

# **THE FACTORS SHAPING THE SPIRIT OF ENTREPRENEURSHIP (A STUDY IN SMALL AND MEDIUM ENTERPRISES)**

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## **ABSTRACT**

*Small and medium enterprises, which are often referred to as SMEs, play a significant role in the economic growth and employment rate. This role is categorized as a strategic role in national economic development. Considering the scale of the role, the government has tried to support it by training, mentoring, developing, and financing the subject, but the performance of SMEs in reality did not meet the expectation. It is believed that the spirit of entrepreneurship is a big factor in the success of SMEs. The purpose of this research is to determine the factors that shape the spirit of entrepreneurship. The sample of this research consists of 48 respondents who own small and medium enterprises. Factor analysis is used as a means of data analysis in this study. The result of the study suggests that the dimensions of entrepreneurship spirit, which consist of market sensitivity, risk taker, and creativity and innovation, provide a massive contribution to the creation of entrepreneurship spirit.*

**Keywords:** Entrepreneurship Spirit, Market Sensitivity, Risk Taker, Creativity And Innovation

## **INTRODUCTION**

Small and medium enterprises play a significant role in economic growth and employment rate. This role is also considered as a strategic role in national economic growth. SMEs are better equipped to survive economical crisis compared to large scale enterprises.

Considering the scale of the role, the government has tried to support it by training, mentoring, developing, and financing the subject, but the performance of SMEs in reality did not meet the expectation (Partomo, 2002). Several researchers attempt to explain the reasons behind this condition; Pambudi and Rabanni (1995) in Nurhayati (2004) mention about how the interaction of several contributing factors such as marketing, financial, management, technical, location, human resources, and financial structures affects the performance of small enterprises. Meanwhile, Idrus (1990) and Scarborough & Zimmerer (1993) suggest that management incapability, weak decision

making process, lack in experience, and weak financial supervision are the factors behind the unsuccessful business run by small enterprises.

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Baswir (1995) and Christian (2008) insist that the dominant use of traditional technology, capital shortage, and weak managerial aspects are the factors leading to the low performance level of small enterprises. This condition is closely related to several internal and external problems faced by SMEs. Several internal problems include the inability to capture market opportunity, capital shortage, and managerial weakness, which includes the inability in acquiring market access. These factors then affect the ability of SMEs to increase their business scale which require them to increase turnover, meet demands, and adjust their quality to consumer taste, as well as dealing with the difficulty in selling goods, accessing market information source, and dealing with the small amount of market research studies (Sangen, 2005). On the external side, we can see that the uncondusive national economic and political system influences the growth of SMEs (Budi, 2003)

The same condition also happens to the food manufacturing industry in East Java. The food manufacturing industry is a field that absorbs an ample number of employees, especially in East Java. It employed 114.815 people in 2003, 126.240 people in 2004, and 126.318 people in 2005 (BPS, 2009). The food manufacturing industry in East Java escalates in number in 2003 as many as 44.371 business units, 56.536 units in 2004, and 56.618 units in 2005 (BPS 2009). These statistics are based on the assumption that the enterprises belong to local ethnics such as Javanese, Padangese, Sundanese and Maduranese who have specific characteristics and different cultures in managing their businesss. Additionally, the statistics are measured using the most commonly produced raw materials from each area. As quoted by Sangen (2005), Pelkam and Welson (1996) states that these differences can strengthen their ability in doing market orientation. The process of becoming entrepreneurs is highly affected by the factors of human and their intuition, as well as the society and culture they come from.

The essence of entrepreneurship according to Drucker (1959), as quoted by Suryana (2006), is the ability to create something new and different by using creative thinking and innovative action to create an opportunity. The creative and innovative process is performed by entrepreneurs with creative and innovative characters. According to Suryana (2006), the characteristics include: (1) confidence, with indicators of high confidence, optimism, commitment, discipline, and responsibility; (2) initiative, with indicators of enthusiasm, pace, and active behavior; (3) high achiever, with indicators of result orientation and insight for the future; (4) leadership, with indicators of being different, trustworthy, and tough; and (5) calculated risk taker.

Zimmerer (1996:51) in his book *Entrepreneurship and The New Venture Formation* discloses that creativity is creating something from nothing, and is a result of combining old and new ways to create a simpler and better alternative.

From this definition, we can conclude that creativity is important for an entrepreneur to create something from nothing and combine old and new ways to create a simpler and

better alternative. Meanwhile, Baldacchino (2009) states that accurate decision making in a corporation can be defined as the creative and innovative ability to come up with tips and resources in seeking a success opportunity. Creativity and innovation becomes the basis of accurate decision making in a corporation. Creativity is a character that an entrepreneur must have (Karutko 2009). Creativity is an important factor in creating competitive advantage and business sustainability (Alma, 2009). In conclusion, creativity is the ability to develop new ideas and find new ways to spot an opportunity.

The willingness and the ability to take risks are one of the main values in entrepreneurship. An entrepreneur who is not willing to take risk will find it hard to start or initiate a business. The value of entrepreneurship is the courage to bear the calculated and realistic risks (Suryana, 2006). Additionally, it is also the ability to consider the possibility of success and failure in reaching the goal, as well as being able to continue if the failure possibility is low. According to Drummond (2009), most people see risk as a bad possibility or a potential disaster. Sofjan (2009, 52) states that failure is not something shameful or something to avoid. Therefore, an entrepreneur should deal with risk in a calm manner (Yudiantoro 2006: 86-88).

On the other hand, an entrepreneur should keep a close watch on the potential of other competitors. An entrepreneur must analyze their chance of developing new products, successful experience in developing new products, financial support, and other advantages that the competitors have in the market (Suryana, 2006). Therefore, an entrepreneur has to understand his own strength and weakness as well as the ones possessed by his competitors. As Dan & Bradstreet (1993) suggests, our weaknesses and strengths, as well as our competitors', are an interesting subject for analysis. Every entrepreneur is expected to own a strong attitude and market sensitivity in order to look to the future and fulfill the demands of the market. An entrepreneur also needs to be able to identify the size of the penetrated market (Susanto, 2009). This can be defined as the ability to identify the market in terms of goods and services and providing added values and benefits to customers.

Vitale, *et al.*, (2002) conducted a research with the purpose of getting managerial implications that would help us understand what a company should do to apply entrepreneurial orientation. Entrepreneurial orientation has been proven to have a positive and strong relation to the company's ability to perform in many researches (Matsuno *et al.*, 2000; Atuahene-Gima dan Ko, 2001; Miles, Munilla dan Cavin, 2002). If entrepreneurs, executives, and managers can understand the relationship between their works and the entrepreneurship orientation, they will then be able to perform better (Sangen, 2005). The purpose of this research is to analyze the factors that shape the spirit of entrepreneurship.

## METHODOLOGY

The population in this research is all small enterprise owners who are involved in food manufacturing industry in Surabaya. The sample includes small enterprises in food manufacturing industry which meet the criteria of having one to five employees and have established their business for at least one year.

Sampling is based on *Cluster Sampling* technique. In getting the samples required, the researchers utilize several considerations to obtain informations related to the enterprises by choosing 148 business owners as the right respondents to provide information based on the purposes and questions of the study.

## DISCUSSION

The spirit of entrepreneurship is an entrepreneur's orientation to find a new market for his product, as well as creating new products, providing customer services, beating competitors in getting the best out of a business opportunity, and taking risky actions. The dimensions of Entrepreneurship Spirit are creativity and innovation, market sensitivity, and calculated risk taker (Suryana, 2006).

Validity and reliability tests are conducted to examine these dimensions. Validity tests determine the extent of which the measurement scale can cooperate and measure what needs to be measured (Kuncoro, 2009:172). The validity test is conducted by running a convergent validity test using Amos18 program. An indicator is considered valid when the CR value is bigger than 2.SE (Waluyo, 2011:79).

The Entrepreneurship Spirit variable is measured by three indicators which consist of three statements. By using the Amos18 program, the validity test results in the following:

**Table 1** Convergent Validity Test of Entrepreneurship Spirit

	Estimate	S.E.	C.R.	2.SE
SE3	1			
SE2	0,926	0,110	8,412	0.22
SE1	0,902	0,126	7,153	0.252

**Source:** processed data

Table 1 suggests that the overall value of CR is bigger than 2.SE. Therefore, every estimated indicator is a valid measurement for the variable of Entrepreneurship Spirit.

Reliability testing is then conducted to see whether a regulation scale will be consistent and stable in doing its job (Kuncoro, 2009:175). The reliability testing used in this research is *construct reliability* test. This method will test the reliability by measuring the index using *construct reliability* with a minimum *cut-off* value of 0,7 (Waluyo, 2011:113).

The following is the reliability test result of the Entrepreneurship Spirit variable dimension

**Table 2** Reliability Test of Entrepreneurship Spirit

Indicator	Loading	Loading <sup>2</sup>	(1>Loading <sup>2</sup> )	( $\Sigma$ loading) <sup>2</sup> + $\Sigma$ (1-loading <sup>2</sup> )	CR	Description
SE1	0.694	0.481636	0.518364	6.352624	0.793377	Reliable
SE2	0.737	0.543169	0.456831			
SE3	0.814	0.662596	0.337404			
Total SE	2.245		1.312599			
(Total SE <sup>2</sup> )	5.040025					

Source: processed data

Table 2 suggests that the Construct Reliability (CR) value of Entrepreneurship Spirit is 0.79. This means that the Entrepreneurship Spirit variable can be classified as reliable due to a higher cut-off value than 0.7.

The next part of the analysis discusses the loading factor value of each of the Entrepreneurship Spirit dimension. Entrepreneurship Spirit is measured using three indicators, namely Creativity and Innovation (SE1), Risk Taker (SE2), and Market Sensitivity (SE3).

**Table 3** Standardized Regression Weights: (Group number 1 - Default model)

	Estimate
SE3 <--- Spirit_Entrepreneur	.814
SE2 <--- Spirit_Entrepreneur	.737
SE1 <--- Spirit_Entrepreneur	.694

Source: processed data

Table 3 describes the loading factor value for each indicator as follows:

- a) The *loading factor* value for Creativity and Innovation (SE1) is 0.69. This means that the indicator statistically measures the Entrepreneurship Spirit as much as 0.69.
- b) The *loading factor* value for Risk Taker (SE2) is 0.74. This means that the indicator statistically measures the Entrepreneurship Spirit as much as 0.74.
- c) The *loading factor* value for Market Sensitivity (SE3) is 0.81. This means that the indicator statistically measures the Entrepreneurship Spirit as much as 0.81.

The data analysis result suggests that the three indicators shape the spirit of entrepreneurship, and that *market sensitivity* is the biggest indicator of the three. Therefore, it is essential that entrepreneurs pay good attention to these indicators in order to maintain a good performance.

Companies with market sensitivity are market-oriented companies which constantly use market information to fulfill their customers' needs at present, as well as predict or anticipate future needs. Therefore, companies must have quick access to market information and respond to it. It is related to the adaptive ability of a company in the available market (Jaworski & Kohli; 1993). Apart from these factors, every entrepreneur is expected to have a strong market sensitivity attitude and character in order to see the available opportunities and understand the unfulfilled needs of the people at present time. An entrepreneur also needs to identify the size of the market he will enter (Susanto 2009:126). This factor is strongly related to (1) the ability to identify the market, (2) the ability to be sensitive to the market's needs and movements, (3) the ability to capture a market share, (4) the ability to be attractive, and (5) the need to increase company capacity. Market-sensitive companies will apply marketing concepts to fulfill the needs of the customers and are very effective and efficient in creating the best value for their buyers while creating a productive company (Naver& Slater, 1990). The dimension of calculated risk taker character is to calculate the possibility of success and failure in fulfilling the set purpose, as well as being able to move on when the possibility of a failure is low. Drummond (2009) finds that most people view risk as a potential disaster. Another researcher suggests that failure is not an embarrassment that should be avoided (Sofjan 2009, 52). Thus, an entrepreneur should not be afraid to take risks and calmly deal with them (Yudiantoro 2006: 86-88). This idea is also applicable to SME owners. They must consider failure as part of the process of being successful. According to Suryana (2013:121), the risks often experienced are: (1) technical risks related to expected product developments, (2) financial risks related to the financing and development of new products, and (3) competition risk, which is can be defined as the competitors' ability to maintain their positions in the market.

Baldacchino (2009) states that accurate decision making in a corporation can be defined as the creative and innovative ability to come up with tips and resources in seeking a success opportunity. Creativity and innovation becomes the basis of accurate decision making in a corporation. Creativity is a character that every entrepreneur must have (Karutko 2009). Creativity is crucial for the establishment of competitive advantage and business sustainability (Alma 2009). It is the ability to develop new ideas and find new ways of looking at an opportunity. Fontana (2011) also suggests that SMEs are required to innovate, because innovation is essential for financial success since it replaces old methods with new ones in order to transform input into output that will lead to a significant change in the value and price offered to consumers. Therefore, SMEs entrepreneurs must be sensitive to the available market opportunity, ready to face any risk, and able to create a breakthrough through creativity and innovation.

## **CONCLUSION**

Fierce competition requires SMEs entrepreneurs to possess a spirit of entrepreneurship in conducting their business. Data analysis suggests that the three dimensions of entrepreneurship spirit contribute to the creation of entrepreneurship spirit. Market Sensitivity becomes the biggest contributor, followed by Calculated Risk Taker and Creativity and Innovation. By knowing the market sensitivity is the largest contribution to the entrepreneurial spirit, the company should be oriented to the needs of the market, to find out information about the needs of the market and respond to the information. Thus the company is required to be adaptive in responding to the needs of the market. sensitivity to market will enable companies to create the best value for consumers as well as to improve the performance of the company

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