

Entrepreneurial Orientation, Market Orientation, and Financial Inclusion Influencing Financial Performance of Small and Medium Sized Enterprises

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ABSTRACT

This research aims to analyze and explain (1) the influence of entrepreneurial orientation on financial performance (2) the influence of market orientation on financial performance (3) the influence of financial inclusion on financial performance. (The population in this study is 238 all registered businesses in Dili with Determining the sample using the Slovin formula to get 100. Data was analyzed using the Smart-PLS analysis technique. Research findings based on the regression results shows that entrepreneurial orientation, and financial inclusion have a positive result and it is concluded that the first and third hypothesis is accepted, while the second test declared not significant. The results of this study are not in accordance with hypothesized, which means Hypothesis 2 is failed, and it can be concluded that second hypothesis not accepted.

Keywords: entrepreneurial orientation, market orientation, financial inclusion, financial performance

I. INTRODUCTION

The global economic downturn due to the COVID-19 pandemic is having a disproportionate impact on low-income and emerging economies. Timor-Leste experienced the largest GDP contraction since its independence, significantly worse than the income loss during the 2006 civil unrest, and the 2017 political deadlock (IMF, 2021) [1]. In March 2021, the Government of Timor-Leste (GoTL) introduced lockdowns and other restriction measures to prevent the spread of COVID-19. These restrictions along with the global economic slowdown and oil price uncertainty plunged the local economy into severe contraction with expected real GDP per capita to slip down to the 2009 level. Timor-Leste's non-oil businesses, represented mostly by micro and small enterprises, continue to be squeezed by the fallout of the COVID-19 crisis with looming long-lasting negative outcomes. This research is to understand the influence of entrepreneurial orientation, market orientation, and financial inclusion on financial performance of small and medium sized enterprises in Timor Leste.

How the private sector had been heavily impacted by the pandemic and the challenges faced by other businesses differed geographically. Being on the border with Indonesia, municipalities like Bobonaro were affected by different durations and severity of COVID-19 restrictions than municipalities that were more distant from transmission areas for the first year of the pandemic differences between previously existing vulnerabilities and the impact of pandemic response measures between municipalities were also captured in the data. The ongoing pandemic and long-term effects of business closures, reduced employment hours and other factors will continue to ripple through the Timorese economy. Now is the time however to foster an attractive environment for investment into the private sector and to enhance economic resilience through the expansion of digital capabilities accessible to both formal and informal businesses in the coming stages of recovery.

With various economic phenomena ranging from the world economy to the influence on the national economy SME's in Timor Leste must continue to develop the entrepreneurial mindset, as well as continue to develop its marketing capabilities and to understand the financial inclusion so that it can continue to respond to market needs, and not forget to continue to adapt to the existing economic environment, so that the SME's in the country can continue to grow from time to time.

Based on the background above, the author wants to conduct research on the influence of Entrepreneurial Orientation, Market Orientation and Financial Inclusion on Financial Performance through Small and Medium Enterprises in Timor Leste. The ES (Enterprise Survey) are repeated approximately every four years for a particular economy (or region). By tracking changes in the business environment, policymakers and researchers can look at the effects of policy and regulatory reforms on firm performance. Repeated surveys aid in studying the evolution of the business environment and how it affects the dynamics of the private sector.

The ES are conducted by the World Bank Group and its partners across all geographic regions and cover small, medium, and large firms. The size of the firm is determined by the number of employees: 5 to 19 (small), 20 to 99 (medium). Firms with less than five employees are ineligible for the survey. Firms that are 100% state-owned are also ineligible. The surveys are administered to a representative sample of firms in the non-agricultural, formal, private economy. Sector coverage is defined consistently across all economies and includes the entire manufacturing sector and most services sectors: retail, wholesale, automotive repair, hotels and restaurants, transportation, storage, communications, construction, and IT. Public utilities, government services, health care, and financial services.

The COVID-19 pandemic has changed the way consumers live, work, and shop, and it has become a starting point for a transformation in consumer behavior. Currently, it is crucial to pay close attention to the transformation of consumer behavior due to the COVID-19 pandemic and the potential consequences for business. Environmental changes and precautions introduced by governments have forced dramatic changes in consumer behavior. All this creates a need to improve the understanding of how consumers adapt to this situation and what has changed in their preferences and behavior.

Moreover, it is important to continue research activities aiming to foresee what long-term impact it can have, as many general consumer habits have been discarded and replaced by new ways of consumption, taking into

account psychological consequences after the pandemic and transformations in consumer trust in digital services and platforms. (Berezka, S., Rebiazina, V., & Muravskaia, S. (2021)). The pandemic Covid-19 have been affecting too many industries.

II. LITERATURE REVIEW

Financial performance is the company's financial condition over a certain period that includes the collection and use of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Financial performance is the company's ability to manage and control its resources (IAI, 2016). Financial Performance is reflected by 3 (three) indicators. (Anik Puspa Ningsih et al. 2015 dan Wiagustini et al, 2019), covers the following: (1) Sales volume growth (FI1) is the company's average sales growth in the last three years. (2) Profit growth (FI2), the growth of the company's average profit in the last three years. (3) Asset growth (FI3), the average growth on the company's assets in the last three years.

Market orientation is a corporate culture that consistently generates superior value [22]. It has extended the horizon of thinking to competitors and environmental factors that affect the target and potential. It is a series of efforts or activities that create sustainable competitive advantages and lead to high financial performance [22–25]. According to previous research, customer orientation, competitor orientation, and inter-functional coordination are three components of market orientation [22,26,27] Multiple studies reported that entrepreneurial orientation and market orientation had significant positive effects on performance [18,19,22,24]. Narver and Slater [22] viewed market orientation in three components: Customer orientation, competitor orientation, and interdepartmental cooperation. Customer orientation refers to driving customer satisfaction by appropriately responding to the needs of current and potential customers and providing corresponding values.

Financial inclusion is an economic condition in which individuals and companies access to financial services are not denied (Amidžić et al., 2014), and that the majority of individual can take advantage of the available financial services (Global Financial Development Report,2014), and they seek to include poor households in the formal financial system (Hannig& Jansen, 2010).

Some researchers find financial inclusion affecting performance positively (Mwaniki, 2014); It shows that financial literacy has got a positive effect on inclusion as well as financial behavior. In accordance the same thing was expressed by Aribawa (2016), who stated that good financial literacy would improve the performance and sustainability on SMEs. The results from Abdoulah and Jelili (2013), Chauvet and Jacolin (2017) and Lee et al. (2019) showed that financial inclusion significantly and positively influences company growth and performance.

III. METHODOLOGY

This study is carried out on the basis of both Primary and Secondary Sources. This collection of data is presented through following sections accordingly. First and foremost, the type of sampling used on this research is convenience sampling. Convenience sampling (also known as Haphazard Sampling or Accidental Sampling)

is a type of nonprobability or nonrandom sampling where members of the target population that meet certain practical criteria, such as easy accessibility, geographical proximity, availability at a given time, or the willingness to participate are included for the purpose of the study (Etikan, 2016). Primary Data is new information gathered specifically for your needs from people in the know. The methods used to collect primary data vary depending on the goals of the research as well as the type and depth of information sought (Wolf, 2016). The only primary data used for this research is questionnaires or surveys.

Questionnaires or surveys are an excellent way to gather a large amount of data from a specific population. Both can be used to characterize a population in terms of who they are, what they do, what they enjoy, and whether or not they are happy. In light of these identified characteristics, behavior, preferences, and satisfaction, you can then forecast the population's future behavior. Surveys produce the most meaningful data when the right questions are asked of the right people in the right way, so care should be taken both in developing survey questions that respondents will find relevant and interesting, and in determining which method of conducting the survey (online, telephone, or in-person) is most appropriate.

On this case, primary data were collected by means of systematically prepared questionnaires exclusively made by the researcher for the particular group of 100 business owners who have a small and medium business in Dili Timor Leste. In order to obtain statistical results, a questionnaire was prepared comprising with demographic attributes of the respondents such as age, gender, educational qualification, information about the preference of the respondents then continue with the main objective and questions of this research.

For the data collection method, we distributed hard copy of the questionnaires form and collect the data from respondents right after they filled the form. The questionnaire consists of two part which are part A and part B. Part A is the demographic attributes included age, gender, race, business status and income level. Then, Part B consisted of research questions including

32 question that measured using a Multiple Choices Questions (MCQ) that includes from 1

“Strongly Agree” to 5 “Strongly Disagree”. An open-ended question was also added at the end of the questionnaire to confirm which variable is the most affective. The collected data was uploaded on computer is SPSS (Statistical Package for Social Science) version 20.0 software. The descriptive and inference method were used to analyze the data.

This research was conducted to find answers to research problems on how the influence of extrinsic variables, namely the influence of entrepreneurial orientation, market orientation, financial inclusion on financial performance of small and medium enterprise in Timor Leste. Variables consisting of entrepreneurial orientation,

market orientation, and financial inclusion on financial performance in SME Timor Leste this was conducted to the 100 businesses owners who have a small and medium business in Dili Timor Leste.

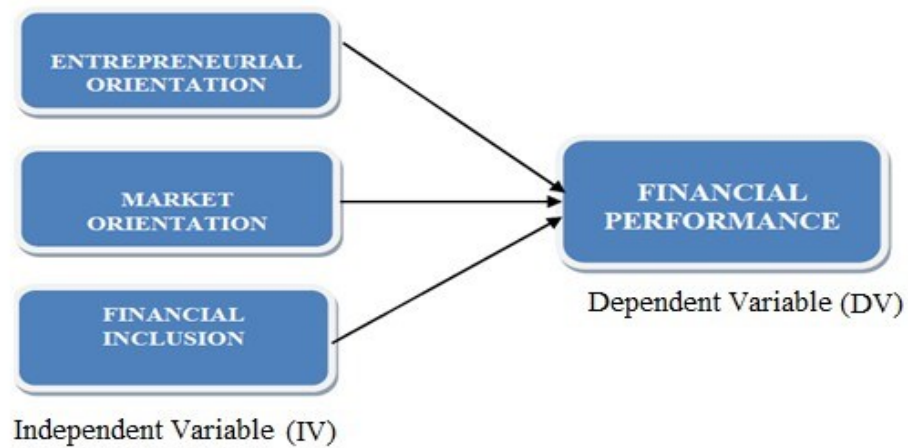


Figure 1. Research Framework

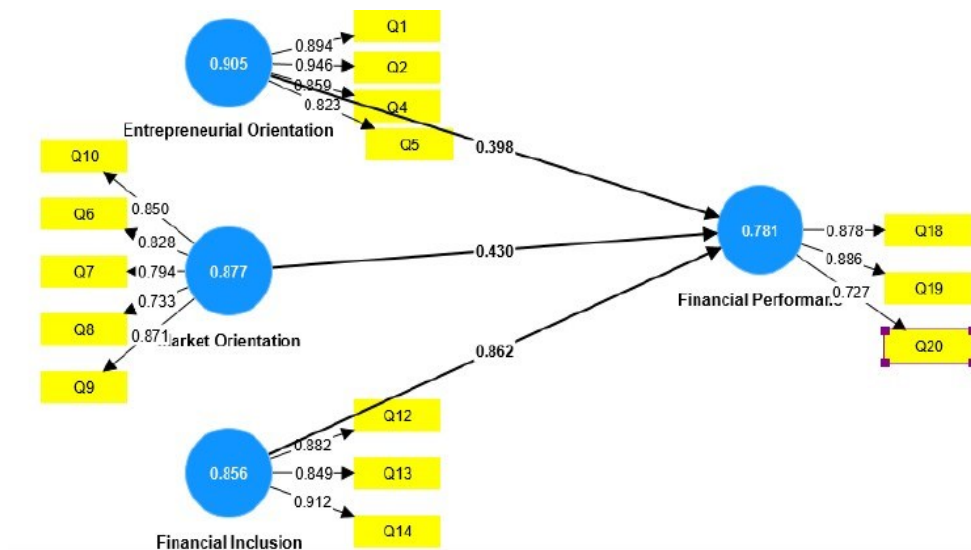


Figure 2. Hypothesized Model

IV. FINDINGS

Figure 1 and Figure 2 above shows the hypothesized model of the research consist of one dependent variable and five independent variables. The dependent variable is financial performance while the three independent variables consist of entrepreneurial orientation, market orientation and financial inclusion. Each variable contains different number of items.

From the origin hypothesized model a generated model of PLS algorithm have been run by using Smart PLS application. From the Figure 2 above it shows that the results of structural model between all the independent variable and the dependent variable.

Based on the sample of R square of small and medium enterprise here in Timor Leste small enterprise has (0.02) and medium enterprise has (0.13). The characteristic of respondents which shows in the table includes gender, age, education, length of time that has been in business. Most respondents were men (80%), and most entrepreneurs were in the age group of between the age of < 20- 50, with most respondents being the age of 41-50. The frequency of the respondents within the age of 31-40 amounts to 37 people or 37%, while respondents within the age of 41-50 amounts of 35 people or 35%, while <20 amounts to 8 people or 8%, and respondents within the age of 21-30 amounts to 13 people or 13%, lastly >50 amounts of 7 people or 7%. There were 54% high rate of high school level education of respondents with the most of respondents are senior high school with the frequency of 54 of 54%, while the others are 26% for Diploma, bachelor's degree of 15% and master's degree has 5%. The research based on years in business of < 2, with respondents of 23 frequency of 23%, 2-5 years of the respondents within the age of 31-40 amounts to 37 people or 37%, while respondents within the age of 41-50 amounts of 35 people or 35%, while <20 amounts to 8 people or 8%, and respondents within the age of 21-30 amounts to 13 people or 13%, lastly >50 amounts of 7 people or 7%. The number of respondents is very low because some of the entrepreneurs were not willing to participate in the study. Furthermore, age gender, and education are employed as control variables in the study.

Figure 3 below shows the re-specified model of structural hypothesized model are remain same as the previous generated model. It is because of the data generated after deleted the factor loading below than 0.5 unchanged. Based on the diagram, the data collected by the independent variable do not have the factor loading below than 0.5 thus the results of re- specified model unchanged. The results can be specified as the ranging from Based on the diagram 3 above. It also shows the cross-loading value shows good discriminant validity because of the correlation value indicator to the construct is higher than the indicator correlation value with other constructs. As an illustration of loading factor Q2 (indicator questions for entrepreneurial orientation) is 0.946 which is higher than the loading factor with other constructs, namely MO (0.451), FI (0.373) and FP (0.805).

The results also shows the commitment indicators organization also has a higher loading factor value than loading factor with another construct. The same thing also appears on the indicator accountability Thus, the latent construct predicts the indicators on the block they are better than indicators in other blocks.

The focus of the research is to examine the influence of entrepreneurial orientation, market orientation and financial inclusion of sme in Timor Leste. The aim of the study to determine which variable is significant to the financial performance. The construct of this study consists of one dependent variable and five independent variables. The variables have been selected by adaptation of several recent journal that related to our research. Therefore, the variables from the selected journal still reliable to use as well as the results to identify the level of consumer trust towards e marketing. Most of the respondents came from female consider more than half of respondents as the potential of determinant between independent variable to dependent variables.

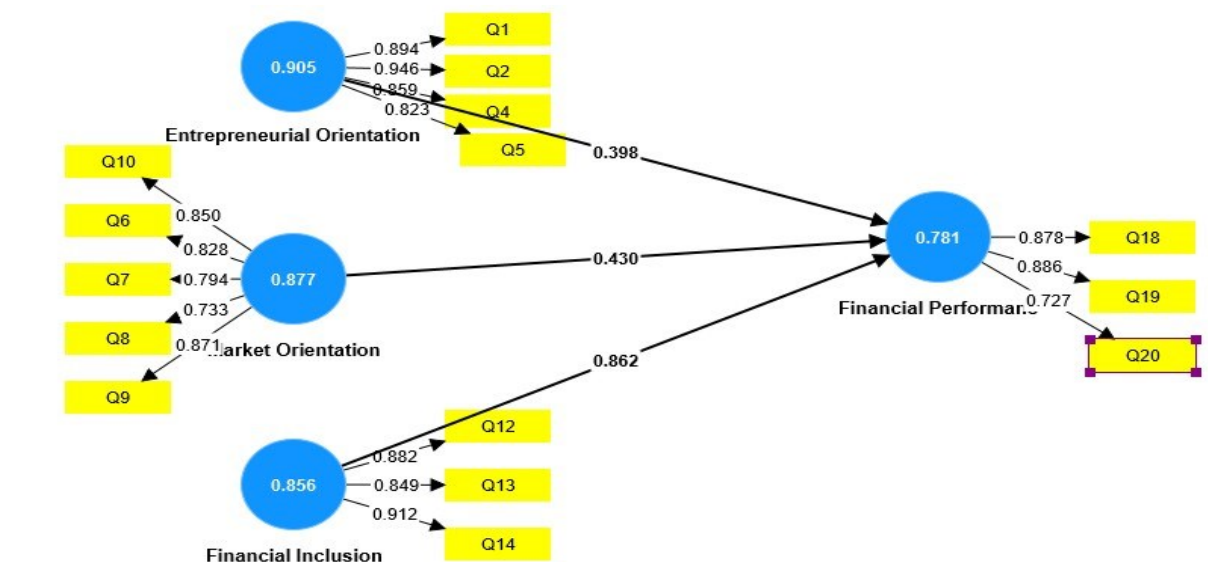


Figure 3. Re-specified model of structural hypothesized model

As overall the result of the study shows that only one variable would not be reliable to linked with the financial performance as the only variables is not significant. While the remaining variables shows good results. Under such an idealized form of competition there is no room for market orientation. Everything is known ex ante, and actors' decisions correspond to "rational choice," i.e., the actors know their preferences (e.g., to maximize profit), and they know all potential alternatives and their associated costs (see March, 1994). For example, when natural conditions are favorable, market actors will all try to maximize their crop or catch, which leads to overproduction and falling prices, or when actors expect future demand to increase, capacity expansions are often unshed, leading to industry overcapacity (Henderson and Cool, 2003).

The focus of these studies one market orientation as direct antecedent aiming to explore various dimensions and indicators as an alternative strategy to enhance firm competitive position and performance. These empirical studies reveal that, there are inconsistent results (Mahmoud et al., 2016) due to the limited understanding about the precise nature of the influence of market orientation. For example, a group of researchers have found that market orientation strengthens a business performance (Nguyen, 2018; Abbu & Gopalakrishna, 2019; Sampaio et al., 2019) while other studies also show that market orientation have insignificant impacts and/or negative impacts on financial performance.

V. CONCLUSIONS AND RECOMMENDATIONS

As a conclusion, this analysis is exploratory research to identify the influence of entrepreneurial orientation, market orientation, financial inclusion on financial performance of small and medium enterprise in Timor Leste. The findings revealed that entrepreneurial orientation and financial inclusion was relatively significant in the influence of financial performance of small and medium enterprise in Timor Leste.

In this research the sme owners must take steps involve reducing unnecessary expenses and discovering new ways to increase revenue while keeping the employees, customers, and community safe. The influence of the

small businesses on financial performance may depend on firms' experience and longevity. By looking at business environment measures in conjunction with available performance measures, policymakers can determine which aspects of the business environment may be impeding or enabling the growth of the private sector. Participation in international trade allows firms to expand, raise standards for efficiency, import materials at lower cost, and acquire updated and better technologies.

Investment purchases can be financed by internal sources, banks, inputs' supplier credit, or other sources, including non-bank financial institutions or personal networks. Excessive reliance on internal funds may indicate potentially inefficient financial intermediation.

Lastly, considering that the findings of this research state that the influence of entrepreneurial orientation, and financial inclusion has significant positive on financial performance, but can have an insignificant effect on market orientation based on the result. Research on humans is difficult to separate from environmental influences so there are bound to be errors or bias in the research, even the implementation of the isolation process will also produce an error. Some SMEs in this study did not used as a sample because it was not permitted to do so research, so the results of this research are not comprehensive for all MSMEs in Timor Leste. It is worth trying by future researchers to use different dimensions or get more references related in financial performance.

Moreover, due to this pandemic, most of the businesses need to emerge into online platform to gain more customers and better awareness of their brand plus their products. Lastly, the findings of this research contributed for current online businesses that are developing in terms of their delivery services.

In every research, there is no perfection. There must be limitations anywhere along the process. Based on this research, there are few limitations on the whole process. Firstly, not everyone is willing to waste their time to answer the questionnaires and its time consuming for the researcher while waiting vendors to fill up the forms. In order to avoid the ignorance, the researcher should try to make a physical meetings or to have face-to-face interactions are more informative than through video conferences.

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