

# **THE ROLE OF ENTREPRENEURIAL ORIENTATION ON THE RELATIONSHIP BETWEEN PERSONAL CHARACTERISTICS AND BUSINESS PERFORMANCE**

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## **ABSTRACT**

*The successful of SMEs is depended a lot on the human capital, certainly possessed by the business owners. Based on the theory of planned behavior, the personal characteristics within each of business owners have an influence on firm performance. And so the entrepreneurial orientation does. This paper applied quantitative research method with the aim for investigating the important role of entrepreneurial orientation mediating the personal characteristics' effect on business performance.*

*The sample of research derived from the SME's owners in the Kediri City. For the instrument in this research used questionnaire with 28 items. Partial Least Square as a tool run the data for finding the result and test the hypothesis. This study found the result that there are direct and indirect effects of personal characteristics significantly on business performance. And also the entrepreneurial orientation has an important role to mediate the personal characteristic and the business performance. The results of the analysis of the original sample estimate indicates that the indirect effect is equal to 0.438 greater than the indirect effect is equal to 0.287.*

**Keywords** : SME, Kediri, Entrepreneurial Orientation, Personal Characteristics, Business Performance

## **INTRODUCTION**

It is inevitable that the current self-employment plays an important role in the development process. A country is not possible growth and development of infrastructure such as roads and buildings, as well as the goods and services required by humans, in the absence of an entrepreneur. In addition it is not possible employment are so many and the velocity of money are large and small that are appropriate, in the absence of the role of entrepreneurs. This suggests that the role of the entrepreneur or the business community is very important and strategic in triggering growth and economic development of a country. According Buchari (1999), "a country will be able to build the country's economy when entrepreneurs have as much as 2% of the population". Entrepreneurship development in the country of Indonesia itself is not easy.

Based on the research of Entrepreneurship Working Group (2004), it appears that only a few entrepreneurs who managed to become a big businessman. Therefore, to foster

entrepreneurial behavior in the society, especially the job seekers will be very important and strategic for the development of human resources in Indonesia are qualified, have foresight in creating their own creative business opportunities such as opening a business, ranging from the food business, garment, and various other business. This pioneering effort is included in the Micro, Small and Medium Enterprises (SMEs).

Micro, Small and Medium Enterprises (SMEs) have a strategic role in national economic development, because in addition to a role in economic growth and employment also play a role in the distribution of development outcomes. In the economic crisis that occurred in this country since some time ago, where many large-scale enterprises stagnated even stop its activity, the Micro, Small and Medium Enterprises (SMEs) proved to be more resilient in the face of the crisis. Given the experience that has been faced by Indonesia during the crisis, would not be excessive if the private sector is focused on the development of SMEs, especially business unit is often overlooked simply because their production on a small scale and have not been able to compete with other business units. SME business is itself a majority in Indonesia. To create jobs and help the overall economic growth, more emphasis on the study of small and micro enterprises, in particular, to find a growth-oriented entrepreneurs. The term "growth", "success", and "performance" are very closely related and sometimes even used as synonyms in entrepreneurship research. Traditionally, all of the company's performance is measured by financial measures, such as sales turnover, or by increasing the number of employees. But so far, the company's performance measurement tends to be

more focused on the financial side alone. This tendency adversely affects the company's business continuity. Because the result of performance measurement is likely to be partially obscure even hide the fact the company's ability to achieve economic value in the future. Many corporate leaders considered successful if it managed to achieve a certain financial level. Therefore, many companies are trying to increase profits by any means. This can lead to companies trapped in the short-term orientation and ignore the long-term business viability of the company.

Application performance measurement in SMEs is less, whereas SMEs in Indonesia is very significant in number and have a relatively large degree of contribution in the Indonesian economy. In general, to date in Indonesia is still a lot of SMEs are doing business without having a vision, mission, and a clear management strategy. Even some of the SMEs have never done an assessment of the performance of its business. So despite resistance to economic shocks proved robust, but its business competitiveness in the domestic and international markets is low. These conditions are not favorable for the development efforts of SMEs and SMEs realize the pillars of a strong economy to support economic growth.

Under that condition, is necessary to the review of the business strategy of SMEs within the framework of the development of SME-focused performance improvement of competitiveness in the future. The success of an SME depends on its human capital, mainly owned by the SME entrepreneurs. When an entrepreneur starts a business, he brings a unique package that is the human capital to do business as part of the resources for the company. Penrose (1959) argues that "human capital, such as business skills, experience, and other personal characteristics are a key resource companies". Own personal characteristics have a large direct impact on the performance of the company

(Switzerland and Huang, 2007; Adams et al., 2005), and indirect effects on performance mediated by speed of decision making, types of decisions, and strategy formulation (Karami et al. , 2006).

Every entrepreneur has a goal each in its efforts to meet the desired objectives it requires a strong motivation to be performing well and will have an impact on the desired goal. There would be no motivation if not felt the need and satisfaction is the motivation that has grown into the motor and the drive to achieve fulfillment. The experts suggested that a person has an interest in entrepreneurship because of the existence of a motive, namely the achievement motive. Achievement motive is a social value that emphasizes the desire to achieve the best results in order to gain personal satisfaction. For people who have the need for achievement (n-Ach) is high, money is not the motivation triggers, but rather act as a benchmark achievement of targets. In addition to need for achievement, there is also an internal locus of control, which is owned by a businessman. Lefcourt in Smet (1994) states that "internal locus of control (ILOC) is the degree of the individual in view of the events in his life as a consequence of his actions, so it can be controlled".

If put in the context of the concept ILOC entrepreneurs in a competitive business environment, it is conceivable that an entrepreneur with a strong ILOC would believe that entrepreneurs can make something that happened, and that the success or failure of a business is the result of the entrepreneur's own actions. Managers and entrepreneurs with high ILOC also tend to be more innovative (Miller and Toulouse, 1986) and effective (Govindarajan, 1989).

Besides, there is also a need for cognition (NFC). Entrepreneurs with higher levels of NFC has a positive attitude towards stimuli that require complex thinking (Cacioppo et al., 1986). Moreover, entrepreneurs with higher levels of NFC also supports extensive information search, whereas the low-level NFC prefer existing resources and are more likely to act based on perceptions and feelings (Mourali et al., 2005).

This study investigated a sample of personal characteristics which consisted of need for achievement, internal locus of control, and need for cognition with the organization's strategic choice-oriented entrepreneurship (entrepreneurial orientation) to achieve the business performance of SMEs. It is important that is often overlooked in any discussion of SMEs, which are expected entrepreneurial orientation adopted by the SME entrepreneurs. Entrepreneurial orientation in question here, among others innovativeness, pro-activeness, and risk taking. Rural atmosphere into the background of SMEs often have a stake also in the form of performance. For example, in the area of SMEs working rhythm running with relaxed and less active so often the cause of the loss of the opportunities that exist.

The research was conducted in the municipality of Kediri, East Java, where the municipal government of Kediri is an integral part of the Republic of Indonesia. Therefore, policies and programs of economic development in order to strengthen the foundation populist economic development with emphasis on the priority scale. As is known that since the onset of the economic crisis of 1998 caused a decline in economic growth and rising inflation communities resulting in lower quality of life, increasing the number of poor and the unemployed.

The presence of micro, small, and medium is in the municipality of Kediri is a strategic industry that is an opportunity for improvement of the regional economy. Micro, small,

and medium enterprises (SMEs) that can absorb labor in addition to very many in number, which means reducing the unemployment rate, are also carriers of life for the economy.

Basic program of economic development in the region itself Kediri is increasing with the growing economy of the people's business climate conducive to prioritize SMEs and cooperatives as authorized capital to economic growth and drive private sector nationwide and abroad as a financier.

## **THE LITERATURE REVIEW**

### **The Personal Characteristics**

There is a management literature that seeks to identify the specific rules of personal characteristics desirable for entrepreneurs in starting new businesses and run the company effectively. Most of the managerial characteristics have been studied in the management literature. For example, previous research has identified that achievement motivation has positive influence on the speed of an entrepreneur in making decisions (Kauer et al., 2007), risk-taking attitude affect strategic decision of an entrepreneur in forming alliances with other businesses (Pansiri, 2007). Entrepreneurs with higher education levels are more likely to develop a formal strategic plan (Karami et al., 2006), and intuition lead employers prefer prospector strategy (Gallen, 2006).

Entrepreneurs with internal locus of control tend to be more innovative (Miller and Toulouse, 1986) and effective (Govindarajan, 1989). Previous research has considered the achievement motivation and internal locus of control as an important characteristic of a successful entrepreneur (Litteen, 2000; Hansemark, 1998). According to Zhang and Bruning (2011), there are three personal characteristics possessed by entrepreneurs, among others, need for achievement (n-Ach), internal locus of control (ILOC), and need for cognition (NFC).

### **The Need For Achievement**

Motivation according to Mc Clelland cited by Nisfianno (2002) is also often referred to as motifs. Motifs are obtained in daily life for the learning outcomes and socialization, and it can also be said that the motive arises because of the culture and its shape is a natural hierarchy or not. One of the motivations that influence human behavior is achievement motivation. Achievement motivation was first proposed by David Mc Clelland based on research conducted in India. Mc Clelland found that entrepreneurs, scientists, and professionals have this level of achievement motivation above average. An entrepreneur is not motivated solely because they want to achieve a profit, but because he has a strong desire to excel.

According to Mc Clelland, quoted by Westrek (1991), "if a strong need to be in a person, then the effect is motivated to use the behavior that leads to satisfying those needs". If someone who has a need for achievement that high, then this requirement will encourage the person to set challenging goals, working hard to achieve that goal by using the skills and abilities necessary to achieve it. Achievement motivation can be defined as an impulse in a person to do a particular task or activity or task as well as possible in order to achieve a commendable achievement by the predicate. This is in accordance with the opinion Jhonson (1984) who argued that "Achievement motive is impetus to do well relative to some standard of excellence ". Gunarsa (1995) cited

Ninawati (2002) reveals achievement motivation is "the tendency to achieve success and obtain what is desired final destination".

The desire for success is considered driving as revealed by Mc Clelland and Atkinson in Slavin (1997), achievement motivation is "a general tendency to strive to achieve success and goal oriented, activity success or failure". Mc Clelland (1987) cited Nisfiannoor (2002) states that achievement motivation is "motive which encourages individuals to achieve success and aim to succeed in competition with some measure of excellence.

The size of these advantages can be seen from the achievements of others, but also can be seen from his own achievement in the previous period ". Individuals who have high achievement boost will differ from others in terms of the individual's strong desire to do things better, looking for an opportunity where the individual has a personal responsibility in finding answers to the problem and did not like the success obtained by chance. From the explanation above it can be concluded that the achievement motive urge or need to do something better or more efficiently than previously undertaken and the results achieved are trying to outperform others, and more oriented to the work or tasks performed to achieve success. There are four items to measure the need for achievement (Wu et al., 2007), among others:

1. The necessity for having a challenge
2. The necessity to continue studying
3. The need for personal development
4. The requirement to prove that he can be successful

### **The Internal Locus of Control**

Definition of locus of control is the degree of an individual's belief about the source of a determinant or events that occur in his life, which is distinguished by an external locus of control and internal locus of control (Robbins, 2003). Individuals who think that success and failure is due to the surrounding environment, it can be said that people have an external locus of control. While individuals who have the confidence that he is able to carry out and complete the task well as on his own then that person can be said to have an internal locus of control. This is because individuals who have an internal locus of control perceive themselves to have excellent ability and have an optimistic attitude that is high in completing the task. Therefore, an internal locus of control are preferred to be owned by an entrepreneur in running a business dibandikan external locus of control.

In individuals who have an internal locus of control (ILOC), the capability and the business looked dominant. If it is assumed that the ability factors are considered fixed and can not be changed, then the other factors that can be manipulated is a business. Therefore, if an individual with ILOC failure, then the individual will blame himself for lack of effort. Conversely if you have success, individuals with ILOC will feel proud of the results of his efforts.

According to Lefcourt in Smet (1994) states that an internal locus of control is "the degree of the individual in view of the events in his life as a consequence of his actions, so it can be controlled". Individuals can be said to have an internal locus of control if someone has a belief that all the events in his life influenced by his own actions or characteristics that tend to remain unchanged or not.

Meanwhile, according to Crider (1983), internal locus of control is considered as "the personality of the individual and associated with the control that comes from within itself". Individuals who have an internal locus of control will tend to show as much as possible existing capabilities in him, and if you have a failure, that individual will blame himself. So in other words, the subject-oriented internal locus of control has the following characteristics (Crider, 1983):

- 1.Having a high initiative;
- 2.Hardworking;
- 3.Always find solutions, what it does and what caused the problem occurs and so on;
- 4.Always try to think as effectively as possible because of the belief that one's success is based on the efforts and actions of oneself
- 5.Individuals were classified as internally oriented locus of control has always had the perception that businesses are doing to be as good as possible so that the goal can be achieved

### **The Need For Cognition**

Contemporary research on individual differences starting from the suggestions proposed by Cacioppo and Petty (1982) that "there are individual differences in the tendency of people to get involved and enjoy the cognitive effort". Individuals who have a low intrinsic motivation to engage in cognitive effort characterized as chronic cognitive misers, whereas individuals who have a high intrinsic motivation to train the intellect regarded as a chronic owned cognizers.

Individual differences is then understood as the origin of past experience, supported by historical events and behaviors that are accessed in real experience at this time, and the effect on the acquisition or processing of information relevant to a problem. Cacioppo and Petty (1982) states that "the factor analysis studies showed that the many differences between individuals of the tendency of many people to get involved and enjoy the cognitive effort that can be represented by a single factor called the need for cogniton".

Existing research related to need for cognition on personality variables or other demographic. The study tested the convergent and discriminant validity to establish the need to think and to provide information about the location of this requirement in the landscape of the personality and individual differences. Many studies on the need for thinking imposed on the hypothesis that individuals differ in terms of needs that will think different in terms of the individual's tendency to seek detailed information about the individual's own life, engaging in cognitive activities effectively, and enjoy more or less to the effective cognitive problems. Need for cognition which has been conceptualized by Cacioppo and Petty (1982) at the macro level to represent the differences between individuals in the general tendency to engage and enjoy cognitive efforts are effectively not as a chronic tendency toward processing the information in a particular domain or as individual differences in cognitive complexity. According to Cacioppo and Petty (1982) quoted Zhang and Bruning (2011) that "a need to think (NFC) is a tendency to engage and enjoy a thought". Individuindividu psychology literature indicates that naturally differ in the level of owned NFC (Cacioppo et al., 1996). Individuals with higher levels of NFC has a positive attitude towards complex stimuli that require some thought (Cacioppo et al., 1986). and

individuals with higher levels of NFC also supports extensive information search, whereas individuals with lower levels of NFC prefer existing resources and are more likely to act based on perception and feeling special (Mourali et al., 2005). Managers and entrepreneurs with higher NFC would be more successful in adaptive decision making (Levin et al., 2000).

Research on the need for cognition suggests that this characteristic is a predictive manner in which individuals deal with tasks and social information (Cacioppo and Petty, 1982). A need for cognition scale has been revised to increase its efficiency as an assessment instrument. Cacioppo et al. (1984) was to develop a scale to measure the NFC version of the 18-item version, but the recent study reported that the need for cognition (NFC) consists of four major components, namely, enjoying cognitive stimulation, preference for complexity, cognitive effort commitment, and a desire to understand (Lord and Putrevu 2006 in Zhang and Bruning, 2011).

#### **The Entrepreneurial Orientation**

Entrepreneurship is touted as a pioneer company to achieve sustainable economic growth and high competitiveness. According Suryanita (2006), "entrepreneurship is a creative and innovative capabilities that form the basis of, tips, and resources to find opportunities for success". Entrepreneurship is known as a new approach in the renewal of the company's performance. This certainly responded positively by companies began trying to rise from the economic downturn caused by the prolonged crisis. The shape of the application on entrepreneurial attitudes can be indicated with an entrepreneurial orientation with an indication of the ability of innovation, pro-activeness, and ability to take risks (Looy et al., 2003 in Suryanita, 2006).

Most empirical studies of entrepreneurial orientation has leveraged instruments developed by Miller (1983) and extended by Covin and Slevin (1986, 1988, 1989). Entrepreneurial Orientation (EO) related to the processes, practices, and decision-making activities that lead to new ventures (Lumpkin and Dess, 1996). EO involves not only intentions but also acts a key player in a dynamic generative process aimed at the creation of new businesses. Covin and Slevin (1991) argues that "in addition to affecting the creation of new businesses, the EO also affect the performance of an existing company". Empirical evidence shows that firms with high EO are much more likely to innovate (Manimala, 1992) and achieve better performance of the organization as a whole (Smart and Conant, 1994).

The positive influence of EO on performance is very broad, and the strength of this effect increases over time. There are three approaches to measuring the entrepreneurial orientation (Lyon, Lumpkin, and Dess, 2000) that managerial perceptions, firm behavior, and resource allocation. In this study, the approach used is the managerial perception. Employers do not consider themselves to be risk takers, but often view business situation more positively than non-entrepreneurs. Different orientation with entrepreneurial entrepreneurship itself. Entrepreneurship refers to the entrants or new players in the business. While the entrepreneurial orientation is more directed at the process of how entrepreneurship is run that includes the methods, practices, and decision-making style to act entrepreneurially.

According Quince and Whittaker (2003), the fundamental dimensions that characterize the entrepreneurial orientation (entrepreneurial orientation), among others, the

innovation in question (inovativeness), pro-activeness (pro-activeness), and exposure to risk (openness towards risk) (Miller, 1983; Covin and Slevin, 1986, 1989).

#### **The Inovativeness**

Innovativeness related to support and encourage new ideas, experimentation, and creativity that are likely to generate new products, processes or similar service (Miller and Friesen, 1983). Creative innovation plays a major role in an entrepreneurial. Although enterprises operate in an environment that supports or does not support the growth of ideas or new ideas, experimentation, new solutions, or the creative process, but the entrepreneur still require innovative attitude as a very important dimension to run its business. Creative innovative high culture will provide greater opportunities in the development of new technologies, new products, new services, or new processes in the society concerned. The indicators used to assess the innovation consists of the level of involvement in R & D, the level of innovation, and workforce qualifications.

#### **The Pro-activeness**

Pro-activeness concentrate on the first-mover and other actions aimed at finding, securing, and protecting market share, as well as the future perspectives are reflected in the actions taken in anticipation of future

demand (Miller, 1983; Covin and Slevin, 1989 ; Lumpkin and Dess, 2001). Culture that supports a proactive stance is characterized by the presence of a support for entrepreneurial activity for anticipatory action against all odds market opportunities and participation in the old or new.

The proactive individual who will do everything to realize the concept and the benefits of excellence as the first to seize every opportunity. Pro-activeness indicator used here consists of collaboration; incidence and magnitude of innovation, activities designed to protect intellectual property and market structure.

#### **The Risk Taking**

Measuring the extent to which individuals differ in their willingness to take risks. And the distinguishing factor is the way it is calculated risk (Norton and Moore, 2002). Matters relating to entrepreneurship is the desire and courage in taking risks. The individual who is ready to accept uncertainty and risk is often regarded as a person who is able to work alone, in this study is a businessman. The attitude of risk-taking is an important component of entrepreneurial orientation. Cultural environment that can spur the bold attitude in the face of the risk of giving birth to more and more new entrepreneurs are ongoing. This study focused on behaviors that may indicate a willingness to take risks, which is looking for venture capital, and two indicators of willingness to invest is certain, namely, the level of expenditure on R & D and investments in off-job training.

#### **The Business Performance**

Whether or not the views of the performance of SMEs. Each SMEs want the best performance that can be generated from its activities. This study also raised the performance of SMEs as the ultimate goal to be achieved by the personal characteristics of entrepreneurs consisting of need for achievement, internal locus of control, and need for cognition, the strategic choice entrepreneurial oriented organization (entrepreneurial orientation).

Business performance can be interpreted as the result or the performance obtained by an organization. Performance of the company is the result of hard work of managers,

companies usually have a target explicitly given to the manager to then be evaluated results of achievements as a form of performance (Merchant et al., 2000 in Moer, 2001). Target referenced will impact on managerial company. The more difficult targets set for the organization, the greater the effort required to achieve it. Conceptually there is no exact definition of the performance, but there are some models that can be used for a discussion of organizational performance. More emphasis on performance measurement standards set by the organization. Measurement of performance has been generally accepted is to use the movement parameters of the financial statements or the company's stock price. Business performance is the result of the operation of the organization as a whole, however, the right to assess the performance of the company is highly dependent on the condition of the company concerned and the purpose of analysis.

Business performance is essentially the achievements of a business organization that can be seen from the results of its performance, the results of this performance is not quite right when viewed from one dimension only. According to Day and Wensley (1988) and Jaworski and Kohli (1993), "the researchers agreed that business performance measurement is not just simply use a single measure". According to Walker and Ruekert (1987) cited Sutianti (2006) the performance of the company has three dimensions

### **The Effectivity**

Effectiveness associated with the comparison condition and the level of success of the company. The effectiveness of the company can be judged from the rate of sales growth, market share, customer retention, satisfaction and the level of customer complaints.

### **The Efficiency**

Efficiency associated with the company's ability to manage input and output ratio, labor costs, the level of product failure, and the level of use of the engine company. This assessment can be measured by using the rate of return on investment and profit before tax.

### **The Adaptability**

The Adaptability related to the company's ability to respond to changes that occur in the environment. The Adaptability assessment can be done by looking at the ratio of the volume of sales and sales of new products. Size of business performance that is often used is profitability. Profitability shows the ability of the company makes a profit in relation to sales, total assets, and the capital itself. Thus, profitability is the net result of a series of policies and decisions. The higher the profitability, the better the performance of the company.

In a study by Jaworski and Kohli (1993) in Chang (1998), measurement of business performance is measured by the overall performance of the organization in the past year and overall organizational performance

compared to its main competitors. While the research Narver and Slater (2000), business performance is measured by profitability compared to the set target.

#### **H1 : The Personal Characteristics Effect on Business Performance**

The success of small businesses rely heavily on human capital, which is owned by the entrepreneur (Jones et al., 2007). Penrose (1959) argues that "personal characteristics

are a key resource companies". Own personal characteristics have a large direct impact on the performance of the company (Switzerland and Huang, 2007; Adam et al., 2005). Zhang and Bruning (2011) also stated that "the personal characteristics of an entrepreneur plays a very important role in the performance of the company, which considers human resources, including business skills, experience, and personal characteristics, organizational resources as an important strategy, and have a positive impact on performance of the company ".

Many studies investigating the characteristics of entrepreneurship by using the theory of Hambrick and Mason (1984) who considers that the company is the result of reflection of the entrepreneur. In addition, Smith et al. (1996) have also revealed that "the company's performance is largely influenced by the personal characteristics of entrepreneurs".

## **H2 : The Entrepreneurial Orientation Effects on Business Performance**

Entrepreneurial orientation with regard to the processes, practices, and decision-making activities that lead to new ventures (Lumpkin and Dess, 1996). Meanwhile, according to Covin and Slevin (1991), "entrepreneurial orientation also affect the performance of an existing company". Empirical evidence shows that firms with high entrepreneurial orientation is far more likely to achieve overall organizational performance (Smart and Conant, 1994).

Zhang and Bruning (2011) states that "a businessman who adopt a strategic orientation in the form of entrepreneurial orientation (entrepreneurial orientation) tend to be positively correlated to the performance of the company". Several other empirical studies found support for the impact or a positive impact of entrepreneurial orientation on business performance (Wiklund, 1999; Zahra and Covin, 1995 in Wiklund and Shepherd, 2005). Similarly, the study conducted by Covin and Slevin (1991). In addition, the effect of entrepreneurial orientation on business performance is also supported by the results of research conducted by Tan (1996) which states that "proactive strategies, innovative, and risk taking in Zahra (1995), Zahra and Colvin (1998), and Dess, Lumpkin, and Covin (1997) is part of the entrepreneurial orientation dimensions, is positively related to the performance of the company ".

## **H3 : The Personal Characteristics Effect on Business Performance through Entrepreneurial Orientation**

Results of research conducted by Zhang and Bruning showed that "personal characteristics positive effect on business performance through entrepreneurial orientation". When an employer has a need for achievement, internal locus of control, and need for cognition are likely to adopt an entrepreneurial orientation to give their customers the best products and services through creativity and innovation, where it will impact positively on the performance of the company. Lumpkin and Dess (1996) also has declared that "there is a positive relationship between need for achievement and entrepreneurial orientation". As explained in the theory of entrepreneurial orientation that need for achievement is part of the personal characteristics indicator.

## THE METHOD

From the formulation of the problem that has been set in the previous chapter, this study used a quantitative approach to test the hypotheses and produce results that can be generalized. This research approach begins by creating a model of analysis and the next step is to make a hypothesis, identifying variables, making operational definitions, as well as analysis. The process of calculation and processing of quantitative data obtained from the questionnaire by using the statistical method will help analyze and ultimately answer the hypothesis.

According Sugiyono (2011), "the study variables is basically everything that shaped what is defined by the researchers to be studied in order to obtain information about it, and then drawn conclusions". Based on the description of these problems and hypotheses that have been proposed, then the variables that were analyzed can be grouped as follows:

**Table 1 of Variables, Dimensions, and Indicators**

Exogeneous Variable: <b>The Personal Characteristics</b> (Zhang dan Bruning ,2011)	Dimensions	Indicators
	Need for achievement (Wu et. al.,2007)	1 The necessity for having a challenge 2 The necessity to continue studying 3 The need for personal development 4 The requirement to prove that he can be successful
	Internal locus of control (Crider, 1983)	1 Having a high initiative 2 Hardworking 3 Always find solutions 4 Always try to think as effectively as possible 5. Sure that success is based on his own efforts and actions 6 Perception seeks independent
	Need for cognition (Zhang dan Buning,2011)	1 The level of seriousness think 2 The level of interest in the complex issues 3 The level of commitment in trying 4 The level of desire to understand
Endogeneous Variable: <b>Entrepreneurial Orientation</b> (Miller, 1983; Covin dan Slevin, 1986, 1989) in (Quince dan Whittaker, 2003)	Inovativeness	1 The level of future orientation 2 Level of innovation 3. Level of qualification
	Pro-activeness	1 Collaboration 2 Always follow the changes in the business environment 3 activity protect intellectual property
	Risk taking	1 The level of willingness to take risks 2 The level of spending to support business development 3 The level of willingness to invest in employee training
Endogeneous Variable: <b>Business Performance</b> Walker dan Ruekert (1987)	Effectiveness	1: Growth of sales achieved compared to the target 2 The level of tolerance on customer complaints
	Efficiency	1 The Profitability Ration on the sales target 2 The tolerance limit on the defective products
	Adaptability	1 The attainment on sales of new products 2 Percentage of success of new products

In general, the sampling technique using probability sampling methods, these methods give the same chance or opportunity for any element or selected members of the population to be sampled (Sugiyono, 2011). There are several types of probability sampling, but in this study uses the sampling technique to determine if the object under study samples or very large data sources. The sample in this study is in the municipality of Kediri SME entrepreneurs spread across three districts, namely, disctrict Mojoroto, disctrict Kota , and district Pesantren.

Arikunto (1998) argued that "... if the subject is too large number can be taken between 10% -15% or 20% -25% or more ...". While in this study, sampling of 60% of total SME population in each district. Taken 60% because they are better able to represent the amount of the existing population.

**Tabel 2 : The research samples**

No	Discret	Quantity of Samples
1	Majoroto	26
2	Kota	38
3	Pesantren	25
	<b>Total</b>	<b>89</b>

Hypothesis testing is done by using Partial Least Square to tabulate the data from the questionnaire that was filled out by the respondents (the owners of SMEs)

## **THE RESULTS & THE IMPLICATIONS**

Questionnaires were distributed addressed to the owners of micro, small, and medium are found directly at where the company is located. The questionnaire contains 28 questions to assess personal characteristics variables, entrepreneurial orientation, and business performance of the company where he works, appropriate response tendencies captured by each respondent.

Of the data collection process for a month gained as much as 54 Micro, Small and Medium Enterprises (SMEs) are scattered in the municipality of Kediri. The entire questionnaire is filled full with regard to the conditions that existed at its corresponding predetermined inclination. To obtain additional information about the characteristics of respondents in each questionnaire distributed has included a questionnaire. Questionnaire to be filled are age, gender, education last, the business name, address, number of employees, the old business, and the average income per year.

### **The Result of H1 : The Personal Characteristics Effect on Business Performance**

From the test results obtained that there is a direct influence of personal characteristics on the performance of the business in the Micro, Small and Medium Enterprises (SMEs) who becomes the object of study of the test results. And the results showed that there is significant influence of personal characteristics on business performance as indicated by the t-test was  $2.986 > 1.96$ .

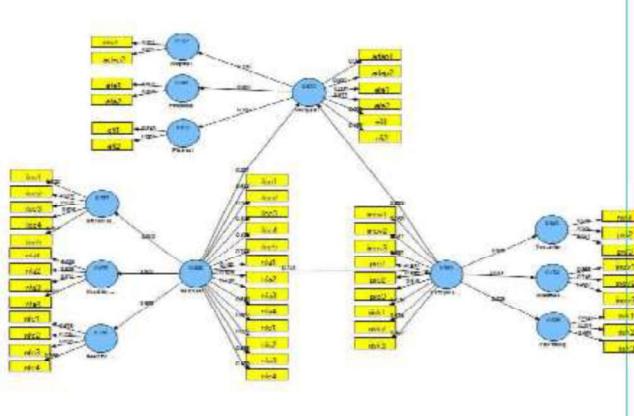
This is consistent with the previously proposed hypothesis that the personal characteristics significantly influence the business performance of SMEs. Moreover, by looking at the estimated coefficients of the personal characteristics of the performance of the business shows a positive sign. This means increasing the personal characteristics, the greater the business performance. Vice versa, the lower the personal characteristics, the businessman who owned the lower the business performance of the business being operated.

The influence of personal characteristics on the performance of the business in accordance with the study conducted by Zhang and Bruning (2011) which states that "the personal characteristics of an entrepreneur plays a very important role in the performance of the company". Human resources, including business skills, experience, and personal characteristics, organizational resources as an important strategy, and have a positive impact on company performance.

Empirical evidence supports the recent view that the personal characteristics of entrepreneurs have a high direct effect on firm performance (Switzerland and Huang, 2007; Adams et al, 2005), and the indirect effect on firm performance is mediated by the speed of decision making, types of decisions , and strategy formulation (Karami et al., 2006).

From the research it can be seen that the overall average of the personal characteristics of the respondents claimed to have run its business. Respondents apparently by the good condition of the company's achievements, with an average high of 4.19 for the category of personal characteristics and high category average of 4.16 for the performance of the business. It is clear that employers who have personal characteristics that can carry executable business achieve optimal performance. Of individual characteristics such as need for achievement the achievement motivation of the respondents showed an average high score. By having the achievement motivation, as the respondent SME entrepreneurs are driven to perform or carry out an activity or task as well as possible in order to achieve a commendable achievement by the predicate. This is in accordance with the opinion Jhonson (1984).

In addition, most respondents tend to have an internal locus of control as shown in the description of the response variable personal characteristics in Table 4.6, where entrepreneurs who have an internal locus of control will tend to show as much as possible existing capabilities in him. This can affect their own performance improvement that will also affect the overall business performance improvement.



And personal characteristics of the latter is the need for cognition, entrepreneurs with higher levels of NFC are likely to be involved and enjoy a thought. It is capable of supporting entrepreneurs in making adaptive decisions about their business, which will also affect the performance improvement company.

**The Result of H2 : The Entrepreneurial Orientation Effects on Business Performance**

After testing, the entrepreneurial orientation variables proved to have a significantly positive effect on business performance as indicated by t count of  $4.375 > 1.96$ . These results are consistent with the hypothesis proposed earlier, namely entrepreneurial orientation positively impact the business performance of SMEs. The influence of entrepreneurial orientation on business performance in accordance with the study conducted by Zhang and Bruning (2011). Zhang and Bruning stated that "an employer who adopts a strategic orientation in the form of entrepreneurial orientation

(entrepreneurial orientation) tend to be positively correlated to the performance of the company".

Several other empirical studies found support for the impact or a positive impact of entrepreneurial orientation on business performance (Wiklund, 1999; Zahra and Covin, 1995 in Wiklund and Shepherd, 2005). Similarly, the study conducted by Covin and Slevin (1991) which states that "entrepreneurial orientation affects the performance of an existing company". Empirical evidence shows that firms with high entrepreneurial orientation is far more likely to achieve better performance of the organization as a whole (Smart and Conant, 1994). The positive influence of entrepreneurial orientation on performance is very broad, and the strength of this effect increases over time. These results are also consistent with the study by Tan (1996) which states that a proactive strategy, innovative, and risk taking in Zahra (1995), Zahra and Colvin (1998), and Dess, Lumpkin, and Covin (1997) is the dimension of entrepreneurial orientation is positively related to firm performance.

Value entrepreneurial orientation or high entrepreneurial orientation will lead to an increase in the entrepreneurial spirit and the ability to compete globally (Nasution et al., 2007). One of the fundamental dimensions that characterize the entrepreneurial orientation (entrepreneurial orientation) is an innovative attitude. Where the innovative attitude leads to the entrepreneurial spirit in the form of creativity and innovation. Creativity and innovation is a critical success factor in the business world. Furthermore, proactive attitude that leads to the entrepreneurial spirit of planning. Lack of planning and a proactive attitude will ensure success and excellence in many aspects. And the latter is a fundamental dimension of risk taking. Courageous in the face of calculated risks is careful and intelligent attitude to compete and allow the company to achieve better performance.

The Result of H3 : The Personal Characteristics Effect on Business Performance Through

### **Entrepreneurial Orientation**

After testing, the personal characteristics variables shown to have a significantly positive effect on entrepreneurial orientation as indicated by the t-test was 4.686. And further the entrepreneurial orientation has significant influence on the performance of the business with t-test was 4.375. The results in this study are consistent with studies previously conducted by Zhang and Bruning (2011) which shows that personal characteristics positive effect on business performance through entrepreneurial orientation. When an employer has a need for achievement, internal locus of control, and need for cognition are likely to adopt an entrepreneurial orientation to give customers the best products and services through creativity and innovation, where it will impact positively on the performance of the company. Lumpkin and Dess (1996) also has declared that there is a positive relationship between need for achievement and entrepreneurial orientation. As described in the previous chapter that the need for achievement is part of the personal characteristics indicator. Entrepreneurs with the level of achievement motivation (need for achievement) high are more likely to adopt or implement entrepreneurial orientation, which in turn contribute to the performance of the company. Lumpkin and Dess (1996) argue that entrepreneurs who have a direct

impact on the achievement motivation of corporate strategy and not directly on the performance of the company.

Meanwhile, a businessman with an internal locus of control is high may not be willing to cede control of the company. The businessmen prefer to control their own and formulate competitive organizational culture that is internally driven by the ideas themselves are innovative and creative. Entrepreneurs with internal locus of control tend to be more innovative (Miller and Toulouse, 1986) and effective (Govindarajan, 1989). Previous studies also showed positive effects of internal locus of control on firm performance is mediated by risk taking (Boone et al., 1996).

An entrepreneur with a high need for cognition will tend to have an affinity towards complex problems, where the interest is to prove that the employer bold in the face of risk (risk-taking) of the problems faced. According to Zhang and Bruning (2011), a businessman with a high need for cognition will place greater emphasis on logical arguments and make strategic decisions based on extensive market research. With the market research, entrepreneurs demonstrate a proactive attitude, which identify and take advantage of market opportunities before competitors preceded.

To find out how much a personal relationship characteristics on business performance through entrepreneurial orientation can be seen from the multiplication of the "original sample estimate characteristics of the personal relationship of entrepreneurial orientation" with "original sample estimate the relationship of entrepreneurial orientation on business performance", where each figure shows 0.751 and 0.583.

And the result is equal to 0.438 where the figure is greater than the "original sample estimate personal relationship characteristics on business performance" which shows the number 0,287. This means that the indirect effect of personal characteristics on business performance through entrepreneurial orientation greater than the direct influence of personal characteristics on business performance. An entrepreneur will achieve a better performance of the company if other than the personal characteristics apply in running the business also adopt a strategic orientation in the form of entrepreneurial orientation consisting of innovativeness, pro-activeness, and risk taking.

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