

BUSINESS STRATEGY OPTIMIZATION: THE ROLE OF ENTREPRENEURIAL ORIENTATION ON BUSINESS PERFORMANCE

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Abstract: The Covid-19 pandemic has also had a lasting impact on performance in the fashion industry. Therefore, this study was made to understand the critical influence of entrepreneurial orientation and business strategy on business performance, especially when facing rapid environmental changes. This study took thirty-nine fashion business owners owned by Ciputra University, Surabaya students as census samples. The data results were then processed using the SEM-PLS method, SmartPLS software. The results show that entrepreneurial orientation can influence business strategy, and business strategy can influence business performance. The results of the mediating influence of business strategy show that it has yet to influence the relationship between entrepreneurial orientation and business performance.

Keywords: *Business strategy optimization, entrepreneurial orientation, business performance, fashion business*

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1. Introduction

The Covid-19 pandemic in Indonesia has impacted all aspects of people's lives. One of them is in the business sector, where many businesses have had to close due to the impact caused by Covid-19 because this impact has prevented them from operating as usual. The impact of Covid-19 has also greatly affected the performance of the creative industry in 2020. However, apart from the initial impact, in 2021, Creative Industries has survived and achieved a significant performance increase after the Covid-19 pandemic.

The growth and development of a competitive fashion industry are inseparable from the synergistic efforts of the government, the business world, society, and educational institutions, including universities. Ciputra Surabaya University, as one of the universities supporting the growth of entrepreneurship in Indonesia, also provides a teaching model based on direct business practices guided by experienced lecturers in their fields. Ciputra University provides learning facilities based on business developments every semester, where the learning system needed by each student can be adapted to the needs of the business they founded. However, in the process, it was found that the Covid-19 pandemic had a significant impact on student business, especially in the fashion sector, with a decrease in the number of businesses related to the fashion industry.

Maintaining performance in the fashion industry is a challenging task. The rapid change of innovation driven by changing trends is a challenge for industry players, especially with changes in consumer behavior after the Covid-19 pandemic. Increasing familiarity with digital usage among consumers creates new challenges for the industry to adapt to current conditions.

Therefore, every player in this industry needs to have high sensitivity and agility to seize opportunities in a rapidly changing business environment. This ability to seize opportunities is in line with Dynamic Capability Theory. According to (Teece et al., 1997), dynamic capabilities refer to an organization's ability to integrate, build, and reconfigure internal and external competencies when facing rapid environmental changes. (Priyono et al., 2019) Explains that there are three components in Dynamic Capability: sensing, seizing, and reconfiguring.

There needs to be more than sensitivity in seizing opportunities to create innovation; the right strategy needs to be formed so that when the innovation is implemented, it can compete and be accepted by consumers, generating profits for the company. According to (Zainurrafiqi & Rachmawati, 2019), the innovation and uniqueness of various products will always show significant developments over time. Therefore, a business must be able to adopt different or unique strategies from other competitors to compete in the market.

The strategy formulation also requires an entrepreneurial orientation because, with an entrepreneurial orientation, the strategies created can be implemented effectively. According to (Hamel & Wijaya, 2020), implementing a strategy based on an entrepreneurial orientation allows a company to adapt to changes in the existing environment. (Vaitoonkiat & Charoensukmongkol, 2020) Explains that entrepreneurial orientation is an essential source for companies to outperform other competitors. According to (Gho et al., 2020), entrepreneurial orientation is essential for improving business performance. Businesses that adopt an entrepreneurial orientation will always be critical players that win over the competition because they are quick to make changes, ultimately leading to a competitive advantage in business performance.

Based on the description above, this research was conducted to solve the problem of decreasing the number of student businesses in the fashion sector at Ciputra University, Surabaya. It is hoped that this research can help fashion business people, especially students at Ciputra University Surabaya, deal with speedy changes in the business environment.

2. Literature review

2.1 Dynamic Capabilities

Dynamic capability is a theory that explains an organization's ability to integrate, build, and reconfigure internal and external competencies when facing rapid environmental changes (Teece et al., 1997). Dynamic capabilities are not intended for short-term efficiency but for long-term efficiency for companies, which involve changes from time to time (Teece, 2007). Furthermore (Teece, 2016) explains that there are three dimensions of Dynamic Capability. The first is sensing, which relates to the ability to position oneself in the environment to find new opportunities (Teece, 2007). The next dimension is seized, which refers to the company's ability to develop resources and identify opportunities and threats (Teece, 2007). After identifying opportunities, companies engage in the process of creating opportunities through trial and error. Finally, the reconfigure dimension involves restructuring the existing corporate structure by adding, separating, reallocating, combining, or eliminating units without changing the company's basic principles (Karim, 2006).

2.2 Entrepreneurial Orientation

Entrepreneurial orientation is a strategic decision-making process that enables entrepreneurs to act and operate their organizations according to plans, focusing on novelty (Darmanto & Sulistyani, 2018). This study uses Three indicators to measure entrepreneurial

orientation: innovation, proactive attitude, and risk-taking (Niode, 2022). Innovation reflects a company's tendency to use new ideas and creative processes to produce new products. Proactivity refers to the degree to which a company takes on a leadership or follower role in responding aggressively to competitors. It also deals with a forward-looking perspective on taking initiatives by anticipating and pursuing new opportunities and participating in emerging markets. Furthermore, risk-taking refers to the extent to which a company is willing to make significant and risky commitments to its business.

Entrepreneurial orientation is describe as entrepreneurial behavior with a mindset to produce new changes. Therefore, entrepreneurial orientation is essential for a company. Implementing a strategy based on an entrepreneurial orientation allows a company to adapt to changes in the existing environment (Hamel & Wijaya, 2020). Research findings (Supriadi et al., 2020) indicate that entrepreneurial orientation influences strategic flexibility. This result is further supported by analysis (Sarkosi et al., 2022), which also finds that entrepreneurial orientation impacts strategic agility. Based on these findings, the following hypotheses were formulated:

H1: Entrepreneurial Orientation Influences Business Strategy

2.3 Business strategy

The business strategy aims to achieve goals through systematic thinking, preparation, quick action planning, taking risks, and the drive to win in business competition (Primadhita et al., 2021). Three indicators are used to measure business strategy: cost leadership, differentiation, and focus. The cost leadership strategy relates to competing by providing products at low cost. In contrast, the differentiation strategy is described as a strategy to catch up with the competition by creating unique and different products compared to competitors. The indicators for the focus strategy are related to the strategy to catch up with the competition by meeting the specific demands of one or several consumer groups.

The formation of a strategy aims to achieve a goal, meaning that the formation of a business strategy will always be related to the performance results of a business. According to Supriadi et al. (2020) & Wahjudono et al. (2013), strategic flexibility helps companies deal with changes in an uncertain business environment by allowing them to make the right decisions to maintain their business. These findings are further supported by research analysis conducted by (Farida & Setiawan, 2022; Islami et al., 2020; Rehman et al., 2021; Sarkosi et al. 2022, and Supriadi et al. 2020), which results in a positive influence on business strategy on business performance. However, research (Vlasic, 2022) shows that business strategy impacts non-family business performance rather than family business performance. Based on these findings, the following hypotheses were formulated:

H2: Business Strategy Influences Business Performance

2.4 Business performance

Business performance results from a structured and extensive management process that utilizes effective and efficient resources so that performance can be measured periodically according to predetermined targets (Wahyudiono, 2022). In this study, two indicators used to measure business performance are sales volume and market growth (Dewi et al., 2019; Ekaputri et al., 2018; Lia et al. et al., 2018; Wahyuni & Sara, 2020). Sales volume is a business actor's assessment of the increase in sales in a certain period. Business sales volume is measured in Indonesian Rupiah, while market growth refers to the rate of change in market acceptance of the products or services offered by the Company.

The presence of an entrepreneurial orientation can have a better impact on strategy formulation. This is because the entrepreneurial characteristics described in entrepreneurial orientation can assist companies in creating a more systematic strategy. Entrepreneurial orientation assists companies in forming strategies to outperform their competitors, ultimately leading to business performance results (Vaitoonkiat & Charoensukmongkol, 2020). Based on research conducted by (Supriadi et al., 2020; Niode, 2022), a positive influence was found on the mediating role of business strategy on the relationship between entrepreneurial orientation and business performance. Therefore, based on these findings, the following hypotheses are formulated:

H3: Entrepreneurial Orientation Influences Business Performance in Mediating Business Strategy

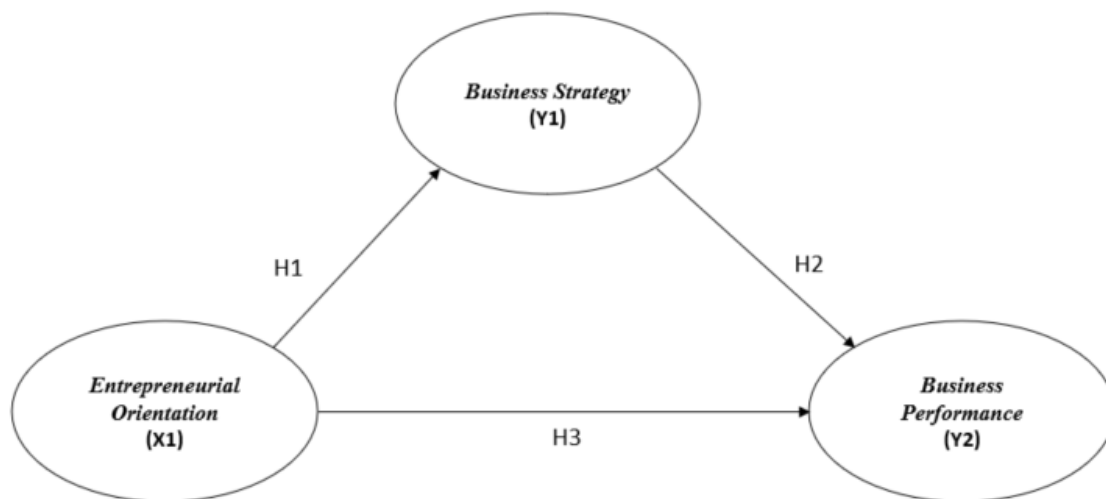


Figure 1. The conceptual research framework

3. Methods

This study uses a quantitative method with primary data collected from the independent variable entrepreneurial orientation (X1) and the two dependent variables, namely business strategy (Y1) and business performance (Y2). Data is converted into a questionnaire format and distributed to respondents via Google Forms. Respondents in this study were fashion business owners, namely students at Ciputra University, Surabaya. The sampling technique used was a census, in which the entire population of 42 fashion business owners owned by students at Ciputra University Surabaya would be included in the study (Sugiyono, 2013). However, only 39 respondents (response rate 92%) responded. A 7-point interval scale is used to measure respondents' answers for each statement, starting from (1) Strongly Disagree, (2) Disagree, (3) Slightly Disagree, (4) Neutral, (5) Slightly Agree, (6) Agree, to (7) Strongly Agree (Wibowo et al., 2023).

4. Results and discussion

4.1 Confirmatory Factor Analysis

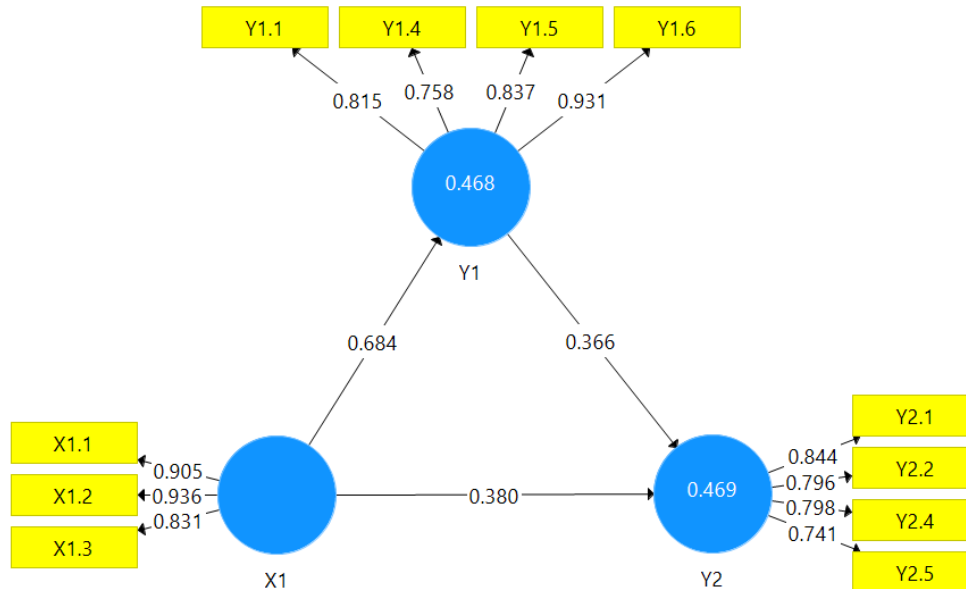


Figure 2. Outer Model

Table 1. Outer Model

Variable	Indicator	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
Entrepreneurial Orientation	(X1) Value-added Business	0.905	0.874	0.921	0.795
	(X2) Win Competition	0.936			
	(X3) Increase Customers	0.831			
Business Strategy	(Y1.1) Effective Cost	0.815	0.859	0.903	0.701
	(Y1.4) Uniqueness Product	0.758			
	(Y1.5) Value-added Product	0.837			
	(Y1.6) Target Market Strategy	0.931			
Business Performance	(Y2.1) Strategy Affects Sales	0.844	0.806	0.873	0.633
	(Y2.2) Sales Volume	0.796			
	(Y2.4) Innovation Affects Customer	0.798			
	(Y2.5) Market Growth	0.741			

Convergent validity testing should result in outer loading values > 0.7 and AVE values > 0.5 (Hair *et al.*, 2019). Based on Table 1, the outer loading values for the above variables for indicators X.1, X.2, X.3, Y1.1, Y1.4, Y1.5, Y1.6, Y2.1, Y2.2, Y2.4, Y2.5 are all > 0.7 and AVE values > 0.5 , indicating that they meet the criteria for convergent validity. However, indicators X.4, X.5, X.6, X.7, Y1.2, Y1.3, Y1.7, Y2.3 are eliminated because their outer loading values are < 0.7 and AVE values are < 0.5 . Discriminant validity testing should demonstrate outer loading values > 0.7 (Abdillah and Hartono, 2015). Based on Table 1, it can be observed that the outer loading values for each indicator measuring the variables are all > 0.7 , indicating that this study meets the criteria for discriminant validity testing. Reliability testing of the variables is conducted by examining the Cronbach's alpha, which should be > 0.6 , and the composite reliability, which should be > 0.7 (Abdillah and Hartono, 2015). Based on Table 1, the

Cronbach's alpha values are above > 0.6 and the composite reliability values are above > 0.7 for each variable. Therefore, it can be concluded that each variable in this study has met the reliability requirements.

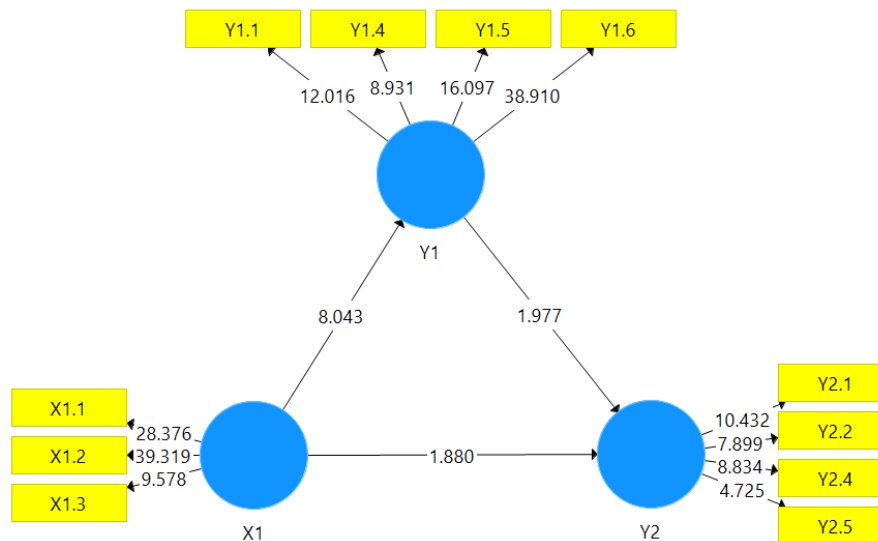


Figure 3. Inner Model

The R^2 value is used to measure the level of variation of the dependent variable, which is explained by the independent variable (Abdillah & Hartono, 2015). Based on data processing, the R Square value for business strategy is 0.468, which indicates that entrepreneurial orientation has a 46.8% influence on the fashion business of Ciputra University Surabaya students. In comparison, the remaining 53.2% is influenced by other variables not explained in this study. In addition, the R Square value for business performance is 0.469, which indicates that entrepreneurial orientation and business strategy together have a 46.9% influence on the fashion business of Ciputra University Surabaya students. In comparison, other variables influence the remaining 53.1%. They are not described in this study.

Blind Folding testing is done by examining the results of the Q Square value. The model shows predictive relevance if the Q Square value is greater than 0. However, the model does not show predictive relevance if the Q Square value is less than 0 (Joseph F Hair, 2014). the Q Square results for the variables Business Strategy and Business Performance have a value greater than 0, indicating predictive relevance. Furthermore, the Q^2 value for business strategy is 0.279, which indicates that entrepreneurial orientation has moderate predictive relevance because $0.15 \leq Q^2 < 0.35$. Likewise, the Q^2 value for business performance is 0.261, which indicates that entrepreneurial orientation and business strategy have moderate predictive relevance because $0.15 \leq Q^2 < 0.35$.

Table 2. Hypothesis Testing

	Hypothesis	Path Coefficient	Description
H₁	Entrepreneurial Orientation → Business Strategy	<i>T Statistic:</i> 8,403 <i>P Values:</i> 0,000	Supported
H₂	Business Strategy → Business Performance	<i>T Statistic:</i> 1.977 <i>P Values:</i> 0,000	Supported
H₃	Entrepreneurial Orientation → Business Performance	<i>T Statistic:</i> 1,880 <i>P Values:</i> 0,061	Not Supported

Hypothesis testing is conducted by examining the results of the T statistic and P-values, where the T statistic should be > 1.96 to be considered statistically significant, and the P-values should be > 0.05 to be considered statistically significant (Muhson, 2022). Based on Table 2, the following results were obtained:

In the first hypothesis: Entrepreneurial orientation significantly affects business strategy. This study's results indicate a significant influence of entrepreneurial orientation on business strategy, as evidenced by the T statistic of 8.403 and the P-value of 0.000. This finding is in line with the explanation given by (Hutahayan, 2019), which states that applying a high entrepreneurial orientation will positively impact entrepreneurs' ability to determine the right business strategy, especially in a differentiation strategy. This study found that the entrepreneurial orientation factors that influence business strategy most are innovation and aggressiveness because these factors assist entrepreneurs in formulating effective strategies for their businesses.

The second hypothesis: Business strategy has a significant effect on business performance. This study's results indicate a significant influence between business strategy and business performance, as indicated by a T statistic of 1.977 and a P-value of 0.000. In this study, it was found that the factor of cost leadership strategy has a significant effect on business performance in the fashion industry. In the fashion business, low product prices significantly affect customer desire to buy products, but the product's uniqueness can attract customer attention. Therefore, the differentiation strategy is more critical in the fashion industry. This finding aligns with research conducted by (Soedirman & Rizaldi, 2019) at retail stores in Bandung, which also provided similar results. In this study, business strategies related to cost leadership or low cost got the lowest score, while the highest score was obtained by differentiation strategy.

The third hypothesis: Entrepreneurial orientation significantly affects business performance. This study's results indicate no significant effect of the mediating role of business strategy on business performance, as indicated by a T statistic of 1.880 and a P-value of 0.061. This is because the influence of business strategy only significantly impacts business performance. In research conducted by (Sarkosi et al., 2022), it was found that business strategy has a positive mediating effect when using agility strategies to influence business performance. This study also shows that an agility strategy can improve business performance in a dynamic environment because it allows businesses to innovate according to developments in the business environment. It was also stated that the fashion industry always focuses on changing trends (Bernardus et al., 2022).

5. Conclusion

The fashion industry is one of the most popular industries among employers, resulting in many participants and increasingly fierce competition, making it even more challenging to navigate. To overcome this, continuous innovation is needed. However, innovation alone is not enough. Adding value to every innovation is critical because competitors can easily outdo many businesses with similar value-creation capabilities. Therefore, adding value to a product is crucial in facing intense competition. Renewal innovation has proven the answer in the fashion business to deal with a rapidly changing business environment. In the fashion industry, change usually revolves around a shift in fashion trends. Therefore, being aggressive in identifying and taking advantage of every opportunity is essential for success.

This research has limitations because it uses students from Ciputra University as research subjects. Hence, it must be understood that this study's subjects are only partially a benchmark

for measuring performance in the fashion industry. There are differences in perspectives and characteristics among respondents, resulting in the relationship between business strategy not affecting business performance. Therefore, different and broader research subjects can be selected for further research.

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