



STRATEGIC ENTREPRENEURSHIP AND FIRM PERFORMANCE– A STUDY OF A FINANCE COMPANY IN INDONESIA

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Abstract

This paper aims to empirically examine the impact of strategic entrepreneurship and dynamic capability on firm performance in the case study of finance companies in the non-bank financial institution sector. It proposes factors that could drive finance companies to be able to keep on having a competitive advantage and superior sustainable performance in a more competitive and disruptive business environment in the context of dynamic capability and strategic entrepreneurship process. The business environment in non-bank financial institution sector in Indonesia is changing rapidly, indicated by the emergence of fintech companies, as of April 2019, it is known from OJK reports that there are 106 P2P lending fintech companies registered. This has enforced finance companies to be more competitive by having strategic entrepreneurship to keep on having competitive advantage and superior sustainable performance. Strategic entrepreneurship is concerned with advantage-seeking and opportunity-seeking behavior resulting in value for individuals, organizations, and/or society (Hitt et al., 2003). While dynamic capability is the ability of the firm to integrate, build, and reconfigure internal and external competences to address rapidly changing environment (Teece et al., 1997).

The hypotheses are that there is a positive relationship between strategic entrepreneurship, dynamic capability, and business environment that build competitive advantage to lead firms to superior sustainable performance. They are tested by conducting surveys to managerial level and top management team in the organization. Surveys are analyzed by using Structural Equation Modelling (SEM) analysis with Partial Least Square (PLS) method. By knowing the relationship, firms will have an additional input to design such developments and strategy to create more VRIN (Valuable, Rare, Inimitable, Non substitutable) resources and innovation within the company.

Keywords: Dynamic Capability, Firm Performance, Innovation, Strategic Entrepreneurship

1. Introduction and Purpose

Firms are expected to have sustainable growth, to create wealth by building economies of scale as well as market power. Conditions in a disruptive business environment, like nowadays, demand firms to adopt strategic entrepreneurship to meet their objectives, not only to maintain their presence in the industry. Firms must have opportunity-seeking and advantage-seeking behaviors to apply strategic entrepreneurship in their organizations.

The phenomenon of the emergence of fintech companies in Indonesia has caused competition in the consumer financing sector to become increasingly tight. The industry, which has been a competitive market for banks and finance companies, has now been occupied by fintech companies. Peer to Peer (P2P) lending scheme, which is business scheme of fintech companies, is a scheme that is most in touch with the segments targeted by motorcycle finance companies.

As of June 2018, it is known from OJK reports that there are 64 P2P lending fintech companies and 188 finance companies registered and licensed at the Indonesian Financial Services Authority (OJK). Regarding the conditions, what factors should drive finance companies to be able to keep on having a competitive advantage and superior sustainable performance?

The purpose of these writings is to identify whether or not there is a positive relationship between *Strategic Entrepreneurship* and *Business Environment* that build competitive advantage to lead firms to superior sustainable performance. And author also wants to identify whether *Dynamic Capability* influence *Strategic Entrepreneurship* to make an impact to the firm's performance or not.

2. The Original Framework

Strategic Entrepreneurship is concerned with advantage-seeking and opportunity-seeking behaviors resulting in value for individuals, organizations, and/or society. Ireland, et al. (2003) developed an initial model of SE with four key dimensions:

1. The entrepreneurial mindset, culture, and leadership,
2. The strategic management of organizational resources,
3. Application of creativity, and
4. Development of innovation.

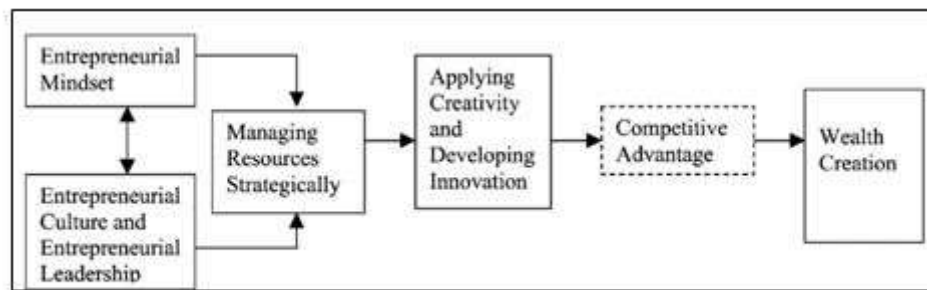


Figure 1. A Model of Strategic Entrepreneurship (Ireland et.al, 2003)

i. Entrepreneurial Mindset

McGrath and MacMillan (2000) define an entrepreneurial mindset as a way of thinking about business that focuses on and captures the benefits of uncertainty which in turn will contribute to the advantages of competitiveness and wealth creation. While Ireland et al. (2003) define entrepreneurial mindset as define an entrepreneurial mindset as a growth-oriented perspective through which individuals promote flexibility, creativity, continuous innovation, and renewal.

ii. Entrepreneurial Culture

It is one in which new ideas and creativity are expected, risk taking is encouraged, failure is tolerated, learning is promoted, product, process, and administrative innovations are championed, and continuous change is viewed as conveyor opportunities (Ireland et al., 2003). An entrepreneurial culture fosters and supports the continuous search for entrepreneurial opportunities that can be exploited with sustainable competitive advantages. (McGrath & MacMillan, 2000).

iii. Entrepreneurial Leadership

Entrepreneurial leadership is the ability to influence others to manage resources strategically in order to emphasize both opportunity-seeking and advantage-seeking behaviors (Covin & Slevin, 2002; Ireland & Hitt, 1999; Rowe, 2001).

iv. Managing Resources Strategically

Barney (1991) defines firm as a bundle of resources creating unique resources to result products. Resource Based View spells out resources into assets (tangible and intangible) and capabilities. Tangible assets consist of financial assets and physical asset. intangible assets consist of Human, such as skill, knowledge and expertise; Organizational, such as reporting, policies and system; and Relational (brand, reputation, loyalty). *Capability* is routine or business process that reflects a bundle of complex knowledge owned by organization (Day, 1994; Teece et al, 1997) to combine or utilize a set of resources to perform a specific task (Helfat&Peteraf, 2003). Capability of the firm consists of Operational Capabilities and Dynamic Capabilities.

Teece et al. (1997) define dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. By definition, *dynamic capabilities* involve adaptation and change, because they build, integrate, or reconfigure other resources and capabilities. While Helfat, et al. (2007) define dynamic capability as routine to purposefully create, extend, or modify firm resource base. Firms must create VRIN (Valuable, Rare, Imperfectly Imitable and Non substitutable) resources in order to make it competitive, and even be the leader in the industry. A key to sustained profitable growth is the ability to recombine and to reconfigure assets and organizational structures as the enterprise grows, and as markets and technologies change.

Resource orchestration is concerned with the action leaders take to facilitate efforts to effectively manage the firm's resources (Sirmon et al., 2007). Those primary actions are:

- *Structuring the firm's resource portfolio.* This refers to the management of the firm's resource portfolio. Structuring requires acquiring, the process of purchasing resources from strategic factor markets; accumulating, the process of developing resources internally; and divesting, the process of shedding firm-controlled resources.
- *Bundling resource into capabilities.* This refers to the combining of firm resources to construct or alter capabilities. Bundling involves stabilizing existing capabilities, enriching current capabilities, and pioneering new capabilities.
- *Leveraging capabilities to create value for customers.* Leveraging requires a sequence of actions including mobilizing capabilities to form requisite capability configurations, coordinating the integrated capability configurations, and deploying these configurations with a resource advantage strategy, a market opportunity strategy, or an entrepreneurial strategy.

Sirmon et al. (2011) argue that Resource Orchestration consists of Resource Management and Asset Orchestration. Resource Management is defined as the comprehensive process of structuring, bundling, and leveraging the firm's resources with the purpose of creating value for customers and competitive advantages for the firm. While Asset Orchestration consists of two primary processes—search/selection and configuration/deployment. The search/selection process requires managers to identify assets, make investments concerned with them, and design organizational and governance structures for the firm as well as create business models. The configuration/deployment process requires the coordinating of cospecialized assets, providing a vision for those assets, and nurturing innovation.

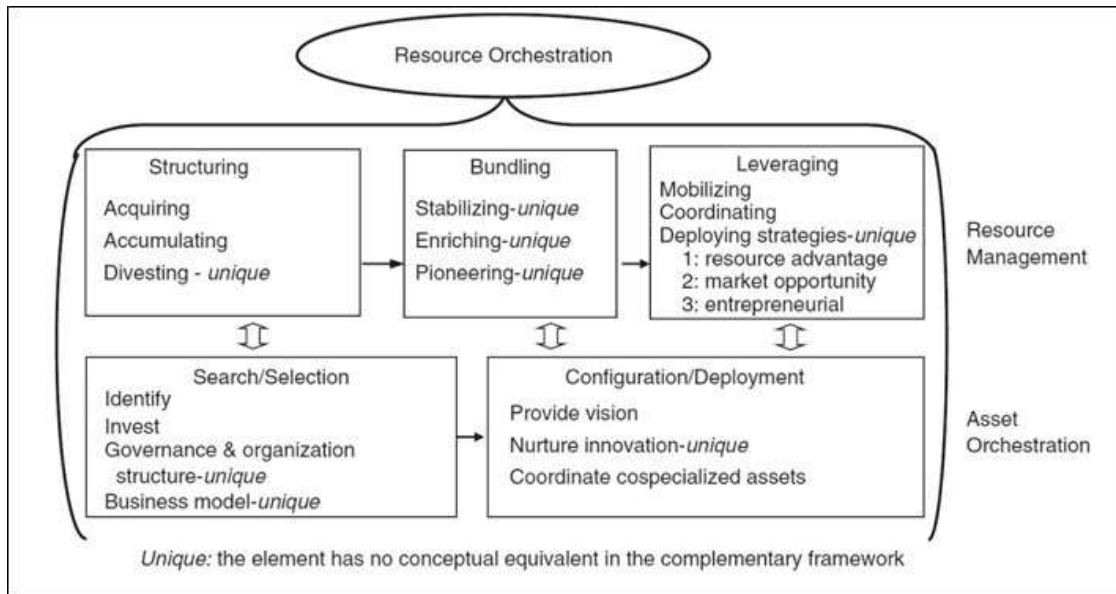


Figure 2. Comparing Resource Management and Asset Orchestration Frameworks
(Sirmon et al., 2011)

3. Proposed Research Design

The premise of this study is that adopting SE process in the organizations enacting disruptive environment will both build dynamic capabilities and enhance innovation performance, ended to a superior sustainable firm performance. Adopting an input-process-output model of Hitt et al. (2003), the study examines the roles of dynamic capabilities in SE processes that interdepends on three dimensions of SE Model. The first dimension is a resource factor/input, which consists of entrepreneurial mindset, entrepreneurial culture, and entrepreneurial leadership to represent individual and organizational resources. The Second dimension is resource orchestration, which can be divided into two sections. The first section is structuring capability strategy, which includes search, selection, and structuring (Sirmon et al., 2011). The second section is configuration and deployment of business strategy, comprises of bundling, leveraging, and configuring. The third dimension refers to output and outcome of innovation, which is represented by firm performance measured through the innovation performance of the firms in the form of internal performance, technical performance, commercial performance, social, and economical performance (Fontana & Musa, 2017).

By doing the research, authors explore the model to identify whether or not there is a positive relationship between Strategic Entrepreneurship and business environment that build competitive advantage to lead firms to superior sustainable performance. We also want to identify whether *Dynamic Capability* influence *Strategic Entrepreneurship* to make an impact to the firm's performance. By identifying the relationship between variables, we are expecting to have a clear view of such factors that the firms need to organize and develop effectively to have a superior sustainable performance.

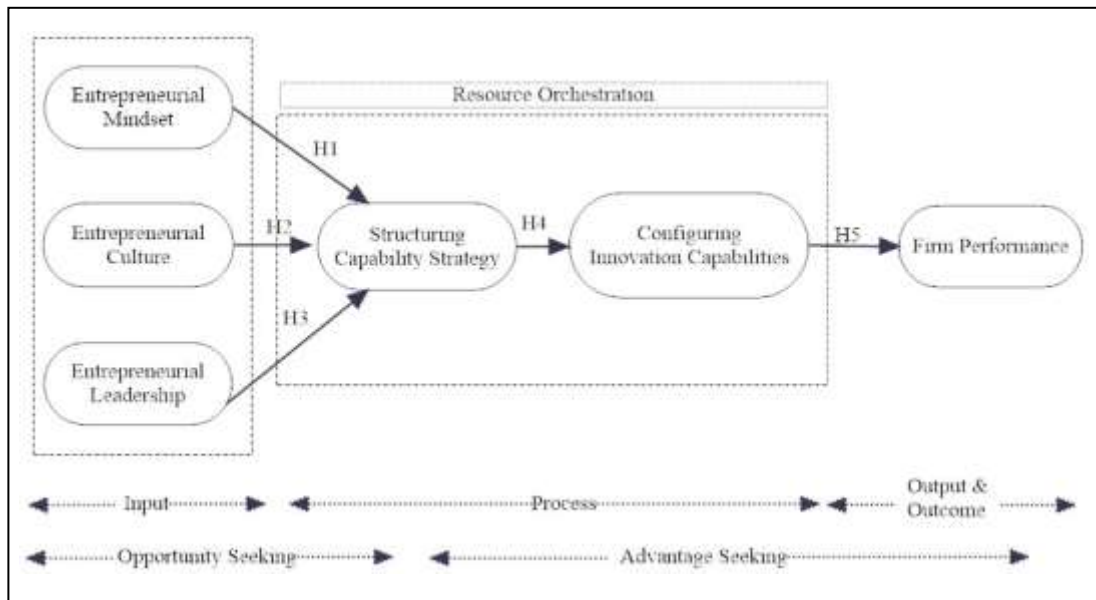


Figure 3. Strategic Entrepreneurship Model using Structuring Capability Strategy to Drive Firm Performance

4. Expected Findings

In general, the aim of this study is to understand the interrelationships between and/or among entrepreneurial organizational factors and dynamic capabilities in a Strategic Entrepreneurship Process. The aim also focuses on enhancing the firm's performance through its innovation in a disruptive environment.

This study is still a work in progress, but the expected result will include:

- Entrepreneurial Mindset positively drives the Structuring Capability Strategy. The more entrepreneurial the mindset, the more the company be driven to its core capability, the more the orchestration of innovation capabilities need to be coherent.
- Entrepreneurial Culture positively drives the Structuring Capability Strategy. The more culture encouragement in the company, the more the company's strategy balances between exploitation and exploration in the development of its core capabilities.
- Entrepreneurial Leadership positively drives the Structuring Capability Strategy. The more the leaders emphasize SE behaviors in the company, the more the company's strategy balances between exploitation and exploration in the development of its core capabilities.
- Structuring Capability Strategy positively drives the Configuring Innovation Capabilities. The more the company's strategy based on its core capabilities, the more the orchestration of innovation capabilities need to be coherent.
- Firm Performance that is measured through the Innovation Performance is positively driven by Configuring Innovation Capabilities. The more the company can orchestrate their innovation capabilities coherently, the more the company can enhance innovation performance to gain sustainable superior firm performance.

5. Methodology

Quantitative research design was applied as a framework for this research, as it is typically used in science for theory verification and hypotheses testing. Empirical data will be gathered through survey on the managerial level and top management team in three biggest finance company in Indonesia, having more than 100 branches with over 1000 employees all over Indonesia.

The questions were derived from Ireland et al., (2003) framework adapted to the business processes that occur within the company. The items were measured on a six-point (1-6) Likert scale. Empirical data gathered through survey on the managerial level and top management team in three biggest Finance Company in Indonesia whose business in motorcycle financing.

6. Expected Theoretical Contribution

By doing this study, authors expect to have some contributions for theoretical framework. Firstly, this study will augment SE framework through observing the factors of Strategic Entrepreneurship Process i.e., opportunity-seeking factors, dynamic-capability factors, and Innovation Performance within disruptive environment. Secondly, this study introduces enacted Disruptive Environment as a new category of perceived dynamic-external environment. Thirdly, this study reveals the Resource Orchestration (RO) process enrichment (Sirmon et al., 2011) by segregating it into structuring capability strategy as strategy formulation or strategy formation and Configuring Innovation Capabilities as strategy deployment and implementation.

7. Expected Practical Implication

There are several empirical contributions of the study. Firstly, managers have practical or useful knowledge on the importance of dynamic capabilities in mature, ICT based firms, which are related to innovation management, to adopt Strategic Entrepreneurship Progress for integrating the opportunity-seeking activities and advantage-seeking activities which then reflected in high innovation performance.

Secondly, managers as facilitators to ensure that entrepreneurial leadership and culture are present and nurtured within the firm. Thirdly, managers can adopt the core process of Strategic Entrepreneurship Process, which involves strategy formulation and strategy implementation as well as dynamic capabilities. Fourthly, firms can strengthen their structure and innovation management maturity to enhance innovation performance whether they are small or large firms.

8. Areas for Feedback and Development

It is expected that reviewers and colleagues of the conference provide perspectives, feedback and further questions on how to build and implement dynamic-innovation capabilities in this era of (enacted) disruptive environment while maintaining and enhancing firm performance on innovation. Results of the preliminary survey will be communicated to the audience and feedback is welcomed.

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