

The Effect of Entrepreneurship Orientation on Family Business Performance in Pekanbaru with Family Involvement as Mediation

Richard Junius¹, Rodhiah²

^{1,2}Faculty of Economics and Business, Universitas Tarumanagara, Indonesia
richard.115180455@stu.untar.ac.id, rodhiah@fe.untar.ac.id

Abstract

The purpose of this study is to examine the effect of entrepreneurial orientation on family business performance in Pekanbaru. To know the effect of entrepreneurial orientation on family involvement. To examine the effect of family involvement on family business performance. To examine the effect of entrepreneurial orientation on family business performance in Pekanbaru with family involvement as mediation. The number of samples used in this study were 135 respondents who are family business owners in Pekanbaru. This study used non-probability sampling with purposive sampling for the sample selection technique. The data collection technique used a questionnaire made in the form of a google form which was then distributed online. This study used SmartPLS for the data analysis technique. The results showed that entrepreneurial orientation had a positive effect on family business performance in Pekanbaru but not significant, entrepreneurial orientation had a positive effect on family involvement, family involvement had a positive effect on family business performance in Pekanbaru, and entrepreneurial orientation had a positive effect on family business performance in Pekanbaru when mediated by family involvement.

Keywords

entrepreneurial orientation;
family involvement; family
business performance



I. Introduction

In the economy of a country, the family business plays a very important role. According to surveys from various countries, family businesses play an important role in economic growth and job creation. Based on research conducted by McKinsey (2014) around 70 to 80% of the world's GDP comes from family businesses. Based on data from the 2019 National Economic Survey, there are 48,929,636 businesses in Indonesia which will certainly continue to grow until this year, based on this large number there are 90.95% family companies. The data also says that family businesses contribute 53.28% to GDP and have 85,416,493 people in the workforce or 96.18% of the entire workforce (BPS, 2020). Apart from contributing to GDP, family businesses also contribute in other ways.

The Central Statistics Agency (BPS) said that the unemployment rate in August 2021 reached 6.49%, or more precisely 9.10 million people. This number is an increase from the unemployment rate in February 2021 which reached 6.26% or more precisely 8.75 million people. If the unemployment rate is too high, this can have a negative impact on Indonesia, such as worsening people's welfare due to poverty, unstable economic growth of the country, and a decrease in foreign exchange earnings. In order for a family business to continue to create jobs, of course, the performance of the business must continue to grow. According to Irina (2019), business performance shows the company's ability to generate income from business ownership in the form of assets, capital and debt. The higher the

company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

There are many factors that can help the performance of a family business to thrive. Research conducted by Erny Rachmawati et al. (2020) said that the factors that help the performance of family businesses to develop are entrepreneurial orientation and family involvement. At the company level, entrepreneurship is defined as an entrepreneurial orientation, many scholars view entrepreneurial orientation as a driver of success and drive company performance (Gupta and Wales 2017). Another thing that also supports the performance of a family business is family involvement. Much research over the last few decades has focused on the effect of family involvement on business performance (Mazagatos 2016). According to Liang et al., (2014) family involvement in company management can be of value to assist families in controlling the company's daily activities. According to research conducted by Santi Yopie and Chrislin (2021), until now many studies are based on the effect of family participation or involvement in management affecting family business performance, based on empirical evidence that family involvement can increase, reduce, or slightly affect family business performance. This study aims to determine the effect of entrepreneurial orientation on family involvement. To examine the effect of family involvement on family business performance.

II. Review of Literature

2.1 Entrepreneurship Orientation

Nungky and Hendra (2018: 58) say that entrepreneurial orientation is a combination of innovative, proactive, and risk-taking actions that aim to generate value for an organization. Then Dai et al. (2014) also added that entrepreneurial orientation is a selection and learning mechanism that gives rise to investigations, risk-seeking behavior in products, and innovation processes. From some of the definitions above, we can conclude that opening a company or carrying out entrepreneurial activities requires an entrepreneurial orientation. This is because the entrepreneurial orientation of a company initiates a business direction so that the company operates in accordance with the expectations of economic actors. With entrepreneurship, business actors practice ways to come up with creative ideas in their business,

2.2 Family Engagement

Family owned and managed businesses are very common nowadays and are found in many countries. As many as 68% of the businesses that have gone public in the world are family-run businesses. In Indonesia, the average family-owned business is 26%, where this ownership is sufficient to give the family authority to be involved in the business performance management process (Yudha and Singapurwoko, 2017). According to Hansen and Block (2020) family involvement is defined as the ownership of one or more families who have great control over the company because of a significant portion of ownership,

they add that family involvement depends on three things, namely, management, family and ownership.

2.3 Family Business Performance

Business performance is what the company achieves in relation to the criteria set in a predetermined period of time. Business performance measurement is used to estimate the performance of activities and how the final results are achieved. Business Performance according to Felicio et al. (2014) is a complex and multidimensional concept. This is explained in various ways in terms of profitability, reduced investment risk, return on equity, increased cash flow and competitor performance. In business studies, the concept of firm performance is very important because understanding performance variability is a new trend in organizational studies (Gentry and Shen, 2010).

Based on the explanation of each variable above, entrepreneurial orientation and family involvement have an influence on family business performance.

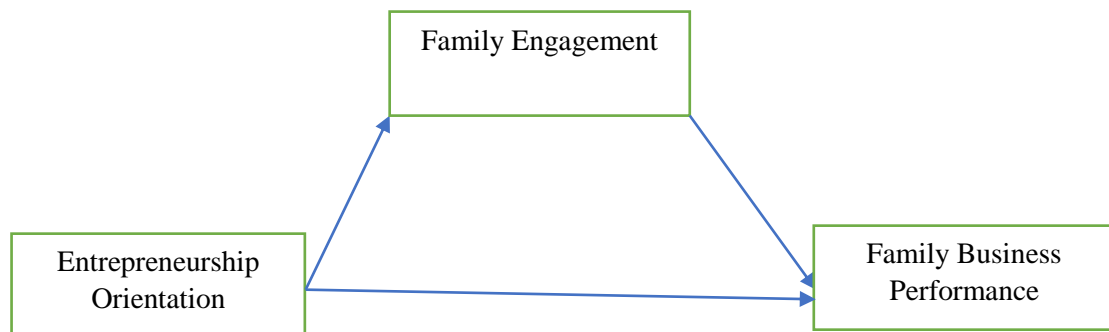


Figure 1. Research Model

The hypotheses of this research are as follows:

H1: Entrepreneurial orientation has a positive effect on family business performance.

H2: Entrepreneurial orientation has a positive effect on family involvement.

H3: Family involvement has a positive effect on family business performance.

H4: Entrepreneurial orientation has a positive effect on family business performance with family involvement as a mediation

III. Research Method

The research population is the owner of a family business in Pekanbaru. This study uses a non-probability sampling technique with purposive sampling type, with the reason that the author does not have data on the number of family business owners in the Pekanbaru area, so the author only chooses based on the author's subjectivity. The author uses purposive sampling because the author determines the sample criteria that are suitable for this study, namely family businesses whose business period has been 3 years or more. The number of samples studied were 135 respondents. The data collection technique used a questionnaire distributed online via google form to family business voters in Pekanbaru. Research data processing using SmartPLS software.

IV. Result and Discussion

4.1 Respondent Profile

The research subjects consisted of 135 people, to be precise 80 men and 55 women, with the majority of business owners operating for more than 8 years.

4.2 Validity and Reliability Test Results

Validity test is useful to find out whether the processed data is declared valid or invalid. The data is considered valid if the value of loading factors is greater than 0.5 (Yamin and Kurniawan, 2011).

a. Convergent Validity

Table 1. AVE. score result

Variable	<i>Average Variance Extracted</i>
Entrepreneurship Orientation	0.686
Family Engagement	0.644
Family Business Performance	0.590

Based on the results of the Average Variance Extracted (AVE) in table 1, it shows that each variable has a value that is more than 0.5. It can be said that each variable has met the requirements of convergent validity.

Table 2. Result of loading factors

Items	Family Business Performance	Family Engagement	Entrepreneurship Orientation
KB1	0.753		
KB2	0.776		
KB3	0.712		
KB4	0.829		
KB5	0.763		
KK1		0.847	
KK2		0.770	
KK3		0.828	
KK4		0.763	
OK1			0.815
OK2			0.885
OK3			0.860
OK4			0.859
OK5			0.847
OK6			0.824
OK7			0.775
OK8			0.754

Table 2 shows the results of the loading factors analysis for each indicator showing a value of more than 0.7 (> 0.7). It can be concluded that all variables in this study have met the requirements of convergent validity.

Table 3. Cross Loading Results

Items	Family Business Performance	Family Engagement	Entrepreneurship Orientation
KB1	0.753	0.340	0.251
KB2	0.776	0.369	0.222
KB3	0.712	0.150	0.160
KB4	0.829	0.301	0.355
KB5	0.763	0.312	0.229
KK1	0.314	0.847	0.462
KK2	0.293	0.770	0.337
KK3	0.349	0.828	0.497
KK4	0.332	0.763	0.345
OK1	0.180	0.362	0.815
OK2	0.336	0.510	0.885
OK3	0.296	0.479	0.860
OK4	0.291	0.431	0.859
OK5	0.312	0.421	0.847
OK6	0.231	0.445	0.824
OK7	0.223	0.357	0.775
OK8	0.267	0.402	0.754

The results of the cross-loading data above show that the value of each variable has a higher number than the other variables. From these data it can be concluded that all indicators are declared valid.

b. Discriminant Validity

The discriminant validity test requires data processing in the form of the Fornell-Larcker Criterion. A variable can be said to be valid in discriminant validity if it meets the Fornell-Larcker Criterion. The Fornell-Larcker Criterion is said to be valid if the results of the square root of average variance extracted (AVE) of each variable have greater results among other variables.

Table 4. Fornell-Larcker Criterion Results

Variable	KB	KK	OK
KB	0.768		
KK	0.402	0.803	
OK	0.328	0.520	0.828

c. Composite Reliability

Table 5. Reliability Analysis Results

Items	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
Entrepreneurship Orientation	0.934	0.946
Family Engagement	0.817	0.879
Family Business Performance	0.829	0.878

In the composite reliability table above, all variables have values greater than 0.7. Based on these data, it can be concluded that the variables of entrepreneurial orientation, family involvement, and family business performance are valid variables. Cronbach's alpha value for each variable has a number greater than 0.6. From these data it can be concluded that the variables of entrepreneurial orientation, family involvement, and family business performance are valid variables.

4.3 Inner Model

a. Coefficient of Determination Test (R²)

Table 6. Coefficient of Determination Results

Variable	<i>R-square</i>
Family Business Performance	0.181
Family Engagement	0.270

Based on the results of the research on the coefficient of determination above, it is stated that the results of R² on family business performance are 0.181 and family involvement is 0.270. In the table above, it can be concluded that 18.1% of family business performance variables can be explained by entrepreneurial orientation and family involvement, 27% of family involvement variables can be explained by entrepreneurial orientation and family business performance.

b. Effect Size Test (F²)

The effect size test aims to determine how much influence the entrepreneurial orientation variable has on family business performance, family involvement variable on family business performance and entrepreneurial orientation variable on family involvement.

Table 7. F-Square.

Variable	<i>F-square</i>
Entrepreneurial orientation towards family business performance	0.024
Entrepreneurial orientation towards family involvement	0.370
Family involvement on family business performance	0.090

Based on the f-square table above, it can be concluded that family business performance has an F² value of 0.024 which means weak, entrepreneurial orientation towards family involvement has an F² value of 0.370 which means moderate, and family involvement on family business performance has an F² value of 0.090 which means weak.

b. Goodness of Fit (GoF)

The Goodness of Fit (GoF) test is useful for validating the combined performance of measurement and structural models. In calculating the GoF value, it must be done manually because the SmartPLS 3.0 application does not provide GoF calculations.

$$AVE = (0.686 + 0.644 + 0.590) / 3 = 0.640$$

$$GoF = (0.640 \times 0.181)$$

$$GoF = 0.340$$

Based on the GoF calculation above, it can be concluded that this study has a large GoF value, which is 0.340.

c. Hypothesis Testing (t-statistics)

Hypothesis testing in this study is useful to determine whether the hypothesis that has been made is accepted or rejected, this test is carried out by looking at several measurement criteria such as t-statistics, original sample, and p-values.

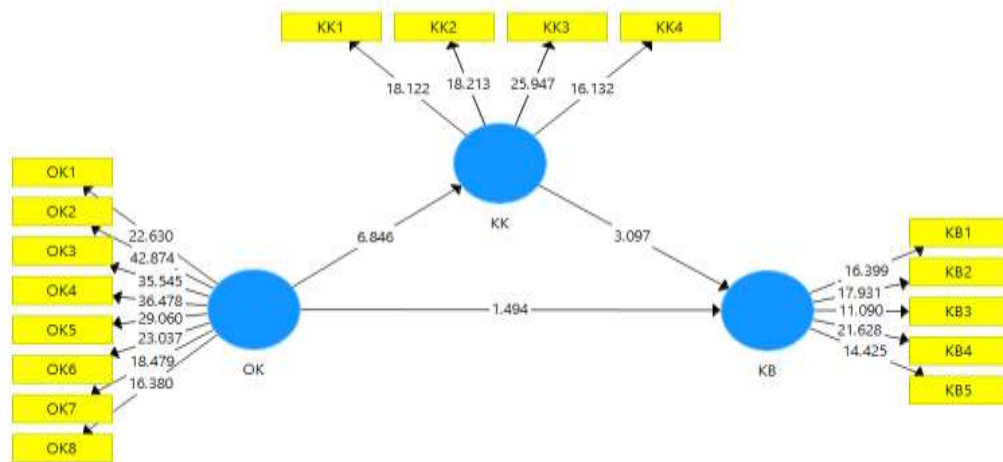


Figure 1. Bootstrapping Test Results

Table 8. Hypothesis Test Results

Variable	Original Sample	T-statistics	P-values
Entrepreneurial orientation towards family business performance	0.163	1,473	0.141
Entrepreneurial orientation towards family involvement	0.520	6,754	0.000
Family involvement on family business performance	0.317	3,286	0.001
Entrepreneurial orientation towards family business performance with family involvement as mediation	0.165	2,710	0.007

Testing Hypothesis 1: Entrepreneurial orientation has a positive but not significant effect on the performance of family businesses in Pekanbaru.

Testing Hypothesis 2: Entrepreneurial orientation has a positive effect on family involvement.

Testing Hypothesis 3: Family involvement has a positive effect on family business performance in Pekanbaru.

Testing Hypothesis 4: Entrepreneurial orientation has a positive effect on family business performance if it is mediated by family involvement.

4.4 Discussion

Entrepreneurial orientation has a positive but not significant effect on family business performance in Pekanbaru because the t-statistics test results are smaller than 1.96 and the p-values test results are greater than 0.05. The results of this study are the same as the research conducted by Erny (2020) which states that entrepreneurial orientation has a positive but not significant effect on family business performance. Entrepreneurial orientation will have a significant effect if the variable is influenced or mediated by family involvement (Kellermanns et al.; Williams et al., 2019). The cause of the entrepreneurial orientation variable has no significant effect on the performance of the family business in this study because the entrepreneurial orientation has not been mediated by family involvement. Therefore,

Entrepreneurial orientation has a positive effect on family involvement because the t-statistics test results are greater than 1.96 and the p-values test results are less than 0.05. The results of this study contradict the results of research conducted by Krismi (2021) which states that family involvement is not influenced by entrepreneurial orientation. However, research conducted by Erny Rachmawati (2020) states that entrepreneurial orientation has a positive effect on family involvement. Entrepreneurial orientation can affect families involved in improving the performance of family businesses because according to Aloulou (2018) family-owned businesses that have high family involvement tend to be more conservative and avoid risk when making decisions.

Family involvement has a positive effect on family business performance in Pekanbaru because the value of the t-statistics test results is greater than 1.96 and the p-values test results are less than 0.05. The results of this study are the same as the results of research conducted by Chirslin (2022) which said that the presence of family and company that was run by the family had a positive effect on company performance. The presence of the family affects the high level of family involvement in the management of the company, and the succession plan for the position of president director to be given to family members in the next generation. When these factors become more dominant, it will have a good impact on the overall performance of the family business.

Entrepreneurial orientation has a positive effect on family business performance with family involvement as a mediation because the value of the t-statistics test results is greater than 1.96 and the p-values test results are smaller than 0.05. The results of this study are the same as the results of research conducted by Sulyanto (2020) which says that family involvement plays a full role in mediating the relationship between entrepreneurial orientation and family business performance. Based on the test results, this study proves that family involvement has a significant effect on mediating entrepreneurial orientation and family business performance, from the results of the hypothesis that the direct influence between entrepreneurial orientation on family business performance has no effect. However, with family involvement mediating the relationship between the two variables, the relationship between entrepreneurial orientation and family business performance becomes significant. This can happen because logically the advice and opinions given by the family or family involved in the business are easier for business owners to hear, the families involved can help business owners and also their employees to understand entrepreneurial orientation so that the implementation of entrepreneurial orientation in business is easier to do which aims to improve the performance of the business.

V. Conclusion

1. Entrepreneurial orientation has a positive but not significant effect on the performance of family businesses in Pekanbaru.
2. Entrepreneurial orientation has a positive influence on family involvement.
3. Family involvement has a positive influence on the performance of family businesses in Pekanbaru.
4. Entrepreneurship orientation has a positive and significant impact on family business performance in Pekanbaru if mediated by family involvement.

References

- Agwu, E. (2018). Analysis of the impact of strategic management on the business performance of SMEs in Nigeria. *Academy of Strategic Management*.
- Aloulou, W. J. (2018). Examining entrepreneurial orientation's dimensions - performance relationship in Saudi family businesses: Contingency role of family involvement in management. *Journal of Family Business Management*.
- Cherchem, N. (2017). The relationship between organizational culture and entrepreneurial orientation in family firms: Does generational involvement matter? *Journal of Family Business Strategy*, 87-98.
- Dai, L., Maksimov, V., Gilbert, B. A., & Fernhaber, S. A. (2014). Entrepreneurial orientation and international scope: The differential roles of innovativeness, proactiveness, and risk-taking. *Journal of Business Venturing*, 511-524.
- Felicio, J., Duarte, M., Caldeirinha, V., & Rodrigues, R. (2014). Franchisee-based brand equity and performance. *The Service Industries Journal*, 757-771.
- Feranita, N. V., & Setiawan, H. A. (2018). Peran Keunggulan Bersaing dalam Memediasi Dampak Orientasi Pasar. *Majalah Ilmiah "DIAN ILMU"*, 54-70.
- Gupta, V. K., & Wales, W. J. (2017). Assessing organizational performance within entrepreneurial orientation research : where have we been and where can we go from here? *The Journal of Entrepreneurship*, 51-76.
- Hansen, C., & Block, J. (2020). Exploring the relation between family involvement and firms' financial performance: A replication and extension meta-analysis. *Journal of Business Venturing Insights*, 1-21.
- I., R., Jr, W., Pieper, T., Kellermanns, F., & Astrachan, J. (2019). Applying an organizational effectiveness approach to measure family business performance. *Journal of Family Business Management*.
- Irina, R. (2019). TMT Diversity and Innovation Ambidexterity in Family Firms : The Mediating Role of Open Innovation Breadth. *Journal of Business Management*, 39-55.
- Liang, X., Wang, L., & Cui, Z. (2014). Chinese Private Firms and Internationalization: Effects of Family Involvement in Management and Family Ownership. *Family Business Review*, 126-141.
- Mazagatos, V. B., Quevedo-Puente, E. D., & Delgado-Garcia, J. B. (2016). How agency conflict between family managers and family owners affects performance in wholly family-owned firms: A generational perspective. *Journal of Family Business Strategy*, 167-177.
- Rachmawati, E., Suliyanto, & Suroso, A. (2020). Direct and indirect effect of entrepreneurial orientation, family involvement and gender on family business performance. *Journal of Family Business Management*, 2043-6238.

- Rodhiah, & Wiryawan, Z. (2015). Rancangan Model Keunggulan Bersaing Usaha Kecil Ritel Dalam Meningkatkan Kinerja . Laporan Hibah Bersaing Dikti.
- Yannizar, et al. (2020). Analysis of Good Corporate Governance, Free Cash Flow, Leverage towards Earning Management, and Shareholder Wealth in Service Sector Companies Listed on the Indonesia Stock Exchange. Budapest International Research and Critics Institute-Journal (BIRCI-Journal).P. 2567j-2567v.
- Yopie, S., & Chrislin. (2022). Analisis Pengaruh Keterlibatan Keluarga terhadap Kinerja Perusahaan di Indonesia. Owner: Riset & Jurnal Akuntansi, 359-368.
- Yudha, D. P., & Singapurwoko, A. (2017). The effect of family and internal control on family firm performance: evidence from Indonesia Stock Exchange (IDX). Journal of Business and Retail Management Research, 68-75.