

Original Article

# Entrepreneurial Orientation, Organizational Innovation, and LPD Performance in Badung Regency

Widagda I Gst. Ngr. Jaya Agung<sup>1</sup>, Giantari I G. A. Ketut<sup>2</sup>, Sukaatmadja, I Putu Gde<sup>3</sup>, Yasa Ni Nyoman Kerti<sup>4</sup>,  
Rahmayanti Putu Laksmi Dewi<sup>5</sup>

<sup>1,2,3,4,5</sup> Faculty of Economic and Business, Udayana University  
Denpasar Bali, Indonesia

Received Date: 21 December 2019

Revised Date: 15 January 2020

Accepted Date: 21 January 2020

**Abstract** - The purpose of this study is to explain the effect of entrepreneurial orientation on organizational innovation and its impact on LPD performance. The sampling method used is purposive sampling. The number of samples taken was 60 LPD chairmen or administrators in Badung Regency as respondents. Data collection was performed using a questionnaire method. The data analysis technique used is Path Analysis and Sobel Test. The results showed that the entrepreneurial orientation variable has a positive and significant effect on LPD performance. Entrepreneurial orientation has a positive and significant effect on organizational innovation. Organizational innovation also has a positive and significant effect on LPD performance, and organizational innovation can mediate the effect of entrepreneurial orientation on LPD. Therefore, in the future, LPD in Badung Regency must always develop a mindset or entrepreneurial orientation to improve organizational innovation and improve LPD performance.

**Keywords** - Entrepreneurial Orientation, Organizational Innovation, and LPD Performance

## I. INTRODUCTION

Village Credit Institution (LPD) is one of the microfinance institutions in the Bali Province. Now the LPD has a strategic role in the economy of Bali because this institution participates in improving the village economy by helping Micro, Small, and Medium Enterprises (MSMEs) owned by residents in the region. Because LPD has a strategic role, the existence of LPD should be maintained and empowered. In business competition, LPD also competes with competitors, such as Rural Bank and savings and loan cooperatives. To maintain its ability to compete, LPD should also have a strategy to anticipate various changes in the future, where the environment of all organizations, including the LPD environment, is always changing.

One strategy that LPD must carry out is innovation. This includes product innovation, service innovation, and management innovation through organizational innovation. Innovation needs to be done to support the LPD to achieve better performance. Several research results showed that the organization could achieve higher performance by innovating.

Likewise, the LPD in Badung Regency. LPD in Badung Regency also needs to realize higher performance accomplishments. LPD performance in Badung Regency is usually measured by operating profit, from the number of funds owed, the amount of credit disbursed, and the satisfaction of its customers. To realize high performance, LPD in Badung Regency always strives to innovate. One of the innovations that have been done is developing various new products (new savings) for its customers. In addition to innovating, the Chairperson of the LPD and his staff have also developed an entrepreneurial mindset while also being creative, innovative, and brave to take the risks that have been analyzed previously. This entrepreneurial orientation also supports the emergence of innovation in LPD organizations so that the eventual impact leads to improvements in performance. Based on the existing background, the main problems are the influence of entrepreneurial orientation on organizational innovation and its impact on LPD performance in the Badung Regency.

## II. LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

Business performance is an indicator that is usually used to measure a company's success in achieving its goals (Ho, 2011). Business performance is generally measured using indicators of financial performance and market performance. Besides, there are variations in indicators in measuring performance. For example, industry performance is measured



using financial performance such as return on investment or ROI, return on equity or ROE (Alipour, 2013; Andreou and Miren., 2014;), revenue growth, profit/surplus size (Pinho et al., 2014) and marketing performance such as sales growth and profitability (Antoncic and Prodan, 2008; Lee and Yang, 2011), market share (Antoncic and Prodan, 2008; Zehir et al., 2015; Prajogo, 2016), customer satisfaction and total sales (Lee and Yang, 2011; Kilic et al., 2015). This study uses organizational performance indicators sourced from Engelen (2015), namely customer satisfaction, customer effectiveness, and financial performance.

An increase in business performance is one of the causes of the implementation of entrepreneurial orientation in an organization. Miller (2011) described entrepreneurial orientation as being involved in innovating market products, doing a bit of risky business, and first coming up with proactive innovation, and sending a blow to beat competitors. Also, Miller (2011) stated that entrepreneurial orientation could be determined based on three dimensions, namely proactive, innovative and risk-seeking. Entrepreneurial orientation is creating something new and different, similar to creating value for themselves and their environment (Sarasvathy and Venkataraman, 2001). Lumpkin and Dess (1996) stated that innovation, risk-taking, and proactivity make a unique contribution to the entrepreneurial orientation of a company. Research results by Kraus et al. (2010) showed that the proactive behavior of companies contributed positively to the performance of SME businesses during the economic crisis in the Netherlands. The research of Frank et al. (2010) showed that entrepreneurship in terms of taking risks has a positive effect on social performance, and innovation has a negative relationship. Besides, business performance can also increase due to innovations created by organizations. Hoq et al. (2009) perceived innovation as one of the ways for companies to create core capabilities that drive market orientation, where market orientation is used as a reference for carrying out various innovations. Thinking outside the box is the slogan of many creativity experts who connect creative thinking to innovation companies (Reckhenrich et al., 2009). Innovation is the ability to create something new or bring renewal and act in a way that utilizes these new capabilities (Marcati et al., 2008). Innovation has become the foundation for achieving a competitive advantage that leads to organizational performance and is currently one of the main topics of debate in the management literature (Perez-Luno et al., 2014). Several studies provided results that there is a positive and significant influence of organizational innovation on organizational performance (Hogan and Coote., 2014; Hervas-Oliver et al., 2014; and Bustinza et al., 2017)

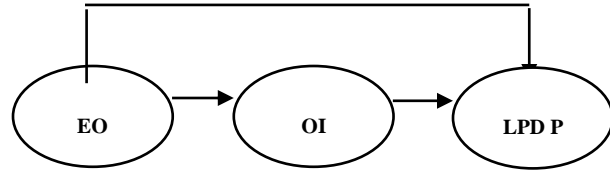


Fig. 1 Conceptual Framework

### A. Research Hypothesis

Helia et al. (2015), with their research title "Effect of Market Orientation and Entrepreneurship Orientation on Competitive Advantage Through Product Innovation as an Intermedia Variable (Case Study of Batik IKM in Batik Laweyan Village, Solo)" showed the results that entrepreneurial orientation has a positive and significant effect on product innovation. Based on research by (2016), the results showed that entrepreneurial orientation has a positive and significant effect on product innovation. Based on the results of empirical studies, the following hypothesis can be constructed:

**H1 : Entrepreneurial orientation has a positive and significant effect on organizational innovation**

The entrepreneurial orientation, which consists of (1) innovating, (2) acting proactively, and (3) managing risk on business performance, shows results with a significant positive effect on business performance (Andersen, 2010; Umar and Jahanzaib, 2014; and Tricahyadinata et al. 2015). Research conducted by Nur (2014) showed a significant positive relationship between entrepreneurial orientation on business performance. The research of Frank et al. (2010) showed that entrepreneurship in terms of taking risks has a positive effect on social performance, and innovation has a negative relationship. Based on the results of empirical studies, the following hypothesis can be constructed:

**H2 : Entrepreneurial orientation has a positive and significant effect on LPD performance**

Innovation has become the foundation for achieving a competitive advantage that leads to organizational performance and is currently one of the main topics of debate in the management literature (Perez-Luno et al., 2014). Several studies showed a positive and significant effect of organizational innovation on organizational performance (Hogan and Coote., 2014; Hervas-Oliver et al., 2014; and Bustinza et al., 2017). Based on the results of empirical studies, the following hypothesis can be constructed:

**H3 : Organizational innovation has a positive and significant effect on LPD performance**

Based on Asashi and Sukaatmadja (2017), the research results showed that product innovation could mediate entrepreneurial orientation significantly on marketing

performance. This is supported by a combination of Syukron's (2016) research, which showed that entrepreneurial orientation influences product innovation and researchers Hogan and Coote (2014) stated that organizational innovation could improve organizational performance. So, the position of organizational innovation can be used as a mediating variable between entrepreneurial orientation and organizational performance. Based on the results of empirical studies, the following hypothesis can be constructed:

**H4 : Organizational innovation will mediate the effect of entrepreneurial orientation on LPD performance**

### III. RESEARCH METHODOLOGY

This research is classified into associative research, which is a research that aims to determine the relationship between entrepreneurial orientation variables with organizational innovation and LPD performance in Badung Regency. The research location chosen was in Badung Regency. The research subjects used in this study were entrepreneurial orientation, organizational innovation, and LPD performance. The study population was all LPDs in Badung Regency. Data collection methods used in this study were a questionnaire, which is several questions asked to respondents to be filled under the respondents' perceptions about the research object. Questionnaires were distributed to LPD management/leaders. Respondents' answers were measured using a Likert scale with five levels. The data analysis technique in this study used the classical assumption test, flow analysis, and Sobel Test.

### IV. RESULTS AND DISCUSSION

A validity test aims to check whether the questionnaire as a research instrument is appropriate to measure the object that should be measured. An instrument is considered valid if the correlation coefficient of the r-calculate value is greater than 0.30 (Sugiyono, 2018:198).

The reliability test is used to determine the accuracy of the questionnaire answers at different periods. A questionnaire is reliable if a person's answer to a statement is consistent or stable over time with a Cronbach Alpha value > 0.60 (Ghozali, 2013:47).

Table 1. Instrument Validity and Reliability Test Results

Variable	Item	R Correlation	Cronbach's Alpha $\alpha$
Entrepreneurial Orientation (X)	X1	0.587	0.785
	X2	0.727	
	X3	0.732	
	X4	0.790	
	X5	0.862	
Organizational Innovation (Y1)	Y1.1	0.722	0.600
	Y1.2	0.545	
	Y1.3	0.670	
	Y1.4	0.730	
LPD Performance (Y2)	Y2.1	0.765	0.611
	Y2.2	0.820	
	Y2.3	0.694	

Source: Computed Primary Data, 2019

Table 2. Path Analysis 1 Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.192	2.020		2.076	0.042
Entrepreneurial Orientation	0.550	0.096	0.601	5.729	0.000
R <sup>2</sup>					0.361
F Statistic					32.824
Sig F					0.000

Source: Computed Primary Data, 2019

Table 3. Path Analysis 2 Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.384	1.597		0.867	0.390
Entrepreneurial Orientation	0.259	0.092	0.349	2.826	0.006
Organizational Innovation	0.322	0.100	0.397	3.216	0.002
R <sup>2</sup>					0.446
F Statistic					22.905
Sig F					0.000

Source: Computed Primary Data, 2019

Based on the results of substructure 1 of path analysis as presented in Table 2, a structural equation can be made as follows:

$$Y_1 = \beta_1 X + e_1$$

$$Y_1 = 0.601 X + e_1$$

Based on the results of substructure 2 of path analysis as presented in Table 3, structural equation can be made as follows:

$$Y_1 = \beta_2 X + \beta_3 M + e_2$$

$$Y_1 = 0.349 X + 0.397 Y_1 + e_2$$

The final path diagram model can be constructed based on the substructure 1 and substructure 2 models. Before constructing the final path diagram model, first, calculate the standard error value as follows:

$$Pe_i = \sqrt{1 - R_1^2}$$

$$Pe_1 = \sqrt{1 - R_1^2} = \sqrt{1 - 0.506} = 0.703$$

$$Pe_2 = \sqrt{1 - R_2^2} = \sqrt{1 - 0.624} = 0.613$$

Based on the calculation of the effect of error (Pe<sub>i</sub>), the result of the effect of error (Pe<sub>1</sub>) is 0.703 and the effect of error (Pe<sub>2</sub>) is 0.613. The result of the total coefficient of determination is as follows:

$$R_m^2 = 1 - (Pe_1)^2 (Pe_2)^2 = 1 - (0.703)^2 (0.613)^2$$

$$= 1 - (0.494) (0.376)$$

$$= 1 - 0.186 = 0.814$$

A total determination value of 0.814 means that 81.4% of the variation in LPD performance is influenced by entrepreneurial orientation and organizational innovation, while the remaining 18.6% is explained by other factors not included in the model.

Testing the mediator variable, which mediates the relationship between the dependent and independent variables, can be done through the following stages.

$$S_{ab} = \sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2}$$

$$S_{ab}$$

$$= \sqrt{(0.322)^2 (0.100)^2 + (0.550)^2 (0.104)^2 + (0.100)^2 (0.104)^2}$$

$$S_{ab} = 0.079$$

Information:

S<sub>ab</sub> = the size of indirect standard errorS<sub>a</sub> = standard error of the coefficient aS<sub>b</sub> = standard error of the coefficient ba = path coefficient X<sub>1</sub> on Y<sub>1</sub>b = path coefficient Y<sub>1</sub> on Y<sub>2</sub>ab = product of path coefficient X on path coefficient Y<sub>1</sub> (a) with path Y<sub>1</sub> on Y<sub>2</sub> (b)

to test the significance of the indirect effect, calculate the z value of the ab coefficient with the following formula:

$$Z = \frac{ab}{Sab}$$

$$Z = \frac{(0,550)(0,322)}{0,079}$$

$$Z = 2.216.$$

The calculation results in Table 2 found a significance level of the perceived value of  $0.000 < 0.05$  with a beta value of 0.601, then the research hypothesis  $H_1$  is accepted. This means that entrepreneurial orientation has a positive and significant effect on organizational innovation in LPD in Badung Regency. The calculations in Table 3 found a significance level of entrepreneurial orientation of  $0.006 < 0.05$  with a beta value of 0.349, then the research hypothesis  $H_2$  is accepted. This means that entrepreneurial orientation has a positive and significant effect on LPD performance. The calculations in Table 3 found a significant level of organizational innovation of  $0.002 < 0.05$  with a beta value of 0.397, then the research hypothesis  $H_3$  is accepted. This means that organizational innovation has a positive and significant effect on LPD performance. The calculation results obtained comparisons of the calculated Z value of  $2.216 > Z$  table of 1.96, then the research hypothesis  $H_4$  is accepted, which means that organizational innovation significantly mediates the effect of entrepreneurial orientation on LPD performance.

## V. CONCLUSION

Based on the discussion results, it can be concluded from this study as follows. First, entrepreneurial orientation has a positive and significant effect on LPD organizational innovation in Badung Regency, meaning that the more intensive the entrepreneurial orientation conducted by the LPD in Badung Regency, the better the organizational innovation. Entrepreneurial orientation has a positive and significant effect on LPD performance, meaning that the more intensive the entrepreneurial orientation conducted by the LPD in Badung Regency, the more LPD performance will increase. Furthermore, organizational innovation has a positive and significant effect on LPD performance, meaning that the better the organizational innovation was undertaken by LPD management/leaders in Badung Regency, the LPD performance will increase. Likewise, organizational innovation can mediate entrepreneurial orientation towards LPD performance in Badung Regency.

Therefore, it is recommended that LPD leaders/management always improve entrepreneurial orientation by providing entrepreneurial training to LPD leaders/managers. With empirical evidence that increasing entrepreneurial orientation can improve LPD organizational innovation in Badung Regency, it must always improve entrepreneurial orientation by providing entrepreneurship

training so that innovative thinking will emerge, which will enhance the innovations carried out by the LPD.

In subsequent studies, it can expand the research respondents to the leader/management of LPDs and cover the government who has the authority in formulating policies to improve LPD performance, especially LPDs in Badung Regency. The next researchers can conduct studies from different perspectives, such as from a consumer perspective and continuing study of the impact of entrepreneurial orientation on increased organizational innovation and other business performance improvements.

## REFERENCES

- [1] Andersen, J., A critical examination of the EO-performance relationship. *International Journal of Entrepreneurial Behavior& Research*, 16(4) (2010) 309-328.
- [2] Antoncic, B., & Prodan, I., Alliances, corporate technological entrepreneurship, and firm performance: Testing a model on manufacturing firms. *Technovation*, 28(5) (2008) 257-265.
- [3] Alipour, M., An investigation of the association between ownership structure and corporate performance: Empirical evidence from Tehran Stock Exchange (TSE). *Management Research Review*, 36(11) (2013) 1137-1166.
- [4] Asashi, T., & Sukaatmadja, I.P.G. Peran Inovasi Produk Dalam Memediasi Pengaruh Orientasi Pasar Terhadap Kinerja Pemasaran. *E-Jurnal Manajemen*, 6(4) (2017) 1816-1845.
- [5] Bustinza, O. F., Gomes, E., Vendrell-Herrero, F., & Baines, T., Product-service innovation and performance: the role of collaborative partnerships and R&D intensity. *R&D Management* (2017).
- [6] Engelen, A., Gupta, V., Strenger, L., & Brettel, M., Entrepreneurial orientation, firm performance, and the moderating role of transformational leadership behaviors. *Journal of Management*, 41(4) (2015) 1069-1097.
- [7] Ghozali, I., Analisis Multivariate dengan program IBM SPSS 19. Semarang: Badan Penerbit Fakultas Ekonomi Universitas Diponegoro (2011).
- [8] Helia, R., Farida, N., & Prabawani, B., Pengaruh Orientasi Pasardari Kewirausahaan Terhadap Keunggulan Bersaing Melalui Inovasi Produk sebagai Variabel Antara (Studi Kasus pada IKM Batik di Kampung Batik Laweyan, Solo). *Jurnal Ilmu Administrasi Bisnis*, 4(4) (2015) 281-290.
- [9] Hervas-Oliver, J. L., Sempere-Ripoll, F., & Boronat-Moll, C., Process innovation strategy in SMEs, organizational innovation and performance: a misleading debate? *Small Business Economics*, 43(4) (2014) 873-886.
- [10] Ho, L. A., Meditation, learning, organizational innovation, and performance. *Industrial Management & Data Systems*, 111(1) (2011) 113-131.
- [11] Hogan, S. J., & Coote, L. V., Organizational culture, innovation, and performance: A test of Schein's model. *Journal of Business Research*, 67(8) (2014) 1609-1621.
- [12] Hoq, M. Z., Ha, N. C., & Said, S. M., SMEs in the Malaysian economy (2009).
- [13] Hughes, M. & Morgan, R. E., Deconstructing The Relationship Between Entrepreneurial Orientation and Business Performance at The Embryonic Stage of Firm Growth. *Industrial Marketing Management*, 36 (2007) 651-661.
- [14] Kraus, S., Rigtering, J. C., Hughes, M., & Hosman, V., Entrepreneurial orientation and the business performance of SMEs: a quantitative study from the Netherlands. *Review of Managerial Science*, 6(2) (2012) 161-182.

- [15] Lumpkin, G. T., & Dess, G. G., Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21(1) (1996) 135-172
- [16] Lumpkin, G. T., & Dess, G. G., Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle. *Journal of business venturing*, 16(5) (2001) 429-451.
- [17] Marcati, A., Guido, G., & Peluso, A. M., The role of SME entrepreneurs' innovativeness and personality in adopting innovations. *Research Policy*, 37(9) (2008) 1579-1590.
- [18] Miller, D., & Le Breton-Miller, I., Governance, social identity, and entrepreneurial orientation in closely held public companies. *Entrepreneurship Theory and Practice*, 35(5) (2011) 1051-1076.
- [19] Nur, N., Surachman, Salim, U., & Djumahir., Entrepreneurship Orientation, Market Orientation, Business Strategy, Management Capabilities On Business Performance; Study At Small And Medium Enterprise Printing In Kendari. *International Journal of Business and Management Invention*, 3(12) (2014) 8-17.
- [20] Pinho, A. L., Ullén, F., Castelo-Branco, M., Fransson, P., & de Manzano, Ö., Addressing a paradox: dual strategies for creative performance in introspective and extrospective networks. *Cerebral Cortex*, 26(7) (2015) 3052-3063.
- [21] Prajogo, D. I., The strategic fit between innovation strategies and business environment in delivering business performance. *International Journal of Production Economics*, 171 (2016) 241-249.
- [22] Reckhenrich, J., Kupp, M., & Anderson, J., Understanding creativity: The manager as an artist. *Business Strategy Review*, 20(2) (2009) 68-73.
- [23] Sarasvathy SD, dan Venkataraman S., Strategy and entrepreneurship: outlines of an untold story. In *Handbook of Strategic Management*. Hitt MA, Freeman E, Harrison JS (eds.). Blackwell: Oxford (in press) (2001).
- [24] Syukron, M. Z., Pengaruh Orientasi Pasar Dan Orientasi Kewirausahaan Terhadap Inovasi Produk Dan Keunggulan Bersaing UMKM Jenang Di Kabupaten Kudus. *Jurnal Administrasi Bisnis*, 5(1) (2016) 24-34.
- [25] Tricahyadinata, I., Hamzah, D., Taba, M., & Hamid, N. The Relationship between Entrepreneurship Orientation, 4As, and SERVQ to Hotel Performance (2015).
- [26] Umar, M., & Jahanzaib, M., Leverage economic and social gains through entrepreneurial orientation of universities. *MESSAGE FROM THE FOUNDER OF PAKISTAN*, 1(2014).
- [27] Zehir, C., Can, E., & Karaboga, T., Linking entrepreneurial orientation to firm performance: the role of differentiation strategy and innovation performance. *Procedia-Social and Behavioral Sciences*, 210 (2015) 358-367.