THE IMPACT OF RELIGIOSITY AS MODERATOR ON THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION, MARKET ORIENTATION AND THE PERFORMANCE OF SMEs

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ABSTRACT
The purpose of this study was to examine the impact of religiosity as a moderator on the relationship between entrepreneurial orientation, market orientation, and the performance of small and medium-sized enterprises (SMEs). The population in this study was all managers or owners of SMEs in Padang city. The sampling technique used purposive sampling with 257 samples as a sample size. The findings displayed that entrepreneurial orientation and market orientation had a positive and significant effect on the performance of SMEs. Religiosity did not affect the performance of SMEs. However, it strengthened the relationship between entrepreneurial orientation, market orientation, and the performance of SMEs.

Keywords: Entrepreneurial orientation; Market orientation; Religiosity; Performance

INTRODUCTION
One of the important points from the vision of the Padang City medium-term development plan (RPJMD) is to create a trade-based civil society in Padang City. To realize the vision, it is necessary to support the small and medium-sized enterprises (SMEs) sector because they have been proven to have an important role in supporting the economic success of each country and region, including Padang city. This is in line with Adam and Alarifi (2021) who explained that SMEs had an important role and could be viewed from various aspects such as having great potential in creating jobs and gross domestic product (GDP).

Based on the secondary data released by the Department of Cooperatives and SMEs of West Sumatra Province (2021), the majority of SMEs in West Sumatra are located in Padang City, which accounted for 13,837 businesses (21.24%). This means that the SMEs' performance in the city of Padang is a reflection of the performance of SMEs in West Sumatra. Furthermore, the number of SMEs in Padang city continues to increase during the 2016-2020 period. This condition shows that the SME business in Padang city is classified into promising prospects. On the other hand, the increasing number of SMEs in Padang city certainly raises the level of competition among SMEs themselves. Therefore, every SME is required to be able to develop various marketing strategies to be able to perform highly and ultimately win the competition. Interestingly, the phenomenon shows that the performance of SMEs in Padang city has decreased significantly based on the growth of sales turnover.

Empirically, the variable that can affect company performance including SMEs performance is the entrepreneurial orientation (Alvarez-Torres et al., 2019; Cuevas-Vargas et al., 2019; Rofiaty et al., 2022; Sakib et al., 2022; Sefnedi et al., 2022). The entrepreneurial orientation is conceptualized as the ability of a company's intangible resources in creating a competitive advantage to enhance company performance (Kiyabo & Isaga, 2020). The phenomenon related to the entrepreneurial orientation of SMEs in Padang city can be referred to in the statement of accountability report (LKPJ) of the mayor of Padang in the years 2014-2018, which confirms that the level of entrepreneurship of SMEs in Padang city is still low.

Another possible variable that can influence the SMEs' performance is the market orientation (Hendra et al., 2022; Julian et al., 2014; Sefnedi et al., 2022; Sefnedi, 2017). Narver and Slater (1990) conceptualized market orientation as the organizational culture that most effectively creates the necessary behaviors for the creation of superior value for customers and, thus continuous superior performance for business. The market orientation has three dimensions namely customer orientation, competitor orientation, and inter-functional coordination.

It is argued that the relationship between entrepreneurial orientation, market orientation, and the performance of SMEs is contingent on religiosity. Some previous studies have considered religiosity as a moderating variable (Bal & Køkalan, 2021; Memon et al., 2020; Nopeanti et al., 2020). Religiosity is a strong feeling and belief that
encourages a person when undergoing religious activities in various forms of worship activities and encouragement to act under his beliefs in everyday life (Ancok & Suroso, 2011). To understand the phenomenon of religiosity in SMEs of Padang City, a survey has been conducted. The result of the survey displayed that the level of religiosity of SMEs in Padang City is quite good but still very far from the very good category.

Furthermore, this study is motivated to investigate the moderating impact of religiosity on the relationship between entrepreneurial orientation, market orientation, and SME performance in the city of Padang.

**Small and Medium-sized Enterprises (SMEs)**

The concept of small and medium-sized enterprises (SMEs) refers to the Law of the Republic of Indonesia Number 20, Years of 2008, article 1, paragraphs 2 and 3. The small enterprise is a productive economic business that stands alone, and is managed by individuals or business entities that are not subsidiaries or branches of certain companies which are owned, controlled, or become a part either directly or indirectly of medium or large businesses that meet the criteria with small businesses as referred to in this Law. Meanwhile, medium-sized enterprises are productive economic businesses that stand-alone, and are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly with small or large enterprises with net assets or annual sales as regulated in this Law.

Based on the above understanding small and medium-sized enterprises have 3 different aspects namely, the number of employees, assets, and sales. Furthermore, in Article 6 Paragraphs 2 and 3, it is explained that the net assets (excluding business land and buildings) of small enterprises are above IDR 50,000,000 (fifty million rupiahs) up to IDR 500,000,000 (five hundred million rupiahs), while for medium-sized enterprises it is above IDR 500,000,000 (five hundred million rupiahs) up to IDR 10,000,000,000 (ten billion rupiahs). In addition, annual sales for small enterprises are above IDR 300,000,000 (three hundred million rupiahs) up to IRDR 2,500,000,000 (two billion five hundred million rupiahs). For medium-sized enterprises, it is above IDR 2,500,000,000 (two billion five hundred million rupiahs) up to IDR 50,000,000,000 (fifty billion rupiahs).

**Performance of Small and Medium-sized Enterprises (SMEs)**

Sefnedi et al (2022) explained that the performance of SMEs is the extent to which the ability of SMEs to achieve stated goals. Furthermore, Irfani et al (2017) explained that performance is needed when measuring the achievement of a job that has been done and can be viewed from the company's success for its efforts in obtaining a high level of income. One of the ultimate goals that every entrepreneur needs to achieve is to obtain good business performance. Purwaningsih and Kusuma (2015) explain that the performance of SMEs can be influenced by internal factors that consisting of aspects of human resources, finance, technical production or operations, marketing and external factors such as government policies for the SME sector, social, cultural, and economic, as well as the role of stakeholders.

**Entrepreneurial Orientation**

Entrepreneurial orientation is conceptualized as the ability of a firm's resources that can be used as a means or opportunity in creating a firm's advantage to improve firm performance, but its form cannot be seen as or intangible resource (Alvarez-Torres et al., 2019). Entrepreneurial orientation can be used as the key to success for the success of a business because SMEs that apply a good entrepreneurial orientation can encourage growth and business survival (Rofiaty et al., 2022). In this study, the entrepreneurial orientation variable was measured by using 5 indicators (Alvarez-Torres et al., 2019) namely innovation, risk-taking, proactiveness, autonomy, and competitive aggressiveness. The results of previous studies explain that the stronger the entrepreneurial orientation, the higher the company's performance (Alvarez-Torres et al., 2019; Cuevas-Vargas et al., 2019; Rofiaty et al., 2022; Sakib et al., 2022; Sefnedi et al., 2022). Based on the results of these previous studies, the study proposed the following hypothesis:

\[ H_1: \text{Entrepreneurial orientation positively affects SMEs' performance} \]

**Market Orientation**

Scholars have explained different concepts of market orientation. For instance, Narver and Slater (1990) defined market orientation as an organizational culture that has a set of shared values and beliefs in putting customers first in business planning. Deshpande and Farley (2004) explained market orientation as a set of cross-functional processes and activities directed at
creating and satisfying customers through a continuous needs assessment. Kohli and Jaworski (1990) conceptualized market orientation as the organization-wide generation of market intelligence of current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it. In their definition, Kohli and Jaworski (1990) emphasized the behavioral aspects and not the cultural aspects of market orientation. This study measured the market orientation with 3 dimensions (Narver & Slater, 1990) namely customer orientation, competitor orientation, and inter-functional coordination. The previous studies found that market orientation is an important determinant of business performance (Hendra et al., 2022; Julian et al., 2014; Sefnedi et al., 2022; Sefnedi, 2017). Based on the results of these previous studies, the current study proposed the following hypothesis:

\[ H_2: \text{Market orientation positively affect the SMEs' performance} \]

Religiosity

Religiosity is defined as a strong feeling and belief that encourages a person when undergoing religious activities in various forms of worship activities and encouragement to act under his/her beliefs in everyday life (Ancok & Suroso, 2011). According to (Hunjra et al., 2021) a religious person is synonymous with being honest, diligent, and reliable. In a company, someone who applies religiosity in his work life, he/she will influence the high level of work motivation and the team in terms of responding to something, ways of thinking, how to manage their feelings, how to observe things, and obedience to things that are believed in religion (Elias et al., 2019). In this study, the religiosity variable was measured by using 11 items (Hunjra et al., 2021). Several previous studies had empirically proven that religiosity had a positive and significant influence on company performance (Hunjra et al., 2021; Irfani et al., 2017). Based on the results of these previous studies, the current study proposed the following hypothesis:

\[ H_3: \text{Religiosity positively affects the SMEs' performance} \]

In addition, the relationship between entrepreneurial orientation, market orientation, and the performance of SMEs is contingent on religiosity. The better-implemented religiosity, the stronger the relationship between entrepreneurial orientation, market orientation, and performance of SMEs. Some previous studies have proven empirically the variable of religiosity as a moderator variable (Bal & Kökalan, 2021; Memon et al., 2020; Nopeanti et al., 2020). Therefore, this study proposed the following hypothesis:

\[ H_4: \text{Religiosity strengthened the relationship between entrepreneurial orientation and the performance of SMEs} \]

\[ H_5: \text{Religiosity strengthened the relationship between market orientation and the performance of SMEs} \]

RESEARCH METHODS

Sekaran and Bougie (2020) explained that causative research is useful for analyzing the relationship between one or several variables affecting other variables. The population in this study is all leaders or owners of SMEs in Padang city. The sampling technique uses purposive sampling, which is a sampling technique using certain criteria, namely SMEs are located in Padang city, SMEs have been operating for at least 3 years, and the manager or owner is Muslim.

To determine the number of samples, this study uses the approach proposed by (Hair et al., 2014) which is the number of statement items multiplied by 5 observations. The number of items in this study is 50 statements and then multiplied.
SME performance is conceptualized as the extent to which the ability of SMEs to achieve stated goals under their capabilities, programs, and policies, as well as the vision and mission that has been set (Darmanto et al., 2018). The SMEs' performance variables are measured using 9 items adapted from Hunjra et al (2021). Entrepreneurial orientation is conceptualized as the ability of a firm's resources that can be used as a means or opportunity in creating a firm's advantage to improve firm performance, but its form cannot be seen as or intangible resource (Kiyabo & Isaga, 2020). This variable is measured by using 5 indicators namely innovation, risk-taking, proactiveness, autonomy, and competitive aggressiveness that consists of 16 items (Alvarez-Torres et al., 2019).

Market orientation is defined as an organizational culture that has a set of shared values and beliefs in putting customers first in business planning (Narver & Slater, 1990). This variable is measured by using 3 indicators namely customer orientation, competitor orientation, and inter-functional coordination that consists of 15 items (Sefnedi et al., 2022). Furthermore, religiosity is defined as a strong feeling and belief that encourages a person when undergoing religious activities in various forms of worship activities and encouragement to act under his/her beliefs in everyday life (Ancok & Suroso, 2011). The religiosity variable is measured by using 10 items (Hunjra et al., 2021).

RESULTS AND DISCUSSION

To obtain the primary data, a questionnaire using a Google form was distributed to respondents for 300 samples, but only 257 questionnaires were eligible to be included in the data analysis. The results show that the majority of respondents are female (54.5%), and the rest are male (45.5%). Furthermore, the majority of respondents are 36-45 years old (31.5%). Based on education, the majority of respondents has an undergraduate education level (37.4%) and has positions in SMEs as owners (48.6%) with a length of time in office less than 3 years (35.8%)

Furthermore, the majority of respondents are located in Koto Tangah District (19.5%). Based on the form of business entity, most respondents are having a private company (72.4%) with a service business type (32.3%), and then have an operating period of 3 years (35.8%). Based on the number of full-time workers, most respondents are having a workforce of between 5-19 employees (91.4%), have total assets < IDR 50,000,000 (47.5%), and annual sales < IDR 300,000,000 (66.1%).

Moreover, the Measurement Assessment Model (MMA) specifies the relationship between latent variables and their indicators (Hair et al., 2017). The MMA defines how each indicator relates to its latent variable. The MMA consists of convergent validity and discriminant validity. The convergent validity consists of outer loading > 0.7, Cronbach alpha (CA) > 0.7, composite reliability (CR) > 0.7, and average variance extracted (AVE) > 0.5, while discriminant validity consists of the Fornell-Larcker criterion. The MMA analysis is as follows:

Figure 1. Measurement Model Assessment
Table 1. Convergent Validity

<table>
<thead>
<tr>
<th>Variables</th>
<th>Valid Items</th>
<th>Outer loading</th>
<th>Cronbach’s Alpha (CA)</th>
<th>Composite Reliability (CR)</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation (X₁)</td>
<td>15</td>
<td>0.769-0.879</td>
<td>0.966</td>
<td>0.970</td>
<td>0.681</td>
</tr>
<tr>
<td>Market Orientation (X₂)</td>
<td>11</td>
<td>0.711-0.874</td>
<td>0.948</td>
<td>0.954</td>
<td>0.656</td>
</tr>
<tr>
<td>Religiosity (M)</td>
<td>9</td>
<td>0.755-0.937</td>
<td>0.956</td>
<td>0.963</td>
<td>0.746</td>
</tr>
<tr>
<td>Performance of SMEs (Y)</td>
<td>7</td>
<td>0.705-0.876</td>
<td>0.910</td>
<td>0.929</td>
<td>0.652</td>
</tr>
</tbody>
</table>

The results of the convergent validity analysis presented in Table 2 above showed that the variable of entrepreneurial orientation (X₁) had 15 valid statement items with the outer loading value ranging from 0.769 to 0.879. Eleven statement items on the variable of market orientation (X₂) were declared valid with the outer loading value ranging from 0.711 to 0.874. Meanwhile, the variables of religiosity (M) and performance of SMEs (Y) had 9 and 7 valid statement items respectively, where all statement items had an outer loading value above 0.70. In addition, Table 2 displayed the Cronbach’s alpha (CA) and composite reliability (CR) values for the four research variables (X₁, X₂, M, and Y) were greater than 0.70, and the average variance extracted (AVE) value was higher than 0.5. Thus, all the requirements in the outer model were met.

Next, discriminant validity describes the uniqueness of a variable from other variables. The results of the discriminant analysis using the Fornell-Larcker criterion could be seen as follows:

Table 2. Discriminant Validity-Fornell-Larcker Method

<table>
<thead>
<tr>
<th>Variables</th>
<th>Entrepreneurial Orientation (X₁)</th>
<th>Market Orientation (X₂)</th>
<th>Performance of SMEs (Y)</th>
<th>Religiosity (M)</th>
<th>X₁*M</th>
<th>X₂*M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation (X₁)</td>
<td>0.825</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Market Orientation (X₂)</td>
<td>0.690</td>
<td>0.810</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Performance of SMEs (Y)</td>
<td>0.477</td>
<td>0.495</td>
<td>0.807</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Religiosity (M)</td>
<td>0.450</td>
<td>0.457</td>
<td>0.732</td>
<td>0.864</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>X₁*M</td>
<td>0.245</td>
<td>0.239</td>
<td>0.234</td>
<td>0.526</td>
<td>1.000</td>
<td>-</td>
</tr>
<tr>
<td>X₂*M</td>
<td>0.241</td>
<td>0.232</td>
<td>0.236</td>
<td>0.544</td>
<td>0.599</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 2 revealed that the correlation coefficient of a variable with the variable itself was greater than the other variables. For instance, the correlation between entrepreneurial orientation and entrepreneurial orientation was 0.825, where the correlation value was greater than the correlation between entrepreneurial orientation and market orientation (0.690), the performance of SMEs (0.477), and religiosity (0.450). This means that there is a uniqueness in the entrepreneurial orientation variable. This uniqueness also occurred on other variables such as market orientation, the performance of SMEs, and religiosity.

Moreover, the structural assessment model (SMA) described the relationship between latent variables based on substantive theory. The structural model was evaluated by R square (R²) and Q square (Q²). The R² of endogenous variables in this study was useful to determine the magnitude of the effect of exogenous variables on endogenous variables. While Q² (predictive relevance) was to determine the capability or ability to predict exogenous variables using the blindfolding procedure.
Table 3. R square and Q square

<table>
<thead>
<tr>
<th>Endogenous Variables</th>
<th>R square</th>
<th>Q square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of SMEs (Y)</td>
<td>0.614</td>
<td>0.374</td>
</tr>
</tbody>
</table>

Table 3 showed the R square value for the performance of SMEs (Y) was 0.614 which means that the magnitude of the influence of entrepreneurial orientation, market orientation, and religiosity on the performance of SMEs is 61.4% (Moderat). Furthermore, the predictive relevance variable used a Q square where the value must be greater than zero (Hair et al., 2014). In Table 3, it could be seen that the value of Q square on the performance of SMEs variable was 0.374 which means that the ability of entrepreneurial orientation, market orientation, and religiosity in predicting the performance of SMEs belongs to the strong category (Hair et al., 2014).

Next, the results of hypothesis testing in the study by using the bootstrapping method (500 subsamples) were as follows:

Table 4. Summary of Hypothesis Testing

<table>
<thead>
<tr>
<th>Directions</th>
<th>Original Sample</th>
<th>t-statistics</th>
<th>p-values</th>
<th>Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation (X₁) ➔ Performance of SMEs (Y)</td>
<td>0.255</td>
<td>2.168</td>
<td>0.031</td>
<td>H₁ Accepted</td>
</tr>
<tr>
<td>Market Orientation (X₂) ➔ Performance of SMEs (Y)</td>
<td>0.411</td>
<td>2.710</td>
<td>0.007</td>
<td>H₂ Accepted</td>
</tr>
<tr>
<td>Religiosity (M) ➔ Performance of SMEs (Y)</td>
<td>0.129</td>
<td>1.024</td>
<td>0.112</td>
<td>H₃ Rejected</td>
</tr>
<tr>
<td>X₁*M ➔ Performance of SMEs (Y)</td>
<td>0.263</td>
<td>2.553</td>
<td>0.015</td>
<td>H₄ Accepted</td>
</tr>
<tr>
<td>X₂*M ➔ Performance of SMEs (Y)</td>
<td>0.594</td>
<td>2.846</td>
<td>0.003</td>
<td>H₅ Accepted</td>
</tr>
</tbody>
</table>

Table 4 showed that entrepreneurial orientation (X₁) had a positive and significant effect on the performance of SMEs (Y) since it had t-statistics of 2.168 (higher than 1.96) and p-values of 0.031 (less than 0.05). Therefore, the first hypothesis (H₁) was accepted. This finding means that the better the entrepreneurial orientation implemented, the higher performance of SMEs will be. Conversely, the lower the level of entrepreneurial orientation implemented in SMEs in Padang City, the lower the level of performance of SMEs. The finding of this study is in line with several previous studies which found that entrepreneurial orientation had a positive and significant effect on the performance of SMEs (Alvarez-Torres et al., 2019; Cuevas-Vargas et al., 2019; Rofiaty et al., 2022; Sakib et al., 2022; Sefnedi et al., 2022).

The market orientation (X₂) was also found to have a positive and significant effect on the performance of SMEs (Y) because it had t-statistics of 2.710 (higher than 1.96) and p-values of 0.007 (less than 0.05). Therefore, the second hypothesis (H₂) was accepted. This finding can be interpreted that the better the market orientation implemented, the higher performance of SMEs will be. The finding of this study is in line with several previous studies which found that market orientation had a positive and significant effect on business performance (Hendra et al., 2022; Julian et al., 2014; Sefnedi et al., 2022; Sefnedi, 2017).

Table 4 displayed that religiosity (M) did not affect the performance of SMEs (Y) significantly since it had t-statistics of 1.024 (lower than 1.96) and p-values of 0.112 (higher than 0.05). Therefore, the third hypothesis of the study (H₃) was rejected. This finding means that the variance in the performance of SMEs is not determined by the variance of religiosity. This finding is contradictory with some previous research that found a positive effect of religiosity on business performance (Hunjra et al., 2021; Irfani et al., 2017). This study justifies that directly the religiosity variable is not significantly important in explaining variations in the performance of SMEs. This means that the high or low performance of SMEs in the city of Padang is not determined by the level of religiosity. However, the existence of religiosity is proven to strengthen the impact of entrepreneurial orientation, and market orientation on the performance of SMEs.

Next, this study hypothesized that religiosity strengthened entrepreneurial orientation, market orientation, and SME performance relationship. The results found that religiosity was proven to strengthen the relationship between entrepreneurial orientation and the performance of SMEs. This is because the interaction of entrepreneurial orientation and performance of SMEs (X₁*M) has
t-statistics of 2.553 (an increase from 2.168) and p-values of 0.015 (a decrease from 0.031). Therefore, the fourth hypothesis ($H_4$) was accepted. Moreover, Table 4 showed that the interaction variable of market orientation and performance of SMEs ($X_3*M$) has t-statistics of 2.846 (an increase from 2.710) and p-values of 0.003 (a decrease from 0.007). Therefore, the fifth hypothesis ($H_5$) was also accepted. This finding means that the better the implementation of religiosity, the stronger the market orientation affects the SMEs' performance. The findings of the study were supported by some previous studies that found religiosity as moderating variable (Bal & Kökalan, 2021; Memon et al., 2020; Nopeanti et al., 2020).

CONCLUSION

Based on the results of the analysis and discussion that have been presented previously, it could be concluded that entrepreneurial orientation and market orientation positively affect SMEs' performance in the city of Padang. Furthermore, religiosity did not affect directly the performance of SMEs. However, it strengthened the relationship between entrepreneurial orientation, market orientation, and the performance of SMEs in Padang city.

BIBLIOGRAPHY


