Entrepreneurial orientation and funding decisions on the financial performance of small and medium industries

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**ABSTRACT**

Small and Medium Industries play an important role in relation to economic growth in Asian countries. The empowerment of SMEs is very strategic because of its great potential in driving economic activities, as well as being a source of income in improving community welfare. To explore the factors affecting the sustainability of SMEs, the study conducted a systematic literature review of relevant articles published between 2015 and 2023, focusing on entrepreneurial orientation and financial performance. The findings of this study reveal that the ability of a company's entrepreneurial orientation has a significant influence on financial performance. Companies with a high level of entrepreneurial orientation tend to innovate products consistently, dare to consider business risks, and act proactively against possible environmental changes. Companies with a high level of entrepreneurial orientation are always trying to find new opportunities and strengthen their competitive position in carrying out business activities in the market. Moreover, it emphasizes that the development of the concept of entrepreneurial orientation is indispensable in SMEs. This is important because the personal attributes of the owners that make up the entrepreneurial orientation have a strong influence on financial performance. The dimensions of entrepreneurial orientation can be reflected in attitudes and behaviors, such as autonomy, risk, innovation, and aggressive competition by placing personal attributes on business owners. Here, entrepreneurial orientation is directly related and has a strong impact in encouraging companies to perform better.

INTRODUCTION

The development of small and medium industries has recently attracted more attention, especially in developing countries, including Indonesia. There are at least three important reasons behind this as follows. First, SMEs have proven effective as saviors of the economic crisis that hit the industry. Second, considerable potential in creating more jobs. Third, SMIs, segments can be found ranging from simple technology industries to relatively sophisticated ones. SMIs play an important role in relation to economic growth in Asian countries. SMEs have proven to be resilient to crises and are able to survive because they do not have foreign debt, do not owe much to banks, use more local inputs, and are export.

The entrepreneurial orientation (Innovative, proactive, and risk taking ability) owned by management or company owners will be able to determine the development of a business. A growing business will require substantial funding (Riana et al., 2011). Funding will be sought using internal sources first, both from the owner's capital deposit and retained earnings. If the company's internal funding source is not sufficient for funding needs, the company will look for funding sources from outside the company, namely debt (Covin & Slevin, 1991).

Any effort to increase business will require capital. Capital related to the Funding Decision will support the achievement of company objectives. If there is a lack of capital, the business becomes unproductive so that performance achievement is not optimal. Funding decisions are concerned with the...
selection of alternative funding sources that will be used by the company to finance the company's operational activities. Careful funding decisions incur fixed costs in the form of high capital costs, which will result in low company profitability (Hasnawati, 2005).

Indications of the development of an industry are reflected in the improvement of company performance, company performance is a form of achievement or performance of the company's work. One of them can be indicated by Financial Performance. Performance assessment indicators of an IKM can be seen from the ability of businesses to generate profits (Brigham et al., 2009). Problems faced by SMEs in Bali Province include capital, namely limited amount of capital, limited knowledge of capital sources, collateral values that are not in accordance with capital needs, difficulties meeting credit requirements (Dinas Perindustrian dan Perdagangan Provinsi Bali, 2013).

This study was conducted to explore the factors affecting the sustainability of SMEs. It is expected to give more insight into the topic discussed and become a reference for future relevant studies.

METHOD

The research method used is qualitative research method. The data collection technique in this study is by literature study (Systematic Literature Review) obtained by scientific journals published from 2015-2023 on Google Scholar using keywords such as "Entrepreneurial Orientation, Funding Decisions and Financial Performance". The data collected are analyzed through three stages, namely data reduction, data presentation, and conclusion (Miles et al., 2014).

RESULTS AND DISCUSSION

Entrepreneurial orientation is an efficient tool for obtaining evidence of entrepreneurial action (Donbesuur et al., 2020; Putniņš & Sauka, 2020; Wales et al., 2020) and decision making in several organizations (Kreiser et al., 2002). Entrepreneurial orientation can be reflected through aspects of innovative, proactive, and risk taking (Covin & Slevin, 1991). The efforts made by IKM owners are characteristic of Entrepreneurial Orientation. Based on this, the higher the Entrepreneurial Orientation, the greater the use of company debt, as a limitation of own capital used.

Entrepreneurship Orientation is a strategic orientation that can affect business performance (Arifin & Dionysus, 2020; Meekaewkunchorn et al., 2021; Mukson et al., 2021; Wahyuni & Sara, 2020). The development of Entrepreneurial Orientation concepts is very necessary in small companies (Abu-Rumman et al., 2021; Isichei et al., 2020). This is because the personal attributes of the owners who make up the Entrepreneurial Orientation include innovative, proactive, and aggressive risk taking have a positive impact on Company Performance.

Entrepreneurial orientation is explained by three dimensions, namely innovativeness, proactiveness and risk taking (Corrêa et al., 2022; Perera & Samarakoon, 2021). The company's performance is explained by financial perceptions related to revenue growth and asset growth (Barauskaite & Streimikiene, 2021; Prameshi et al., 2021). It was found that Entrepreneurial Orientation had a significant positive effect on the performance of SMEs. Innovative SMEs will be able to maintain their business in unstable environmental conditions. With their proactiveness, SMEs will be more active in seeking business development efforts and risk taking in this case is not taking all risks but rather efforts to minimize risks and take action to avoid very high risk projects.

The higher the company's Entrepreneurial Orientation ability, the better the company's Financial Performance. This happens because companies with a high level of Entrepreneurial Orientation will always initiate products consistently, dare to take considered business risks, and act proactively against possible environmental changes. The more appropriate the use of debt, it will be able to increase the company's profitability.

CONCLUSION

This study explores the relationship between entrepreneurial orientation and financial performance in Small and Medium Industries (SMEs). Entrepreneurship orientation involves proactive efforts in acquiring customers, establishing partnerships, and being innovative in resource management. The success of a business is determined by courage in making breakthroughs, innovating against competition, and responding to environmental changes. Increased funding decisions encourage owners or managers to make the best use of funds, leading to increased sales, improved facilities, and production cost efficiencies. A good funding decision results in an increase in SMEs' financial performance.

REFERENCES
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