

THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION, MARKET ORIENTATION AND SMEs PERFORMANCE: THE MEDIATING ROLE OF THE MANAGEMENT SKILLS, IN SOUTH SUMATRA, INDONESIA

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Abstract

Small and medium-sized enterprises (SMEs) can partly preserve their viability by enhancing performance. The primary concern is how to improve the performance of SMEs to facilitate their growth. Therefore, this research aims to investigate the factors that enhance SME performance. An empirical investigation was conducted in South Sumatra, Indonesia, to verify the hypothesis. This investigation collected 109 valid questionnaires from SME business people via a self-administered survey. In addition, the data were analysed using Partial Least Square-Structural Equation Modelling (PLS-SEM). According to the findings, there was a relationship between entrepreneurial orientation (EO), market orientation (MO), and SME performance. The effect of EO on SMEs performance is accepted, while the hypothesis of management skills (MS) as a mediating is accepted. Nonetheless, several results of the MS hypothesis as a mediating enhancing the effect of MO on the performance of SMEs were rejected. The efficacy of SMEs in South Sumatra, Indonesia, is the subject of research that informs future decisions.

Keywords: Entrepreneurial Orientation, Market Orientation, Management Skills, and SMEs Performance.

INTRODUCTION

The government of Indonesia's top goal is to help small and medium-sized businesses grow. The Ministry of Finance said that, so far, the government's policies had stressed how important it was for SMEs to grow to reach the goal. The government wants to improve the people's foreign productivity and competitiveness (Taufiq & Jatmika, 2017) and give them economic independence by improving critical

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domestic economic sectors. A recent study by Anggraeni (2013) said that the government's plan for growing SMEs needs to be adapted to the local situation. To help small businesses grow, the government should lead strategic projects that must become government policy. SMEs are a way for the government and the community to work together to build a business that will help the local and state budgets. Each town has the chance to be creative and make money for the government to grow (Anggraeni, 2013).

From 2010 to 2020, SMEs are expected to contribute the least to GDP at 3.73% in 2020. COVID-19 spread to almost every country worldwide (Kementrian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 2020). In light of this, the Indonesian government set a goal for growth of 62.36% by 2021. However, reports from 2021 show that SMEs only added 61.7%, which means that the goal will not be met (Rudya, 2022). Regarding trade, SMEs haven't helped the country enough yet. In 2021, only 15.69% of exports will come from SMEs, which is still less than in other ASEAN countries like Thailand and Malaysia, which got 41% and 29.2%, respectively. Singapore (41%) and China (60%) were still better than Indonesia (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2022). The Minister of Cooperatives and SMEs, Teten Masduki, said that the COVID-19 virus and its spread economically affected sustainability and caused SMEs in several parts of Indonesia to do worse (Audah, 2022). The Vice Governor of South Sumatra said that between 2020 and 2022, there would be 30% fewer small and medium-sized companies in South Sumatra. This is because there is evidence that these businesses need to know more about specific knowledge, skills, and the need for creativity to do better. Say that the biggest problem for small businesses in South Sumatra is improving their performance to be even more successful (Kuncoro, 2010; Sasongko, 2022; Sharma et al., 2005).

Dewi (2013) and Mustikowati and Tysari (2015) said that several factors can change the performance of small and medium-sized businesses. One of these factors is the entrepreneurial orientation (EO). According to Mustikowati and Tysari (2015), Rauch et al. (2009), and Wiklund and Shepherd (2005), if a organizational owner's EO is getting better, such as by being more creative, proactive, and willing to take risks, then the business success will also be getting better. In the business world, where competition is fierce, it can spot and take opportunities. This means that the success of SMEs will improve based on how much they are focused on being entrepreneurs. Researchers Mustikowati and Tysari (2015), found that being EO has a strong and positive effect on SMEs performance in East Java. In contrast, Suryaningsih (2019) study of SMEs in Jakarta, Indonesia, discovered no relationship between EO and performance. This result goes against

what other researchers have found. Setyawati and Abrilia (2013) and Haryani (2015), who did research among SMEs in Central Java, Indonesia, came to the same result. There is no significant relationship between SMEs' success and how EO they are. These results are in line with each other. No studies can be taken as conclusive on the link between a business mindset and how well SMEs do.

Mokhtar et al. (2014) said that the role of market orientation (MO) in improving the performance of SMEs is essential and helpful. Tjiptono (2008) said that focusing on the market could help a business improve. It is also believed that MO has psychological and social benefits for employees by fostering a stronger sense of belonging and increasing organizational commitment. Previous studies Bamfo, B. A., and Kraa (2019) looked into how MO affects the performance in Ghana. They found that MO improves the performance of SMEs when used in Ghana. Yuliana and Pujiastuti (2018), who looked at SMEs in Central Java, Indonesia, found the same thing. Herlambang and Mawardi (2017) study in East Java, on the other hand, found that MO had no relationship effect on the performance of SMEs. Hartini (2008) and Hassim et al. (2011) did more studies in Central Java and Malaysia and found no relationship. There are no clear conclusions about how MO affects the success of SMEs.

MacKinnon (2007) says that a significant link between an independent variable (IV) and a dependent variable (DV) can be shown when a third variable is also present. The intermediary variable is the third variable. Baron and Kenny (1986) and James and Brett (1984) say that the main idea of this mediating model is a system that shows how one variable affects another. Researchers who looked at the effect of MS, Muryati (2004), Nurhayati (2004), and Sirat (2002), found that MS had a strong, statistically significant effect on the EO and performance of small manufacturing organisations. In another study by Suci (2009), MS significantly affected how SMEs thought about business and how well they did at it. In Gorontalo, Indonesia, Umar (2014) found that MS did not significantly affect the relationship between EO and the performance of SMEs in the agricultural sector. On the other hand, Pasaribu (2017) looked at MS as a link between SMEs' market focus and how well they did. MS could help explain how MO variables affected the SMEs performance in Medan, North Sumatra (Pasaribu, 2017). On the other hand, Yin (2012) found that MS does not significantly affect how well export-oriented SMEs in East Java, Indonesia, do in terms of MO. So, since the results of MS as a mediating were unclear, this research needs to look into this variable further using EO and MO as independent variables and the performance of SMEs as a dependent variable.

DISCUSSION OF THE LITERATURE REVIEW

Small Medium-sized Enterprise (SMEs)

There are different ideas about SMEs and how to measure their size. KESKGN et al. (2010) said that different people have different ideas about how to measure the size of a small business and how much to measure it. When defining SMEs, some institutions put more weight on the number of employees, while others put more on how much money a business makes. Even though there isn't a single, agreed-upon definition of SMEs, the number of workers is the most common way to measure them (Ganbold, 2008). This is because it's easy to collect and add up data. SMEs usually have between one and two hundred and fifty workers (Ayyagari et al., 2011). Even though the worldwide definitions of SMEs are different, Table 1 shows the definitions of SMEs from different organisations often used in some countries.

Table 1 Definitions of SMEs from International Sources

| No | Sources | Definition |
|----|---|--|
| 1 | Organisation for Economic Co-operation and Development (OECD) | SMEs are privately owned businesses with fewer workers than the required minimum. This number differs depending on where you are in the world. The number of employees at a company that determines whether or not it is a small or medium-sized enterprise (SME) in the European Union is typically regarded as 250. On the other hand, small and medium-sized businesses (SMEs) in the United States have less than 500 employees. |
| 2 | Multilateral Investment Guarantee Agency (MIGA) and International Finance Corporation (IFC) | SMEs are defined as having less than 50 workers, assets with a value of less than \$3 million, and annual revenues of less than \$3 million. |
| 3 | Asia Pacific Economic Cooperation (APEC) | SMEs have less than 100 workers. A micro business, on the other hand, comprises managers who work for themselves and have fewer than five employees. A small business, on the other hand, has between five and 19 people, while a medium-sized business has between 20 and 99 employees. |
| 4 | The European Commission (EC) | The term "small and medium-sized enterprise" (often abbreviated as "SME") refers to businesses that employ fewer than 250 people, have annual revenues of less than \$67 million, and have total assets of less than \$56 million. |

Source: Booklet Of Standardized Small and Medium Enterprises Definition (Tukan, 2007)

SMEs Performance

There is no agreed-upon method for measuring the performance of small enterprises, nor is there consensus regarding the metrics that should be used (Andersén, 2010; Frank et al., 2010; Sobri Minai & Lucky, 2011; Wiklund, 2006). When an organisation wishes to alter something, it must move from receiving input (information, ideas, etc.) to producing a result from that input. This is referred to as "performance." To accomplish their objectives, businesses must use their resources as efficiently as feasible (Abu Jarad et al., 2010). Other studies define the efficacy of SMEs differently. Other authors' definitions of SMEs performance are outlined in Table 2.

Table 2 Definitions of SMEs Performance

| No | Sources | Definition |
|----|---------------------------|---|
| 1 | Richard et al. (2011) | Performance is a dependent variable often discussed by authors who write about almost every aspect of management. This is done to see how things work in organisations. |
| 2 | Wood et al. (2001) | Performance is a quick way to measure the amount and quality of work done by people or groups for work units or organisations. |
| 3 | Daft (2007) | Organizational performance is how well and quickly the organisation uses its resources to reach its goals. |
| 4 | Wheelen and Hunger (2015) | Organizational performance results from how an organization works, what it does, and how it uses physical and intangible resources to reach its goals. |

This research is based on how well SMEs do in one area (Hancott, 2005; Lumpkin & Dess, 2001; Mokhtar et al., 2014a). Hair et al. (2010) define a unidimensional construct as a set of factors for which there is only one underlying construct. Performance is judged based on self-reported acts and subjective (financial and non-financial) criteria. Sulyanto and Rahab (2012) used six factors in their research: a bigger market, more sales, profits, the number of customer complaints, the number of workers, and the number of customers. From a financial and non-financial point of view, this measure is used. For their study, Sulyanto and Rahab (2012) used the SMEs performance measurement from Keskin (2006) and Lin et al. (2008). Keskin (2006) and Lin et al. (2008) said that this measurement has been used a lot in the past to evaluate the performance of SMEs. The right performance measures are also used to control differences in performance based on the nature of SMEs. Keskin (2006) and Lin et al. (2008) said that business success is when organisational goals are met. Goals for sales growth, making money, and getting a bigger market share (Greenley, 1995; Kohli et al., 1993; Slater & Narver, 2000). This research uses a way to measure what Sulyanto and Rahab (2012) came up with the

size of the market, the volume of sales, the number of complaints, the number of workers, and the number of customers. Suliyanto and Rahab (2012) one-dimensional construct of SMEs success is used in this research.

Entrepreneurial Orientation

Rauch et al. (2009) said that EO is fine with long-term management and may be a crucial part of it. EO is a way of thinking that has helped some building businesses do much better than others. For this orientation, you need to be organised and able to make quick choices. It also gives front-line workers more power to make changes and have a say in making products (Morgan et al., 2016). Table 3 shows how different writers have defined an EO

Table 3 Definitions of Entrepreneurial Orientation

| No | Sources | Definition of Entrepreneurial Orientation |
|----|---------------------------------|---|
| 1 | Miller (1983) | "Entrepreneurial orientation is a strategic construct that measures how inventive, proactive, and risk-taking organizations are in their behaviour and management philosophies; or, to put it another way, how entrepreneurial they are in their strategic stance." |
| 2 | Russell Merz & Sauber (1995) | "Entrepreneurial orientation is defined as the firm's degree of proactiveness (aggressiveness) in its chose product-market unit (PMU) and its willingness to innovate and create new offerings." |
| 3 | Lumpkin and Dess (1996) | "Entrepreneurial orientation is about an organization being more likely to innovate, be proactive, and be prepared to take risks to create or manage a business." |
| 4 | Zahra and Neubaum (1998) | Entrepreneurial orientation is "the total of a firm's radical innovation, proactive strategic action, and risk-taking activities that are manifested in support of projects with uncertain outcomes." |
| 5 | Voss et al. (2005) | "We define entrepreneurial orientation as a firm-level disposition to engage in behaviors (reflecting risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness) that lead to change in the organization or marketplace." |
| 6 | Avlonitis and Salavou (2007) | "Entrepreneurial orientation constitutes an organizational phenomenon that reflects a managerial capability by which firms embark on proactive and aggressive initiatives to alter the competitive scene to their advantage." |
| 7 | Cools and Van den Broeck (2007) | "Entrepreneurial orientation refers to the top management's strategy concerning innovativeness, proactiveness, and risk-taking." |

Most people consider EO a multidimensional term with at least 3 dimensions. Case in point, the meaning of EO mentions innovation,

being proactive, and taking risks (Cools & Van den Broeck, 2007). Still, other ways to define an EO are just as important. Miller (1983) meaning of EO is used in this research because most authors have used it on entrepreneurship (Hughes & Morgan, 2007; Rauch et al., 2009). Lumpkin and Dess (1996) made a way to measure the link between EO and performance that works well in today's business environment, which is very competitive. Based on earlier theory and research, this measurement suggests an alternative contingency model (Lumpkin & Dess, 1996). This research uses a scale made by Lumpkin and Dess in 1996. It measures innovativeness, being bold, taking risks, being independent, and being competitively aggressive. Lumpkin and Dess (1996) made these instruments with many different parts. EO aspects like innovativeness, proactivity, taking risks, autonomy, and competitive aggression are discussed. Here's how our first theory can be put into words:

H1 : Entrepreneurial Orientation (EO) positively affects SMEs performance (SP).

Market Orientation

MO is a strategy for surviving in the marketplace. Your organisation strives to compete based on service quality and cost (Cravens et al., 1994; Pertiwi & Siswoyo, 2016; Silviasih et al., 2016). Different authors' definitions of MO are outlined in Table 4.

Table 4 Definitions of Market Orientation

| No | Sources | Definition of Market Orientation |
|----|---------------------------|--|
| 1 | Kohli and Jaworski (1993) | "Market orientation is how an organisation works to meet the needs and wants of its customers." |
| 2 | Elliott et al. (1994) | "Market orientation is a strategic consumer targeting and building an organisation that focuses on customer service, offering real competition oriented inward, delivering services that meet consumer expectations, and winning a competition." |
| 3 | Narver and Slater (1990) | "Market orientation is a business culture that helps workers do their jobs better and helps create more value for customers." |
| 4 | Silviasih et al. (2016) | "Market orientation can also be thought of as how an organization finds out what customers want and how competitors act, shares that knowledge with the rest of the organization, and acts on it well." |

| | | |
|---|----------------|--|
| 5 | Trustum (1989) | "Market orientation is how the marketing functions are put into action within the context of the marketing idea. An organisation is marketing-oriented if it uses the marketing idea and plans and carries out marketing tasks that make sense for the current situation." |
|---|----------------|--|

Kohli and Jaworski (1993) and Slater and Narver (1995) developed MO in the 1990s of the 20th century. Based on the marketing concept, MO is one of the most researched methods. In previous research, Smirnova et al. (2018) said that MO was a multidimensional construct made up of several individual dimensions that work together to improve the performance of SMEs by fostering a deep knowledge of the market. Numerous prior authors have utilised measurements created by Narver & Slater (1990). According to previous research, MO has a positive effect on business performance (Deshpande et al., 1993; Narver & Slater, 1990; Suliyanto & Rahab, 2012). According to some authors Suliyanto and Rahab (2012), business performance can directly influence MO. The measurement created by Narver and Slater (1990) has benefits for enhancing business performance. Smirnova et al. (2018) explained that MO had been viewed as part of an organisational culture consisting of a competitor orientation (shared in-depth understanding of customer needs that serve as the basis for strategic decision-making), customer orientation (in-depth knowledge of and responses to, competitor strategies and competitive actions), and inter-functional (coordinated use of firm resources to create superior customer value) (Narver & Slater, 1990). This research utilises measurements from Narver and Slater (1990) including competitor orientation, customer orientation, and inter-functional orientation (Narver & Slater, 1990). According to Narver and Slater (1990), the MO instruments utilised in this research are multidimensional constructs. Consequently, we hypothesise:

H2 : Market orientation (MO) positively affects SMEs performance (SP).

Management Skills

MS entails communicating and managing strategies, sustaining relationships with internal and external stakeholders, and contributing to allocating and distributing organisational resources. In organisations where different types of knowledge (such as "learning by doing") are acquired through teamwork, these abilities are required to perform tasks effectively (Barney, 1991; Cyert & March, 1963; Smircich & Stubbart, 1985; Wicker & Weick, 1980). Table 5 provides definitions of MS from various authors' perspectives.

Table 5 Definitions of Management Skills

| No | Sources | Definition of Management Skills |
|----|----------------|---|
| 1 | Winardi (2005) | Management skills are the ability to plan, organize, implement, and control that is carried out to determine and achieve the targets set. |
| 2 | David (2011) | Management skills are the ability to move people and facilities in an organization. |
| 3 | Suci (2009) | Management skills are a set of experts and competencies in both administratively and operationally in carrying out the management functions consisting of the ability to make plans, organize, give an order or do tasks and supervise. |

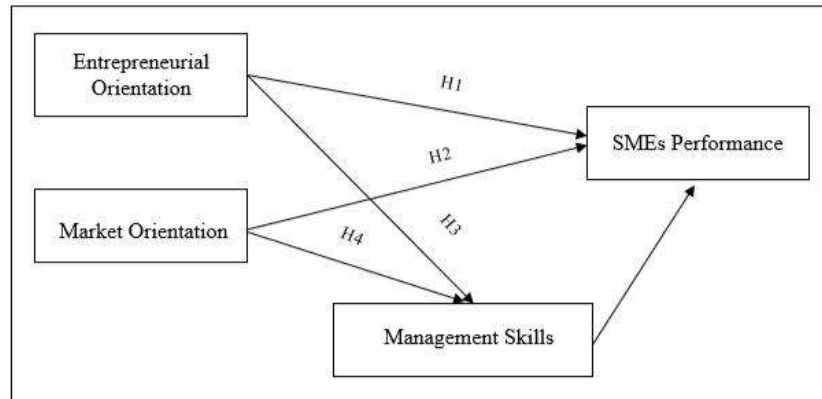
Scarborough and Zimmerer (2011) explained that the complexity of small businesses is increasing due to the poor performance of small and medium-sized enterprises, which are generally more dominant due to poor MS. As demonstrated by previous research, the MS variable can be used as a mediating variable concerning SME performance (Mahmud & Anomsari, 2011; Pasaribu, 2017). Suci (2009) clarified that only a few previous studies measured MS. In her additional explanation, Suci (2009) stated that she only utilised the measurement from Latif (2002), which is a nondimensional construct. A unidimensional construct is attained when a single underlying construct describes a set of observed variables (J. F. Hair et al., 2010). Latif's ten items have demonstrated efficacy and efficiency in applying essential management principles to enterprises. Future business success can be achieved if business proprietors and managers comprehend their duties and perform the primary functions of management (Umar, 2014). Variations in assessing SMEs' performance and MS (SMEs) have led to inconsistencies in past research. Therefore, in this instance, the researcher restricts the number of items to eight (8), arguing that the condition of the research object is in terms of business management, namely limited resources and expertise and business conditions. Umar (2014) explains that SMEs should be measured using eight criteria because not all SMEs in Indonesia have adequate resources and expertise. Only certain regions, such as Jakarta, Surabaya, and Makassar, have the resources and talents of excellent entrepreneurs such as these. Because the conditions of SMEs in Gorontalo and South Sumatra, Indonesia, are comparable, eight of the items suggested by Umar (2014) were utilised in this research. The MS instruments used in this research are one-dimensional constructs. In this research, MS are measured using the same ten (10) indicators used by Latif (2002) and Suci (2009). So, we suggest:

H3 : Management Skills (MS) mediate the relationship between entrepreneurial orientation (EO) and SMEs performance (SP).

H4 : Management Skills (MS) mediate the relationship between market orientation (MO) and SMEs performance (SP).

FRAMEWORK

The framework for this research is :



RESEARCH METHODS

This research on the SME population in South Sumatra, Indonesia, employed a scientific method to acquire data. In 2022, the Ministry of Cooperatives and SMEs in South Sumatra, Indonesia reports that 943,342 SMEs have been registered (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2022). Faul et al. (2007) wrote that G*Power is a stand-alone tool that can be used to analyse the power of many statistical tests used in the social, behavioural, and biomedical sciences. Erdfelder et al. (2009) used the G*Power analysis tool to figure out the right sample size based on statistical limits. The linear multiple regression analysis could be done with 109 data.

The method used to get the information is called "simple random sampling." Putting out surveys is one type of scientific method. This is used to find out what people know. Statistical analysis results are used to test theories with the verification method. And finally, the results of this research will help us figure out how EO and MO affect small businesses in South Sumatra. In South Sumatra, Indonesia, the questionnaire was given to business owners who also ran their businesses. So, the sample size was doubled, and twice as many questionnaires were sent out. 218 questionnaires were sent out, and they asked people about their experiences and views on different topics. On a range from 1 (strongly disagree) to 5 (strongly agree), their answers to five questions were measured (Suliyanto & Rahab, 2012); EO 22 items (Lumpkin & Dess, 1996; Miller, 1983), MO 14 items (Slater & Narver, 2000), MS 8 items (Latif, 2002; Suci, 2009). To evaluate th

validity of statistical results, data from self-administered questionnaires were analysed using Partial Least Square (PLS) (Cook & Campbell, 1979). SmartPLS, one of the most popular software packages, was used due to its advantageous terms, methodological possibilities, and usability (Ringle et al., 2005).

RESULTS

Hair et al. (2010) said that we need to look at four standards (agreement, reliability, truth, and convergent and discriminant validity) and two ways to measure validity (convergent and discriminant validity) to figure out how accurate the outer model is. The measurement model (MM) shows how observable data and latent factors relate. Figure 1 and Table 6 show how the MM model calculates the value of the concealed variable as a total of its manifest variables.

Figure 1 Measurement Model

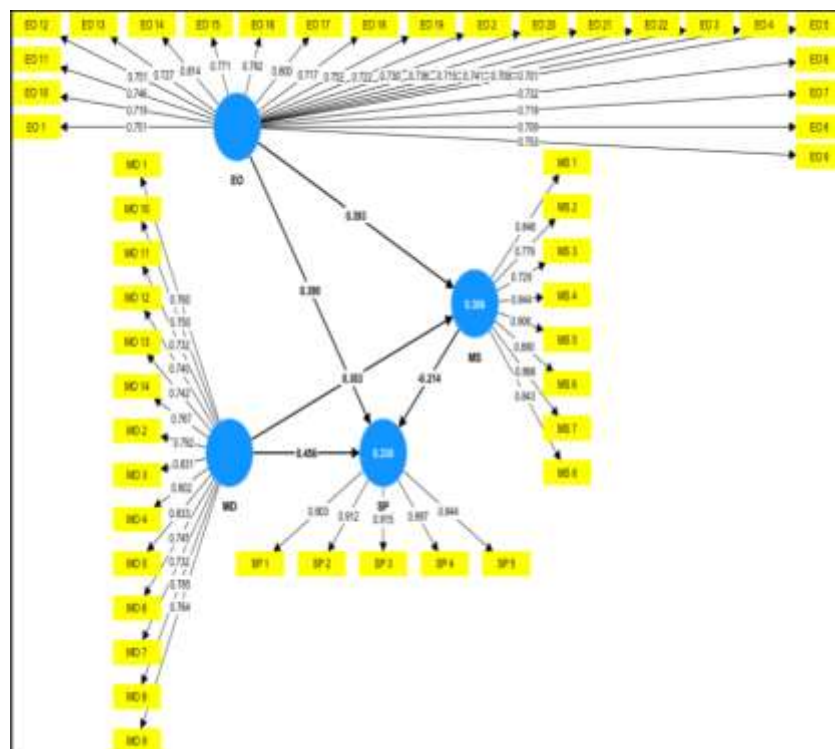


Table 6 Outer Loadings

| | EO | MO | MS | SP |
|-------|-------|----|----|----|
| EO 1 | 0,751 | | | |
| EO 10 | 0,719 | | | |

| | | | | |
|-------|-------|-------|-------|--|
| EO 11 | 0,746 | | | |
| EO 12 | 0,751 | | | |
| EO 13 | 0,727 | | | |
| EO 14 | 0,814 | | | |
| EO 15 | 0,771 | | | |
| EO 16 | 0,782 | | | |
| EO 17 | 0,800 | | | |
| EO 18 | 0,717 | | | |
| EO 19 | 0,752 | | | |
| EO 2 | 0,722 | | | |
| EO 20 | 0,730 | | | |
| EO 21 | 0,736 | | | |
| EO 22 | 0,715 | | | |
| EO 3 | 0,741 | | | |
| EO 4 | 0,709 | | | |
| EO 5 | 0,701 | | | |
| EO 6 | 0,732 | | | |
| EO 7 | 0,719 | | | |
| EO 8 | 0,709 | | | |
| EO 9 | 0,753 | | | |
| MO 1 | | 0,760 | | |
| MO 10 | | 0,750 | | |
| MO 11 | | 0,732 | | |
| MO 12 | | 0,740 | | |
| MO 13 | | 0,742 | | |
| MO 14 | | 0,767 | | |
| MO 2 | | 0,792 | | |
| MO 3 | | 0,831 | | |
| MO 4 | | 0,802 | | |
| MO 5 | | 0,833 | | |
| MO 6 | | 0,745 | | |
| MO 7 | | 0,732 | | |
| MO 8 | | 0,785 | | |
| MO 9 | | 0,764 | | |
| MS 1 | | | 0,846 | |
| MS 2 | | | 0,776 | |

| | | | | |
|------|--|--|-------|-------|
| MS 3 | | | 0,729 | |
| MS 4 | | | 0,844 | |
| MS 5 | | | 0,906 | |
| MS 6 | | | 0,890 | |
| MS 7 | | | 0,866 | |
| MS 8 | | | 0,843 | |
| SP 1 | | | | 0,903 |
| SP 2 | | | | 0,912 |
| SP 3 | | | | 0,915 |
| SP 4 | | | | 0,897 |
| SP 5 | | | | 0,844 |

Covergent validity (CV) is the extent to which scores on one scale are related to scores on other scales to determine factor loadings for similar structures (Cooper & Schindler, 2008). The CV is also range over which different measured parts of similar systems merge or share most of their variation (Hair et al., 2013). So, when judging convergence validity, the following things should be considered: sampling mean-variance (AVE), indicator reliability, and combination reliability (CR). The CR estimate looks at the items' internal consistency and the scoring model's reliability. It is made up of the following factors. Henseler et al. (2015) said that Cronbach's alpha (CR) is the amount that the observable variable can explain the hidden variable (Table 7).

Table 7 Validity and Reliability

| | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho_c) | Average variance extracted (AVE) |
|----|------------------|-------------------------------|-------------------------------|----------------------------------|
| EO | 0,961 | 0,964 | 0,964 | 0,550 |
| MO | 0,947 | 0,951 | 0,953 | 0,594 |
| MS | 0,940 | 0,948 | 0,950 | 0,704 |
| SP | 0,937 | 0,937 | 0,952 | 0,800 |

According to Cooper and Schindler (2008) the AVE indicates how well they agree in measuring study items using the same number of ideas. In addition, the AVE limit should not be below 0.5. If larger than 0.5, an acceptable CV level is indicated. According to Hair et al. (2013), the factor loading range recommended is 0.700%. Another crucial PLS criterion is the use of Discriminant Validity (DV) to evaluate the efficacy of measurement models. DV is often decided by comparing and contrasting two different ideas.

DV describes a situation in which two ideas are formed independently and have nothing to do with each other. According to Hair et al. (2013), it can figure out DV using the Fornell-Larcker criteria and cross-loading.

According to the Fornell-Larcker standards, the correlation between a structure and the square root of the AVE must be given, and a structure's diagonal score must be higher than that of other structures that aren't on the diagonal. In contrast, DV is met for the lateral load criteria when all measures show high loads compared to lateral loads (Hair et al., 2013) (see Table 8, Fig. 2).

Table 8 Discriminant Validity

| | EO | MO | MS | SP |
|----|--------------|--------------|--------------|--------------|
| EO | 0,741 | | | |
| MO | 0,250 | 0,770 | | |
| MS | 0,469 | 0,401 | 0,839 | |
| SP | 0,404 | 0,468 | 0,152 | 0,894 |

After verifying the accuracy of measurements, scientists usually need to provide supporting evidence for the model they are using. This is shown in Figure 2, which shows how the variables are related. The standard error, p-values, t-values, and the coefficient of determination (R-square) are all used to assess the model (Duarte et al., 2010; Hair et al., 2013).

Figure 2 Structural Model

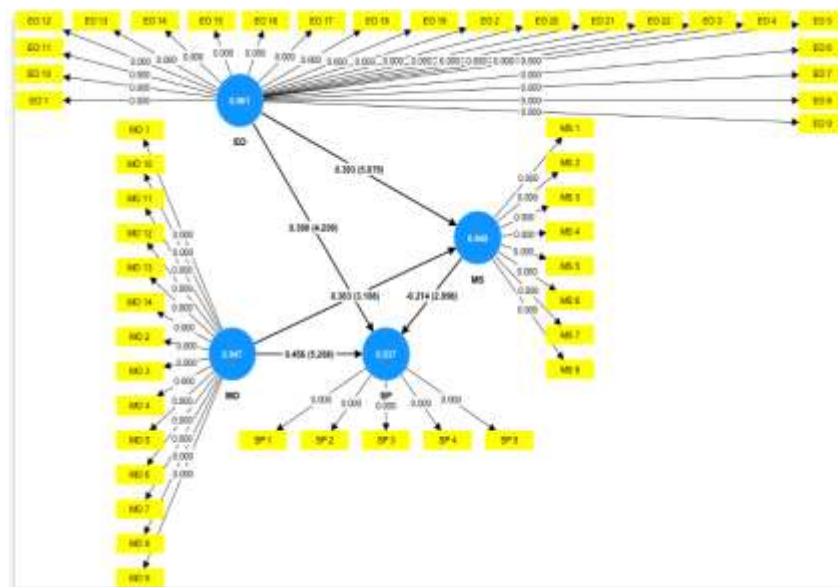


Table 9 below illustrates the direct links between variables. All direct paths are significant with a p-value less than 0.05, as shown by the data.

Table 9 Direct Relationship

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|----------|---------------------|-----------------|----------------------------|--------------------------|----------|
| EO -> SP | 0,390 | 0,391 | 0,093 | 4,209 | 0,000 |
| MO -> SP | 0,456 | 0,467 | 0,087 | 5,268 | 0,000 |

Table 10 explains the mediatory function of the MS in the link between EO and SP, MO and SP. The findings indicated that the routes EO -> MS -> SP that explain the mediating role are statistically significant ($p < 0.05$). Different results can be seen for the MO -> MS -> SP relationship.

Table 10 Relationship of Mediating Results

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|----------------|---------------------|-----------------|----------------------------|--------------------------|----------|
| MO -> MS -> SP | -0,065 | -0,070 | 0,043 | 1,511 | 0,132 |
| EO -> MS -> SP | -0,084 | -0,090 | 0,043 | 1,972 | 0,049 |

The coefficient of determination, or R-square, measures how well the model predicts the variation in the data. Duarte et al. (2010) suggest that the model's predictive capacity is weak if the R-square is between 0.02 and 0.12. The model's predictive strength is mediated if the R-square is between 0.13 and 0.25. And if the R-square is more significant than 0.26, the model's predictive power is strong (Duarte et al., 2010).

If the correlation between two variables is below 0.02, the relationship is not very strong. It means the connection is moderately strong if it's between 0.13 and 0.25. The relationship is powerful if the correlation is above 0.26 (Hair et al., 2013); see Table 11.

Table 11 R-square

| | R-square |
|----|----------|
| MS | 0,306 |
| SP | 0,338 |

FINDINGS

After figuring out the measurement model, the study evaluated the structural model. This research also used the standard bootstrapping method with 500 bootstrap samples and 109 respondents to determine how significant the route coefficients were (Henseler et al., 2009). Table 10 shows the results of testing the theory. The specific results are:

Hypothesis 1: Entrepreneurial orientation (EO) positively affects SMEs performance (SP).

The results of bootstrapping PLS-SEM found a positively correlated and statistically significant relationship between EO and SME performance ($\beta = 0,390$, $t = 4,209$, $p < 0.05$). So, Hypothesis 1 is confirmed.

Hypothesis 2: Market orientation (MO) positively affects SMEs performance (SP).

According to Table 10 of the bootstrapping PLS-SEM results, there was a positive and statistically significant relationship between MO and SME performance ($\beta = 0,456$, $t = 5,268$, $p < 0.05$). So, Hypothesis 2 is confirmed.

Hypothesis 3: Management Skills (MS) mediate the relationship between entrepreneurial orientation (EO) and SMEs performance (SP).

The relationship is significant ($\beta = -0,084$, $t = 1,972$, $p < 0.05$). The data showed that MS mediated the relationship between EO and SME performance. So, Hypothesis 3 is confirmed.

Hypothesis 4: Management Skills (MS) mediate the relationship between market orientation (MO) and SMEs performance (SP).

Table 10 shows that there is no good evidence that MS are a mediating between MO and the success of SMEs ($\beta = -0,065$, $t = 1,551$, $p > 0.05$). So, Hypothesis 4 is rejected.

CONCLUSIONS

This research will examine how SMEs in South Sumatra do as dependent variables based on how different independent factors and MS as mediating. Small businesses must focus on EO and MO to SMEs' performance. This research found that having a strong attitude towards entrepreneurship (or taking risks) and solid MO significantly affect how well a small business does. But there wasn't much proof that MS (the link between these two factors) play a significant role in how well small businesses do. This means that organizations focusing on EO and MO may do better than those not. Also, the results of this research will help the right people figure out what factors affect the performance of small businesses. Because of this, these groups will be better able to help small businesses in South Sumatra, Indonesia, perform more. According to the study results, small business owners, especially those in the processing industry, should keep their MO and EO skills up to date to improve the general performance of their organization. In particular, this will help companies. Small business owners should also be able to consider organizational culture when running their businesses. This is because it is expected to improve how well the organization does its job.

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