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Examining the Moderating Effect of Environmental Hostility on the Relationship between Entrepreneurial Orientation and International Performance of Indonesian SMES.

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Abstract

This paper aims to investigate the role of environmental hostility in moderating the relationship between Indonesian small and medium enterprises' entrepreneurial orientation and their international performance. As SMEs involved in international business activities and often encounter unpredictable environments, they are expected to deal with various threats and risk that are related to intense competition in price and product, shrinking market and supplies, and as well as governments reviewed and altered rules. Thus, this paper will discuss about the entanglement of environmental hostility on Indonesian SMEs entrepreneurial orientation effort and their international performance. The main objective of this study is to discuss a conceptual framework that indicates the interrelationship between entrepreneurial orientation, environmental hostility and international performance of Indonesian SMEs. The proposed framework will examine the implication of Indonesian SMEs' environmental orientation and international performance when the foreign countries' business environment is in unfavourable condition. The findings of the study are expected to help Indonesian SMEs to be alert and more critical about hostile business environment in foreign countries as it can affect their business operation overseas. Additionally, Indonesian SMEs can apply strategic insights concerning potential impacts of uncertainties in foreign business environment to improve their international performance.

Introduction

In the new global economy, academics and practitioners are broadening their focus on cross-border business activity. Even to the smallest and newest organizations due to the increasing prominence of entrepreneurial firms. International entrepreneurship itself is define as the combination of willingness to be innovative, risk-seeking, performing proactive and aggressive behaviors (Ratten,

2006), which eventually known later as entrepreneurial orientation elements. Previous studies have recognized the entrepreneurial orientation's elements as essential in strengthening the firm's international performance (Li *et al.*, 2008) , and recent study complement by also highlighted SMEs as one of the considered main factors that trigger the economic development (Divakara, 2018; Tiftik & Zincirkiran, 2013). Significant attention towards International entrepreneurship around the world (Horne *et al.*, 2016) also have been received as well as by Indonesia (Bhasin and Sivakumar, 2010) . Tambunan (2011) reveals that Indonesia ranks first among ASEAN countries that has the most entrepreneurs, and this could then suggest a possibility of having more Indonesian expanding their business abroad. The statement is strengthened by data recorded by Indonesian Ministry of Trade (2015) 's directory book stated that as much as 4,495 firms are registered as international entrepreneurial firms. Other than that, Indonesia also being known for its biological and geographical richness, not to mention also as one of the culturally richest countries in the world. Furthermore, according to Indonesian National Development Planning Department, Indonesia's population is more than enough to provide workforces. The fact that Indonesia has abundant resources and population can lead to its potential to create and develop entrepreneurs and firms to boost their livelihood through the economics. However, the number of Indonesian international entrepreneurial firms only represent approximately 1.56 percent from the total population of Indonesia (Aryanto, 2012; Sugiarto *et al.*, 2014) , meanwhile the proportion of the entrepreneurs' percentage in a developing country in Asia has to at least fulfil 2 percent of the total population (Sugiarto *et al.*, 2014).

To overlook the such as entrepreneurship condition in Indonesia, this study intends to assert environmental hostility as the influencing factor that could affect the relationship between entrepreneurial orientation effort of Indonesian international SMEs and international performance. Moreover, Lumpkin and Dess (2001) also highlights environmental hostility as one of main critical environmental factors in organizational and strategic management. The reason being, in a hostile environment, the competition intensity take more pressure on the firms, and could affect its probability of its success (Calantone *et al.*, 1997) . Thus, environmental hostility is deemed appropriate to be investigated as a factor that could render the international performance of Indonesian SMEs. In the next sections this paper will discuss the interrelationship between entrepreneurial orientation, environmental hostility and international performance. To be more specific, this paper will only focus on linking 3 elements of entrepreneurial orientation which are innovativeness, proactiveness and risk taking towards international performance.

Literature Review

Entrepreneurial Orientation and International Performance

EO is widely used by previous studies to describe performance. The importance of entrepreneurial orientation was argued by Größler (2007) and he further concluded that firms' performance depend so much on its internal capabilities which match well with the concept of entrepreneurial orientation. Thus, entrepreneurial orientation is considered as the most important factor for firms' performances (Lumpkin and Dess, 2001) . Innovativeness is the first element of entrepreneurial orientation taht will be traversed in this study. Being be responsive towards trends and demands in order to fulfil customers' expectations are required as SMEs who operate their business internationally, which can be realized through product innovation and enhancement. In line with the findings of Umar *et al.*

(2018) whose stated that SMEs should gain their competing skill in the market against competitors who are always trying to improve their products. It conforms to the interpretation of innovativeness as flexibility of firms in developing new ideas, which will lead to the increase in firms' performance (Shirokova *et al.*, 2013) . The importance of innovativeness was proven by the findings of Loof and Heshmati (2006) and Thourungroje and Tansuhaj (2005) study, who found that innovativeness and international performance have a strong significant relationship between them.

The second elements of entrepreneurial orientation are proactiveness. Proactiveness described as the entrepreneurial firms abilities to capture customers' behaviours and demands (Sandberg, 2007) and how a firm responses to a prospective market opportunity (Li *et al.*, 2008) that other competitors have failed to recognize. The popular study which clarified the entrepreneurial orientation construct ant its relationship with performance, Lumpkin and Dess (1996), also pointed out that proactiveness has a significant effect on enhancing the firm's performance . The understanding of proactiveness is complemented by the latest study done by Thourungroje and Racela (2018) , who claims that proactiveness is a substantial strategic posture to enhance the international performance. Supported by the empirical result of previous studies such as Jantunen *et al.* (2005), Thourungroje and Tansuhaj (2005) and Bak-Olesen (2013) proved that the relationship between proactiveness and international performance is significant and positive. The last element of entrepreneurial orientation, which will be discussed in this paper, is risk taking. Risk taking is generally linked to business strategy (McCarthy, 2000) , naming it as the driving force for entrepreneurs' success. Furthermore, Lumpkin and Dess (2001) also claimed risk-taking as the courage to take actions in an unknown market with an unknown outcome in order to enhance the firms' performance. Substantiated by Leko-Simic and Horvat (2006) and Thourungroje and Tansuhaj (2005) findings, which stated that risk-taking can positively affect international performance. With all the discussions on the effects of entrepreneurial orientation in benefiting international performance, the following proposition is predicted:

Proposition 1 EO is positively associated with international performance of Indonesian entrepreneurial firms.

Environmental Hostility as a Moderator

Environmental hostility has been identified by Calantone *et al.* (1997) as the extent of threat that a firm faces due to the rate of intensity, vigour, and fierce competition. It has been also argued that in a hostile environment it is more likely to be intense competition of price, product, distribution and technology, regulatory restriction, shortage of labour and materials, and negative demographic trends (Miller and Friesen, 1983; Calantone *et al.*, 1997) . Along with that argument, Covin and Slevin, 1989 and Lumpkin and Dess, 2001 considered hostility as the indication of scarcity and intensity of competition for environmental resources. Covin and Slevin (1989) further reckon that the adverse impact of environmental hostility affected small firms more, due to their limited resources and inability to survive because of their poor managerial decisions. The impact of environmental hostility on international performance is still discussed by the latest study. Hosseini *et al.* (2018) even empirically proved that environmental hostility significantly moderated the relationship between entrepreneurial orientation and international performance. From the elaboration about how environmental hostility could interfere the international performance of SMEs, environmental

hostility is avowed as one of the most appropriate mediators since environmental hostility could interfere in the relationship between proactiveness and environmental hostility. Thus, the interrelationship between proactiveness, environmental hostility and international performance is proposed as follows:

Proposition 2 Environmental hostility moderates the relationship between proactiveness and international performance.

Proposed Conceptual Framework

To understand the interrelationship between entrepreneurial orientation, environmental hostility and international performance of Indonesian international SMEs, two propositions have been highlighted. These propositions will be tested later based on the data gathered by employing mail and drop-off survey. A detail framework that shows the interrelationship between entrepreneurial orientation, environmental hostility and international performance is illustrated in Figure 1.

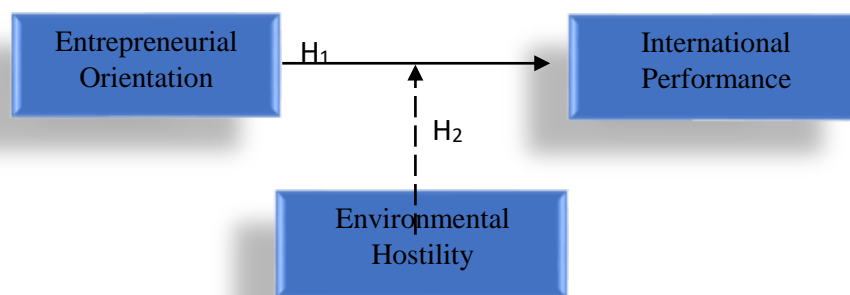


Figure 1 Conceptual Framework

Conclusion

The main aim of this paper is to mainly investigate on how environmental hostility could affect the relationship between Indonesian international SMEs towards international performance. Although it is noteworthy that entrepreneurial orientation tends to encourage SMEs to perform higher entrepreneurial qualities in operation, gain the ability to take risks, identify the opportunities also to compete successfully in the market, the element of environmental should not be neglected. Since environmental factor is one of the main critical factors in organizational and strategic management. Based on previous studies, it seems to be challenging for SMEs to survive and further expand in international market. Therefore, concern on how SMEs may face a hard time in hostile international market should be increased.

This study is part of on-going PhD research, therein, for the future agenda, an empirical study will be conducted, and a survey will be designed in an effort to discover whether environmental hostility affects SMEs' entrepreneurial efforts to perform well in international market. Questionnaire will be distributed to manager level and above of Indonesian international SMEs, that listed on Directory of Indonesian Exporter 2015. To verify the reliability and actual perspective of Indonesian

international SMEs, data collected will be examined using Statistical Package for Social Sciences (SPSS) version 24.0 and Partial Least Squares (PLS) 3.0 software. The result of the analysis will be given to all the respondents as a feedback, so that current study may help existing Indonesian entrepreneurial firms to improve their international performance and stimulate potential firms to start doing business internationally, by studying and preparing what should they do and to be successful in international market. The result of this study is also expected to promote the entrepreneurial firms to seek for more opportunities in the foreign market rather than focusing on the barriers to build their businesses abroad.

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