Financial Performance Impacts of Corporate Entrepreneurship

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Abstract

This paper examine about the effect of four sub-dimensions of corporate entrepreneurship (CE) on firms’ financial performance in Indonesia. The four sub-dimensions are innovativeness, risk-taking, pro-activeness, and competitive aggressiveness. This study will use primary data by the way spread some questioner in the company. To test the financial performance effects of CE, the scale for the dimensions of CE and financial performance have been adopted from the existing literature. A series of reliability and validity tests are conducted for the measurement of the scales. Validity and reliability test and multiple regression analysis have been conducted to test the hypotheses. The results of this research will provide guidelines to help investors, managers, and also academicians to comprehend the importance of CE well on the way to create financially successful firm performance and sustain it in markets.

Keywords: financial performance, corporate entrepreneurship, innovativeness, risk-taking, pro-activeness

Abstak


Kata Kunci: kinerja keuangan, corporate entrepreneurship, innovativeness, risk-taking, pro-activeness

JEL: M31

1. Research background

The increased competition, both locally and internationally, has significant influence towards entrepreneurship in developing company, so it can evolve and gain competitive excellence (Zahra et al. 2000). The company which is not able to gain competitive excellence can lead to the destruction of organization or company, because they are able to manage the resources properly (Utama and Prabowo 2012). Rahayu (2009) in Utama and Prabowo (2012) stated that aside from organization culture, entrepreneurship orientation can influence the
ability of management in a company, which eventually affects the company performance. Harini (2012) also stated that the ability of entrepreneurship eminently has influence and strong relationship towards the performance of Small Medium Enterprise (SME) in Bogor. The result of the research proves that the financial performance of company increase after finishing the training in developing the ability of entrepreneurship. It is different from the time when the training has not been done.

Aktan and Bulut (2008) stated that the ability of corporate entrepreneurship (CE) is the concept which combines 4 dimensions, and those are: proactiveness, risk taking, innovativeness and competitive aggressiveness. There are many researchers related to CE which give success in corporate performance, such as Pinchot (1985) in AktanBulut (2008); Zahra and Covin 1995; Barringer and Bluedorn 1999; Lumpkin and Dess 2001; Hornsby et al. 2002; Karacaoglu et al. 2012; Mokaya 2012; Zhang and Zhang 2012.

The implementation of free trade in 2015 in Indonesia forces corporates to apply CE, so they can keep survive and make development. Corporates are demanded to be more entrepreneurial, adaptive and innovative toward competition (Aktan and Bulut, 2008). Aktan and Bulut (2008) also proved that CE could also affect the corporate finance performance, so it becomes important to be considered by corporates in Indonesia.

Mulyadi (2000) in Sinarasri (2013) explained that one of the efforts conducted by the corporates to overcome the economic crisis is by designing, installing and operating the formulation strategy system, planning strategy system, and program arranging system in order to motivate the entire personals in organization in searching and formulating strategic stages to develop the future of their firm. Besides business strategy, the orientation of corporate entrepreneurship also plays important role in achieving the success. The orientation of entrepreneurship is the pioneer in creating the growth of firm’s economy sustainably and highly competitive (Suryanita (2006) in Sinarasri (2013)). Maurer (1997) in Sinarasri (2013) revealed that firms which have orientation in entrepreneurship would always strive to produce new innovative products and have courage to take risk. Entrepreneurship orientation and business strategy are considered having ability in developing the performance of the firms.

Being motivated by the previous researches, this research intends to test whether there is influence of the corporate entrepreneurship ability towards the performance of the firms finance. Does the Innovativeness in CE have positive influence on finance performance? Does Risk Taking in CE have positive influence on the firms finance? Does Proactiveness in CE have positive influence on the firms finance? Does Competitive Agressiveness in CE have positive influence in the finance performance?

2. Research Method

According to Venkatraman and Ramanujam (1986), the finance performance always focus on the firms side of finance in which shareholders and stakeholders are interested in obtaining information on finance condition of the firms. The finance information (such as return on investment, return on equity, growth sales, profitability, etc) is the clear and valid information compared to other performance dimensions. Financial information is also used in the audit process related to the issues in finance and tax. The financial information should be open, it depends on the characteristics of the firms; whether private or public; the size of the firms, and also it has been listing or not yet listing. The financial performance explains the ability of the firms in producing the new sources from time to time along the life of the firms (Aktan and Bulut, 2008). The financial performance of the firm is measured in 2 ways: (1) traditional measures which are based on the data of finance/accounting (ROI, ROE, etc) and (2) market-based which are obtained from the market value (EVA and MVA approaches) based
on the valuation approach.

Meanwhile, Corporate Entrepreneurship (CE) becomes important to be researched for this 3 periods as orientation strategy to adapt in all external problems in order to gain competitive excellence in global competition (Aktan and Bulut, 2008). CE is a group of policies, process and organization characteristics of the firms in which organization tries to do actualization as a pioneer of innovative ideas in products, process, structure and market (Pinchot (1985) in Aktan and Bulut (2008); Stevenson and Jarillo 1990; Stopford and Baden-Fuller 1994; Zahra and Covin 1995; Lumpkin and Dess 1996).

The developed research model in this research is:

![Figure 1. Research Model](image)

According to Drucker (1985) in Aktan and Bulut (2008), innovation is the heart of entrepreneurship. Organization with the spirit of entrepreneurial would be able to overcome and utilize the rapid changing from the market condition if it applies and implements the suitable innovation. If the organisation initiative is supported and consistent with the organisation, the outcomes obtained is a sustainable competitive advantage through innovation in the form of product, service and new process or the combination of those three (Brentani 2001; Hornsby et al. 2002). Based on this, the first developed hypothesis is Innovativeness in CE has positive influence on financial performance.

The behavior of entrepreneurial and non-entrepreneurial obviously differentiate between the feature of Risk Taking of individuals and organisation. The instinct in risk taking for organisation is defined as the orientation of organisation to take new initiative in the purpose of having profit and the growth of the organisation with the possibility of loss which can still be tolerant (Keh et.al. 2002). The behaviour of conservative and avoiding the risk would decrease the market segment and the loss in competitive position (Barringer and Bluedorn 1999; Kanter 2006). Moreover, according to Porter (1980) in Aktan and Bulut (2008), the global competition also drives the organisation to take new position in order to keep competitive. The success of the organisation is being able to identify the new market or introducing new product/service in existing market or combine two opportunities of markets which are at risk. Therefore, the financial performance becomes higher and can still be competitive directly related to the firm intensity in the ability to take measurable risk. The second hypothesis in this research is Risk Taking in CE has positive influence on financial performance.

The two main challenges in the new limitless competitive environment is the short product life cycle and the sensitive demand toward new product. In order to keep survive in the new economic environment, a firm tries to make the first move to gain competitive advantage (Barringer and Bluedorn, 1999). Particularly in the developed economic transition, becoming a leader is more useful compared to the strategy of wait and see. Keep up with the competitor is just like fighting for a pie in the small market compared to the first-mover (Narver et al. 2004;
Olson et al. 2005). Different from the saturated market, being the first and the fastest firm which can find new or routine demand, introducing new product/service would be helpful for the firm in taking new position for a sustainable competitive advantage (Porter, 1980 in Aktandan Bulut, 2008). The third hypothesis in this research is Proactiveness in CE has positive influence on financial performance.

A firm should not take a new position when the intensity of competition is increasing and/or becoming late in entering the emerging market, calculating the cost of chances and trying to take the alternative strategy in order to survive in competition (Birkinshaw et al., 2005). The firms which have decided to get advantage in the existing market, have to adapt the behaviour of competitive aggressiveness by applying the market strategy, such as competitive price, increasing promotion and fighting in distribution line or imitating the action and product of competitor (Dess et. al (2007) in Aktan and Bulut (2008). The aggressive action through marketing tools drives the strong competitors to create obstacles for entering the existing market. From the two different perspectives (newcomers and existing firms), having a clear goal and aggressive behavior is the beginning for surviving in competition and enable the firms to gain profit from the existing market. The fourth hypothesis in this research is Competitive Aggressiveness in CE has positive influence on financial performance.

The design of this research is quantitative approach, by distributing questionnaires. Quantitative approach is developed with the assumption of positivist philosophy, so it has the quality of determinist and reductionist. The usage of research variables is specifically made, the choice of research samples and the measurable instrument of data collection become the characteristics of this research. The type of this approach is the beginning of this research, from the research questions and measurable hypothesis. The research questions are investigative in searching for the answers. Meanwhile, the subjects or respondents in this research are all the employees who have been working in a firm, either micro, small, middle or big. The length of work experience of the respondents in a firm is minimal 2 years.

The technique of selection for the respondents is implemented using purposive sampling or intentional selection with the consideration that the respondents are those who have been working well in the firm, either micro, small, middle or big. The location of the research is concerning about the ability of the firm entrepreneurship toward financial performance and that is the whole firms in Indonesia, whether in the scale of micro, small, middle or big.

The dependent variable in this research is Financial Performance (FP) which is measured using the following indicators: market share (FP1), sales (FP2), profit (FP3) return on equity (ROE). The dependent variable of this research is Financial Performance (FP) which is measured using indicators, such as: market share (FP1), sales (FP2), profit (FP3), return on equity (ROE) = net profit / capital and return on assets (ROA) = net profit / total asset (FP4), inventory turnover = cost of goods sold / inventory (FP5), the operational management of the company is more effective and efficient (FP6), the welfare of the employee is measured by bonus or additional incentives (FP7), the welfare of the employee is measured by salary, health and education benefits (FP8). Meanwhile, the independent variable of this research is Corporate Entrepreneurship (CE), which is measured by using 4 dimensions of CE, and those are:

a. Innovativeness (I), is measured by indicators, such as:
   - company often tries to create new ideas (11); company is creative in operational methods (keep up with the advanced technology) (12); company tries to find new ways to do something (13); company emphasizes on new product development (14); company spends
money on activities of new product development (15); company invests on technology development (16).

b. \textit{Risk Taking} (PA), is measured by indicators, such as:
- company is more valiant in bearing risk (R1); company is more tolerant in facing high risk project (R2); the top manager is supportive, brave and aggressive in maximum exploitation of possible uncertain potential (R3); the majority of employees in the company are willing to take risk (R4); risk taker characteristics in employees are considered positive (R5); employees are often encouraged to take risks that have been taking into account and related to new ideas (R6).

c. \textit{Pro-activeness} (PA); is measured by indicators, such as:
- company has initiative to take action towards competitors rather than just wait for response (PA1); at the time of agreement with competitors, our company is more likely to excel and becomes a leader compared to competitors in terms of introducing ideas or products (PA2); company often becomes the first company in introducing new product / service, the usage of technology, etc. (PA3); the culture of the company is actively initiating in introducing new product, technology and administrative technique rather than waiting to respond (PA4).

d. \textit{Competitive Agresiveness} (CA), is measured by indicators, such as:
- a type of adaptation which is very competitive by imitating and modifying competitors (CA1); company tends to be strong in increasing market share by reducing competitors (CA2).

The method and data collection tools in this research use questionnaires (use the likert scale $1 – 5$). Questionnaires are directly spread out to respondents and also through online email; email of FBE Ubaya alumni students and parents of FBE Ubaya students; friends’ email of alumni students UGM and UAJY; and business colleagues in Indonesia. The questionnaires were spread to 150 respondents and it is estimated that 10% of the result did not return. The measurement of questionnaires uses Likert scale with the type of 5 points, in which $1 =$ completely disagree and $5 = $ completely agree. The score is obtained from the average scale of all measurement. Validity and reliability test use Cronbach’s Alpha. The research questionnaires adapt the research questionnaires of Aktan and Bulut (2008) with 18 questions related to CE and 4 questions related to finance performance.

The data analysis technique with statistic test technique uses multiple linear regression test. The research equation model which will be tested is:

\[
\text{Financial Performance}_t = a + b_1 \text{Innovativeness}_t + b_2 \text{Risk Taking}_t + b_3 \text{Proactiveness}_t + b_4 \text{Competitive Agresiveness}_t + e
\]

Information:
- Financial Performance$_t$ = the result of related respondents with Financial Performance indicators in the period of spreading the questionnaire.
- Innovativeness$_t$ = the result of related respondents with Innovativeness indicators in the period of spreading the questionnaires.
Risk Taking,

Risk Taking = the result of related respondents with Risk Taking indicators in the period of spreading the questionnaires.

Proactiveness

Proactiveness = the result of related respondents with Proactiveness indicators in the period of spreading the questionnaires.

Competitive Aggresiveness

Competitive Aggresiveness = the result of related respondents with Competitive Aggresiveness indicators in the period of spreading the questionnaires.

E

E = error

The statistic hypothesis of this research is $H_0 \leq 0, H_{b1}, b2, b3, b4 > 0$, and the criteria of hypothesis acceptance with $\alpha = 5\%$ is $\alpha > \text{Sig.}$, so $H_0$ is rejected $H_{b1}, b2, b3, b4$ is accepted; if $\alpha < \text{Sig.}$ so $H_0$ is accepted and, $H_{b1}, b2, b3, b4$ is rejected.

3. The result and research discussion

3.1. Validity and Reliability test and correlation

By using SPSS version 17, the Reliability Statistics tests for question items in this questionnaire are observed from Cronbach’s Alpha value. The test result with 22 numbers of question items (R1-R6, P1-P4, CA1-CA2, I1-I6, FP1-FP4) is:

<table>
<thead>
<tr>
<th>Questions</th>
<th>Cronbach’s Alpha</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>0.824</td>
<td>Reliable</td>
</tr>
<tr>
<td>Risk-Taking</td>
<td>0.774</td>
<td>Reliable</td>
</tr>
<tr>
<td>Pro-activeness</td>
<td>0.794</td>
<td>Reliable</td>
</tr>
<tr>
<td>Competitive Aggresiveness</td>
<td>0.237</td>
<td>NotReliable</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>0.913</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

(Source : Processed data, 2015)

A questionnaire is considered reliable if the value of Cronbach’s Alpha $> 0.60$ (Sarjono and Julianita, 2011:45). Based on Table 1, the questions in the questionnaire which are related to the fourth dimension CE and Financial Performance are reliable for the questions Innovativeness, Risk-Taking, Pro-activeness and Financial Performance. Meanwhile, the questions which are related to Competitive Aggresiveness are not reliable (0.237 < 0.60). Since it is not reliable, the question items for Competitive Aggresiveness are removed.

The validity test considers Item-Total Statistic in the column of Corrected Item-Total Correlation (as r count). All question items are valid if Corrected Item-Total Correlation is bigger than r-table (after being searched by using df = 140, r-table = 0.1648) (Sarjono and Julianita, 2011 : 50). Table 2 is the result of validity test of each question. Questionnaire is considered valid if r-count > r-table (0.1648). Table 2 shows that all question items are valid, except the question on Competitive Aggresiveness (CA). It is suitable with the result of reliable test, CA is also not reliable. Based on the result of reliability and validity test, the question of CA is eliminated and CA is not included in the model to avoid the inaccurate test result. Therefore, the linear regression model of this research is:

$$FP = a + b_1 I + b_2 RT + b_3 PA + e$$
FP = Financial Performance;
I = Innovativeness;
RT = Risk Taking;
PA = Pro-activeness

e = error

Table 2. The result of Validity Test

<table>
<thead>
<tr>
<th>Question Items</th>
<th>Corrected Item-Total Correlation</th>
<th>Cronbach’s Alpha if item Deleted</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>I1</td>
<td>0.584</td>
<td>0.799</td>
<td>Valid</td>
</tr>
<tr>
<td>I2</td>
<td>0.664</td>
<td>0.782</td>
<td>Valid</td>
</tr>
<tr>
<td>I3</td>
<td>0.590</td>
<td>0.798</td>
<td>Valid</td>
</tr>
<tr>
<td>I4</td>
<td>0.653</td>
<td>0.783</td>
<td>Valid</td>
</tr>
<tr>
<td>I5</td>
<td>0.547</td>
<td>0.807</td>
<td>Valid</td>
</tr>
<tr>
<td>I6</td>
<td>0.540</td>
<td>0.810</td>
<td>Valid</td>
</tr>
<tr>
<td>RT1</td>
<td>0.538</td>
<td>0.737</td>
<td>Valid</td>
</tr>
<tr>
<td>RT2</td>
<td>0.586</td>
<td>0.723</td>
<td>Valid</td>
</tr>
<tr>
<td>RT3</td>
<td>0.457</td>
<td>0.757</td>
<td>Valid</td>
</tr>
<tr>
<td>RT4</td>
<td>0.476</td>
<td>0.752</td>
<td>Valid</td>
</tr>
<tr>
<td>RT5</td>
<td>0.469</td>
<td>0.754</td>
<td>Valid</td>
</tr>
<tr>
<td>RT6</td>
<td>0.596</td>
<td>0.722</td>
<td>Valid</td>
</tr>
<tr>
<td>PA1</td>
<td>0.501</td>
<td>0.790</td>
<td>Valid</td>
</tr>
<tr>
<td>PA2</td>
<td>0.653</td>
<td>0.725</td>
<td>Valid</td>
</tr>
<tr>
<td>PA3</td>
<td>0.612</td>
<td>0.748</td>
<td>Valid</td>
</tr>
<tr>
<td>PA4</td>
<td>0.684</td>
<td>0.702</td>
<td>Valid</td>
</tr>
<tr>
<td>CA1</td>
<td>0.134</td>
<td>(no number came up, is not reliable)</td>
<td>Not Valid</td>
</tr>
<tr>
<td>CA2</td>
<td>0.134</td>
<td>(no number came up, is not reliable)</td>
<td>Not Valid</td>
</tr>
<tr>
<td>FP1</td>
<td>0.757</td>
<td>0.903</td>
<td>Valid</td>
</tr>
<tr>
<td>FP2</td>
<td>0.818</td>
<td>0.882</td>
<td>Valid</td>
</tr>
<tr>
<td>FP3</td>
<td>0.801</td>
<td>0.887</td>
<td>Valid</td>
</tr>
<tr>
<td>FP4</td>
<td>0.833</td>
<td>0.876</td>
<td>Valid</td>
</tr>
</tbody>
</table>

(Source : Processed Data 2015)

Before testing the hypothesis, the relationship of each dimension in 3 CE dimensions and the financial performance uses the correlation analysis. Table 3 shows the cross correlation coefficient among the 3 CE dimensions and the financial performance component is positive and significant.
3.2. Descriptive Statistics

The result of descriptive statistics in this research is shown in Table 4. Based on 150 questionnaires which were distributed, there were only 142 returned back with the average answer on the question of Financial Performance is 3.822; Innovativeness is 3.5904; Risk-taking is 3.2465; and Pro-activeness is 3.5792.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>3.822</td>
<td>0.81464</td>
<td>142</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>3.5904</td>
<td>0.77506</td>
<td>142</td>
</tr>
<tr>
<td>Risk-Taking</td>
<td>3.2465</td>
<td>0.70870</td>
<td>142</td>
</tr>
<tr>
<td>Pro-activeness</td>
<td>3.5792</td>
<td>0.79859</td>
<td>142</td>
</tr>
</tbody>
</table>

Information: ** significant on $\alpha = 1\%$

3.3. Hypothesis Test

The correlation analysis test shows the evidence that the effect of individual in CE dimension on financial performance is the simple regression analysis. Testing the multiple effect of CE dimension on financial performance uses multiple regression analysis. The result of multiple regression analysis can be seen in table 4.5.

<table>
<thead>
<tr>
<th></th>
<th>Regression coefficient</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>0.356</td>
<td>4.598</td>
<td>0.000 **</td>
</tr>
<tr>
<td>Risk-Taking</td>
<td>0.153</td>
<td>2.104</td>
<td>0.037 **</td>
</tr>
<tr>
<td>Pro-activeness</td>
<td>0.322</td>
<td>3.958</td>
<td>0.000 **</td>
</tr>
</tbody>
</table>

$R^2 = 0.492$
Based on table 4.5, the value of F is 44.539 and it is significant, it means that all the three CE dimensions have influence on financial performance of the company. \( R^2 \) is 0.492 shows that the variable of financial performance which can be explained by the three CE dimensions is 49.2% and the rest is explained by other variables aside from the model. The result of the research also shows that there are three dimensions (innovativeness, risk taking and pro-activeness) CE which are proven to be significant having positive influence on financial performance. Therefore; H1, H2, and H3 are accepted. It means that innovativeness, risk taking and pro-activeness in CE have positive influence on financial performance of the company. The test result of H1, H3, and H3 are consistent in the previous research which stated that CE had positive influence on financial performance.

Company which has Corporate Entrepreneurship is able to increase their success in financial performance. Company which is more innovative, braver in taking the risk and more proactive is mostly assured to increase the financial performance(company’s market, selling, profit, return on equity, return on asset, inventory turnover, and operational management, and also the company’s welfare will be better, effective and efficient).

Those companies which often try to apply new ideas, being creative in following the advanced technology, finding new ways, R & D has positive relationship with the improvement of company’s financial performance in developing their product.

The company which is braver in taking risk, more tolerant in high risk project, has supporting, encouraging and motivating management in taking chances although there is more risk, and it has positive relationship with the improvement of company’s financial performance. A company also has positive relationship with the financial performance when company is more initiative in taking action, does more bargaining, and acts more as a pioneer. It is in line with what Drucker revealed (1985) in Aktan and Bulut (2008); Kehet al. 2002; Porter (1980) in Aktan and Bulut (2008); Barringer and Bluedorn 1999; Narver et al. 2004; Olson et al. 2005; Sinarasri (2013).

4. Conclusion and Recommendation

The entrepreneurship process shows the growth orientation of the company for keep going further and lead. The courage to innovate, proactive and taking the risk in challenge, task, need, obsolescence and chances starting from a brave idea and high confidence to build entrepreneur and manage resources in reaching the organization’s goal. It is obviously the effort of winning a competition. A company is not only creating the value for shareholders, but also for others which are related to the company in this modern era of management (Drucker, 1985 in Aktan and Bulut (2008).)

As a consequence, entrepreneurship is the key aspect in company strategic orientation. Indonesia as a developing country needs to have lots of companies with entrepreneurship spirit. The company which has entrepreneurship spirit is able to give encouragement in economy. It is because CE shows the orientation of behavior and attitude including all aspects in organization in order to be sustainable. For that purpose, entrepreneurship spirit is integrated in the mission, objective, strategy, structure, process and value of the company to achieve the remarkable performance (Aktan and Bulut, 2008).

This research produces the finding which is expected to be valuable for academics,
researchers and the executive of the company’s management. The result of this research proves that all CE dimensions are related to innovativeness, risk-taking and pro-activeness and that has positive influence on the financial performance of the company. Meanwhile, one of CE dimensions, Competitive Aggressiveness, is not included in the regression model because the result of questionnaire shows that the data is not reliable and valid.

The weakness of this research is related to the question about competitive aggressiveness which is addressed to the respondents and it needs to be clarified by the future research. In this research, the weakness of the question in the questionnaire is related to the strategy of imitating the competitor, modify and decrease the competitors to increase market and it does not fully show the competitive aggressiveness. The decision of the company to adapt the behavior of competitive aggressiveness by applying the marketing strategy, such as competitive price, increasing promotion and/ keep fighting in distribution line or imitate the action and/ competitive product (Dess et al. 2007). Moreover, further research is expected to increase the number of respondents, so the result would be better. Furthermore, further research is also expected to find the positive relationship among CE dimensions before relate them with the effect of CE on the company’s financial performance.

References
Lumpkin GT, Dess, GG. 2001. Linking Two Dimensions of Entrepreneurial Orientation to


