edge. Companies ingrained with anticipatory traits are naturally inclined to be trailblazers, capitalizing on unfolding opportunities. Risk-taking pertains to the readiness to commit substantial resources to ventures with potentially high failure costs (Miller & Friesen, 1982). It is about investing in projects with uncertain outcomes, underlining a company's boldness in sideling conservative measures.

Proactivity epitomizes a forward-thinking, opportunistic stance characterized by unveiling products or services ahead of rivals and forecasting future market needs (Rauch et al., 2014; Yoon-joo et al., 2010). Ibeh and Young (2011) posit that exportation is intrinsically entrepreneurial, visualizing it as a process where individuals, regardless of the resources, navigate or mitigate environmental challenges while targeting export market prospects. In the words of Lumpkin and Desa (1996) and Huli (2009), a proactive entrepreneurial orientation is a zeal to respond affirmatively, discern opportunities, overshadow competitors through a blend of forward-thinking and assertive measures, and introduce groundbreaking products or services. Such an orientation drives companies to rapidly introduce products to the market to secure prompt funding or gain immediate market feedback (Lumpkin et al., 2010).

H1: An elevation in Islamic values correlates with an enhanced proactive behavior orientation in entrepreneurship.

Learning Orientation

Learning is conceived as an adaptive response that influences the relationship between a system and its external surroundings. As delineated by Lawrence et al. (2006), organizational learning is primarily anchored in cognitive and behavioral dimensions, intertwined with four principal factors: 1) culture, 2) strategy, 3) structure, and 4) environment. Culture embodies the collective beliefs, norms, and ideologies that permeate an organization’s
activities. Embracing a learning orientation implies that enhancements are marked by positive evolutions. Such an orientation serves as a self-regulatory strategy, bolstering skills, capabilities, and knowledge of human resources, culminating in elevated performance. Drawing inspiration from the Qur’an, it emphasizes the importance of the quest for knowledge through diligent study. In light of this, the hypothesis posited in this research is as follows.

H2: An ascent in Islamic values correlates with a heightened learning orientation.

Taking Risks

Risk-taking characterizes ventures that dive boldly into the unfamiliar, assume significant financial liabilities, and/or designate extensive resources to projects within unpredictable landscapes (Chandra et al., 2007; Fazul et al., 2010; Idah & Mahmood, 2011; Ilhami, 2011). At its core, risk-taking is defined by the willingness to channel ample resources, even when confronted by a prominent risk of setbacks (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Sepulveda, 2010).

H3: A surge in adherence to Islamic values is associated with an elevated inclination towards risk-taking.

Business Performance

In the contemporary business landscape, the emphasis predominantly rests on achieving tangible business outcomes. Nevertheless, a myriad of yardsticks is employed to gauge and ascertain performance metrics. As per Venkatraman and Ramanujam (1986), performance delineation can harness both financial and operational (non-financial) indices. Financial metrics pivot around aspects such as profitability and revenue augmentation, encapsulated by measures like return on investment, return on sales, and return on equity. In contrast, operational metrics address non-financial determinants of success, spanning realms like quality, market share, customer satisfaction, new product evolution, and market trajectory.

Furthermore, they demarcate performance data along bifurcations of primary or secondary sources. Primary data is collected directly from the organization under investigation, whereas secondary data is obtained from repositories that are accessible to the public. A further differentiation among
performance metrics concerns subjective versus objective parameters. Objective performance measures allude to quantifiable metrics, typically financial, procured from institutional frameworks. In contrast, subjective measures hinge on evaluative perceptions and span both financial and non-financial facets (Gonzalez-Benito & Gonzalez-Benito, 2005). In the context of management, subjective metrics are often favored due to their ability to capture complex performance complexities, as suggested by Gonzalez-Benito and Gonzalez-Benito (2005). Moreover, certain scholars underscore the challenges associated with procuring objective metrics, deeming them as potentially unreliable owing to data’s potential obsolescence or superfluity (e.g., Pitt et al., 1996).

This research used subjective measurements to analyze the relationship between differentiation strategy, innovation, and the performance outcomes obtained by entrepreneurs. These findings align with similar viewpoints expressed in academic literature. Data was directly sourced from organizational stalwarts, indicative of a primary data approach. The business performance queries incorporated within the survey encapsulated facets related to profitability and growth, representative of financial performance metrics. Given the aforementioned discourse, the hypotheses postulated within this research are:

H4: A heightened proactive stance correlates with amplified performance intensity.

H5: An elevated learning orientation resonates with intensified operational vigor.

H6: An augmented risk propensity parallels increased operational dynamism.

RESEARCH METHOD

This research employed a quantitative approach, drawing its sample from managers or proprietors of SMEs located in the Central Java region. The selection strategy adopted a targeted sampling technique, emphasizing the inclusion of managers or owners who have helmed their enterprises for a minimum duration of five years. Data collection leveraged a questionnaire method structured around a Likert scale, which was directly presented to the respondents, in this case, the SME managers or owners in Central Java. The
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Likert scale was utilized to delineate distinct indicators for each variable. The aforementioned indicators were elaborated upon by means of inquiries that solicited responses from the participants. The study harnessed the Partial Least Square (PLS) method for data analysis, deploying the Warp PLS 7.0 software. A salient advantage of Warp PLS resides in its provision of output values, the cumulative indirect effect, p-values, standard errors, and effect size. The PLS technique is lauded for its applicability in intricate causal predictive analyses, especially when theoretical underpinnings might not be robustly established for the research objectives. Haribowo (2017) claimed that comprehensive testing was undertaken on all models. This evaluation encompassed an external model, incorporating factors like convergent validity, discriminant validity, and composite reliability. The overarching intent behind such rigorous testing of the external model was to ascertain the appropriateness and validity of the survey data.

RESULTS

Characteristics of respondents

The variables representing respondent characteristics encompass five distinct sub-variables: gender, education level, respondent’s age, field of activity, and the position held within the company. Each of these sub-variables is treated as categorical data and is appropriately scaled. Table 4.1 comprehensively presents the profiles of the owners or administrators from Central Java.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Profile</th>
<th>Sum</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Man</td>
<td>90</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>Woman</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>Education</td>
<td>Senior High School</td>
<td>75</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Junior High School</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Primary School</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 1 presents a comprehensive profile of 150 respondents from Central Java. Men, comprising 60% of the sample, dominate the dataset. In terms of education, half of the respondents have either high school or vocational training, with the remainder equally split between those who completed high school and those with primary education. Age-wise, the majority, 43%, are aged between 31-40, followed by 33.7% in the 41-50 range. Notably, the manufacturing sector is predominant, involving 76.6% of the respondents, with trading and food businesses trailing behind. Furthermore, a substantial 90% of these respondents are business owners, while the remaining 10% operate rental companies.

### Analytical Techniques

This research employed a survey technique. This approach is inherently quantitative, based on Neuman W Lawrence’s perspective cited by Saptro et al. (2018). Within the scope of this study, questionnaires served as the primary instrument, probing a cohort of respondents about their historical and current beliefs, attitudes, attributes, and behaviors. Furthermore, the study utilized the Structural Equation Model (SEM) for data analysis. The multivariate analysis technique defined by Sasongko et al. (2016) was developed as a sophisticated resolution to address the deficiencies and constraints that have long been present in analytical models used in statistical research.
Data Analysis

The research data was analyzed using the Partial Least Squares and Structural Equation Modeling (PLS-SEM) approach. The PLS-SEM analytical procedure was executed using the SMART PLS 3.3.0 software. Considering the prior utilization of confirmatory factor analysis (CFA) in other research endeavors, the researchers considered it suitable to adopt the same approach for the present study.

The PLS-SEM analysis comprises two primary stages. Initially, there is an evaluation of the outer model, followed by an examination of the inner model. The external model assessment involves a sequence of statistical analyses gauging the validity and reliability of constructs derived from the research instrument. A validity test is administered to determine the validity of each construct. As illustrated in Table 4.2, the loading coefficients for all construct indicators surpass the 0.500 threshold, signifying the construct’s capacity to measure the research design accurately. Essentially, it denotes that the questions posed to the respondents are valid and that the structure incorporated in the research design holds validity.

Afterward, a reliability test is executed to ascertain the reliability quotient of each construct. This test, leveraging the combined values of composite reliability and Cronbach’s alpha obtained from the SMART PLS 3.3.0 processing, verifies the consistency of the constructs. A benchmark value of 0.700 is established, and constructs surpassing this value are deemed reliable. Conversely, according to Saputra and Kawisana (2021), the construct is deemed unreliable if the derived value falls below 0.700.

Table 2: Convergence Validity and Instrument Reliability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Item</th>
<th>Factor loading</th>
<th>Cronbach Alpha</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Value</td>
<td>NNI 1</td>
<td>0.782</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NNI 2</td>
<td>0.808</td>
<td>0.865</td>
<td>0.875</td>
<td>0.785</td>
</tr>
<tr>
<td></td>
<td>NNI 3</td>
<td>0.764</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactive</td>
<td>PR 1</td>
<td>0.554</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PR 2</td>
<td>0.747</td>
<td>0.782</td>
<td>0.791</td>
<td>0.754</td>
</tr>
<tr>
<td></td>
<td>PR 3</td>
<td>0.708</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2 presents the loading coefficients for all the indicators deployed in this study, and they all surpass the 0.700 threshold. This implies that each index aptly reflects its intended construct. The table also demonstrates that the composite reliability (CR) and Cronbach’s alpha (CA) exceed 0.700. Coupled with an average variance extracted (AVE) that is above 0.500, these metrics collectively attest to the reliability and validity of the variables and indicators employed in this research.

The adoption of the Heterotrait-Monotrait (HTMT) measure was implemented to enhance the assessment of the instrument’s discriminative capacity. According to Henseler et al. (2018), in order to maintain the instrument’s validity, the HTMT ratio must not exceed 0.900. As illustrated in Table 3, the HTMT ratio between any two distinct constructs for every variable is consistently below 0.900. This evidence reaffirms the instrument’s appropriateness in gauging the constructed model within this study.

### Table 3: Discriminant Validity (HTMT Ratio)

<table>
<thead>
<tr>
<th></th>
<th>NI</th>
<th>PR</th>
<th>RT</th>
<th>OB</th>
<th>KB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic Value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactive</td>
<td>0.605</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-Taking</td>
<td>0.712</td>
<td>0.605</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning Orientation</td>
<td>0.627</td>
<td>0.565</td>
<td>0.450</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Performance</td>
<td>0.560</td>
<td>0.650</td>
<td>0.680</td>
<td>0.670</td>
<td></td>
</tr>
</tbody>
</table>

Sources: processed data 2022
Results of Hypothesis Testing

Table 4’s analysis, utilizing bootstrapping with 5,000 subsamples, revealed key relationships among latent variables at a significance level between 5-10%. Islamic values positively influenced proactivity ($\beta = 0.450$, P-value = 0.000), learning orientation ($\beta = 0.188$, P-value = 0.016), and risk tolerance ($\beta = 0.672$, P-value = 0.000). Moreover, while proactivity had a slightly negative impact on business performance ($\beta = -0.172$, P-value = 0.039), both learning orientation ($\beta = 0.548$, P-value = 0.000) and risk-taking ($\beta = 0.752$, P-value = 0.000) showed strong positive associations with firm outcomes.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path</th>
<th>Coefficient</th>
<th>STD</th>
<th>T-Statistics</th>
<th>P-Value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>NNI &gt; PR</td>
<td>0.217</td>
<td>0.450</td>
<td>2.827</td>
<td>0.013</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>NNI &gt; OB</td>
<td>0.169</td>
<td>0.188</td>
<td>1.978</td>
<td>0.024</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>NNI &gt; RT</td>
<td>0.608</td>
<td>0.672</td>
<td>6.975</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H4</td>
<td>PR &gt; KB</td>
<td>0.386</td>
<td>0.172</td>
<td>3.565</td>
<td>0.002</td>
<td>Supported</td>
</tr>
<tr>
<td>H5</td>
<td>OB &gt; KB</td>
<td>0.561</td>
<td>0.548</td>
<td>7.587</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H6</td>
<td>RT &gt; KB</td>
<td>0.663</td>
<td>0.752</td>
<td>6.587</td>
<td>0.000</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Sources: processed data 2022

Table 4 delineates that the mediation relationship in the model is adequately established. For a successful mediation effect, the independent variable must influence the mediating (intervention) variable, which in turn must affect the dependent variable, as outlined by Henseler et al. (2016). The results highlight significant direct relationships between the latent variables. Specifically, Islamic values profoundly influence initiative, learning orientation, and risk appetite. These, in turn, significantly impact business performance. Based on the results obtained, it appears that all six proposed hypotheses (H1, H2, H3, H4, H5, H6) are justified and are thus accepted.

DISCUSSION

The impact of Islamic values on entrepreneurship and learning orientation is substantiated through hypothesis testing. The influence of Islamic values
on proactivity is supported by a t-statistics test value of 2.827, surpassing the t-table value of 1.6711, with an estimated coefficient of 2.217. This signifies that higher adherence to Islamic values correlates with enhanced entrepreneurial proactivity. Similarly, Islamic values significantly and positively affect learning orientation, evident by a t-statistic of 1.978 (t-table = 1.6711) and an estimated coefficient of 0.169, underscoring the link between strong Islamic values and improved learning orientation.

Furthermore, the analysis demonstrates that Islamic values wield a substantial and affirmative influence on risk-taking, as indicated by a t-statistic value of 6.975 (t-table = 1.6711) and an estimated coefficient of 0.608. The results also illustrate that proactive behavior has a noteworthy and constructive effect on company performance, supported by a t-statistic of 3.565 (t-table = 1.6711) and an estimated coefficient of 1.386. This echoes the findings of a study by Sisno Riyoko et al. (2022), reinforcing the notion that heightened proactivity positively correlates with enhanced company performance.

Moreover, learning orientation significantly and positively impacts company performance, validated by a t-statistic value of 7.587 (t-table = 1.6711) and an estimated coefficient of 0.663. This outcome aligns with the conclusions of a study by Sisno (2022), corroborating the idea that a stronger learning orientation translates to better company performance. Lastly, corporate risk exhibits a significant and constructive influence on company performance, evidenced by a t-statistic value of 6.587 (t-table = 1.6711) and an estimated coefficient of 0.663. This finding mirrors the observations of Sisno Riyoko (2022), supporting the premise that higher risk-taking corresponds to improved business performance.

**CONCLUSION**

Recognizing the genuine determinants that drive business performance is pivotal for small and medium-sized enterprises engaged in commerce. Based on the literature review that was previously described, this study emphasized the significance of Islamic values in influencing entrepreneurial tendencies and encouraging a learning orientation. Then, Islamic values exert a substantial impact on both learning and entrepreneurial orientations, as confirmed by subsequent hypothesis testing that provided additional information on the direct relationships. Significantly, the learning orientation not only impacts
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the operational outcomes of small and medium-sized enterprises (SMEs) in Central Java but also embodies the entrepreneurial ideals of proactivity and risk-taking. Hence, the empirical evidence validates and supports the acceptance of all the postulated hypotheses.

LIMITATION

Although this study successfully addressed the research questions and achieved its objectives, it is important to acknowledge certain limitations that may offer opportunities for further investigation. Firstly, the respondent demographics, primarily comprised of small and medium-sized enterprises (SMEs), might not uniformly possess a comprehensive understanding of Islamic values and their intersection with entrepreneurship. Secondly, the sample size could be seen as a limitation. The participation rate of merely 50% out of the expected 300 respondents gives rise to apprehensions regarding the breadth and depth of the insights collected. This suboptimal participation could lead to respondents primarily including aspects they are familiar with, potentially skewing results. Future research could address these challenges by refining the study design, ensuring a broader, more knowledgeable participant pool, and incorporating mediating variables like entrepreneurial and learning orientations. Additionally, subsequent studies might delve deeper into how Islamic values directly impact the performance metrics of SMEs.

REFERENCES


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