



© Copyright Kemala Publisher  
All rights reserved

Science, Engineering and Social Science Series  
ISSN/e-ISSN: 2541 – 0369/2613 – 988X  
DOI: 10.51971/joma.v5n3.05032207021  
Vol. 5, No. 3, 2021, Printed in the Indonesia

# The Financial Performance Enhancement Through Entrepreneurial Orientation Moderation by Tri Hita Karana Culture

Ni Nyoman Yuni Juwitaristanty <sup>1,\*</sup>, Ni L P Wiagustini <sup>1</sup>

<sup>1</sup>Faculty of Economic and Business, Universitas Udayana, Bali, Indonesia

The purpose of this study aimed to investigate the moderating role of Tri Hita Karana (THK) culture on the effect of entrepreneurial orientation on financial performance. In this study, we obtain the population taken from all export-oriented handicraft industries in Bali, Indonesia. Here, the population criteria were proposed as a private industry that have a business license which is registered on Trade and Industry Department Bali Province to carry out business activities as a producers and exporters. Currently, there are 42 business units that meet the specified criteria. The data observation samples obtained from saturated sample with the owner or manager private industry. Here, the Partial Least Square technique was performed to analyse significant effect on financial performance. The result shows THK culture has a positive and significant effect on financial performance while THK culture is not proven to be able to moderate the relationship between entrepreneurial orientation and financial performance. In this study, the THK culture implies that the role of culture is not able to strengthen the relation of entrepreneurial orientation to financial performance. Moreover, the entrepreneurial orientation has a positive and significant effect on financial performance. This implies that higher the entrepreneurial orientation, the better the financial performance.

**Keywords:** Entrepreneurial orientation, financial performance, Tri Hita Karana.

## 1. INTRODUCTION

The development of small and medium industries has recently attracted more attention specifically in developing countries including Indonesia [1, 2]. There are at least three important reasons behind this as follows. First, SMEs has proven to be effective as a savior of the economic crisis that hit the industry. Second, the potential is quite large in creating more job opportunities. Third, the SMEs, segment can be found ranging from simple to relatively sophisticated technology industries. SMEs play an important role in relation to economic growth in Asian countries [3]. Here, the empowerment of SMEs is very strategic because it has the potential to drive economic activity as well as become a source of income in improving the welfare of most people in Indonesia [4]. SMEs have proven to be resistant to crisis and able to survive because they do not have foreign debt, do not owe much to banks, use more local inputs, and are export oriented [5]. Furthermore, the labor population and the large number of SMEs business units (around 99%) are only able to contribute less than 60% of the total national

\*Email Address: [yunijuwitaristanty@gmail.com](mailto:yunijuwitaristanty@gmail.com)

business output in Indonesia. In contrast, large-scale enterprises with a population of only about 1% of the total national enterprises control almost half of the national output. Thus, it's indicates that there is a productivity gap between SMEs and large-scale businesses [6]. The problem of low performance of SMEs in general is more dominant due to the use of traditional technology, lack of capital and weak managerial aspects, weak management capabilities, weak decision-making abilities, quality of human resources, too small business scale, and lack of experience and financial supervision [7]. Thus, the financial Performance will be a benchmark for financial institutions on the financing decisions to be given to the industry. Here, the company must be in a favorable state and have good prospects. If the company is in an unfavorable condition, it will be difficult for the company to obtain loans from creditors and investment from outside parties [8]. In this study, the problems faced by SMEs is related to improve financial performance, namely capital. Capital problems include limited amount of capital, limited knowledge about sources of capital, collateral values that are not in accordance with capital

requirements, difficulty meeting credit requirements. The constraints faced by SMEs are capital, especially difficulties when meeting credit requirements because SMEs are small companies that do not have audited financial statements. The problems faced by SMEs need to be solved because they will affect the performance. In the previous study, the determinants of the financial performance of SMEs are categorized such as (1) alternative venture capital and the effectiveness of the use of funds; (2) promotion support, market share, product price, productivity, copyright protection, product quality, production equipment, quality of human resources, innovative and creative products, and product variations; (3) patterns of behavior or habits and experiences that encourage members of the organization or company to work and interact to realize the company's goals [9].

Thus, in order to achieve company goals, management must be consistent, disciplined, work hard, make continuous improvements and maintain the effectiveness of the use of company funds [10]. Promotional support, market share, product prices, productivity, copyright protection, product quality, production equipment, quality of human resources, innovative and creative products, and product variations are the elaboration of the form of Entrepreneurship Orientation which also affects the achievement of company goals. Patterns of behavior or habits that encourage members of the organization to work and interact to create something new is a form of innovation. Innovations that are carried out continuously will make the company able to survive and increase business [11]. Companies that act independently and are driven to always make innovation, risk-taking, be proactive, and compete more aggressiveness tend to have a higher level of entrepreneurial orientation. The level of entrepreneurial orientation has a significant impact on financial performance [12]. The higher the entrepreneurial orientation, the organizational performance tends to increase [13]. Here, the SMEs Study are conducted by proving that entrepreneurial orientation can significantly impact organizational performance while another study in South Korea was clarified that entrepreneurial orientation does not only affect organizational performance, but can continuously create dynamic capabilities and create corporate entrepreneurship [14, 15].

Research on entrepreneurial orientation has been widely carried out, and it was found that the ability of a company's entrepreneurial orientation has a significant impact on financial performance [16, 17]. Companies with a high level of entrepreneurial orientation tend to innovate products consistently, dare to take considered business risks, and act proactively against possible environmental changes. Companies with a high level of entrepreneurial orientation always try to find new opportunities and strengthen their competitive position in conducting business activities in the market [18]. Moreover, the emphasizes the development of the concept of entrepreneurial orientation is very necessary in SMEs. This is important because the personal attributes of the

owner that form an entrepreneurial orientation have a strong influence on financial performance. Dimensions of entrepreneurial orientation can be reflected in attitudes and behaviors, such as autonomy, risk, innovation, and aggressive competition by placing personal attributes on the business owner. Here, the entrepreneurial orientation is directly related and has a strong impact on encouraging companies to perform better [19, 20, 21]. Furthermore, entrepreneurial orientation plays an important role in pushing companies towards superior performance. Another non-financial variable that affects financial performance is the organizational culture that applies and is applied in the company. The culture that develops and is applied to an organization will affect the decisions taken by management owners related to the courage to use external funding sources which will ultimately affect financial performance [22]. Organizational culture is one of the non-financial variables that play a role in realizing financial performance [23]. Organizational culture also influences the development and success of both large and small companies [24].

Organizational Culture in this study is to explore culture based on local Balinese concepts as innovative inspiration that is maintained to improve Financial Performance. Organizational culture in this study is a culture of unique local values and has a philosophy of life balance known as the THK concept where this concept includes a balanced relationship between humans and God, between humans, and between humans with the environment. THK is a cultural concept that has grown and developed and has been established as the basis of business philosophy, philosophy of tourism development, spatial planning, and strategic plans for regional development. THK is one of the national cultures that contains universal values both in concept and implementation, regardless of ethnicity, race, and religion [25]. Although there has been a lot of research, entrepreneurial orientation is increasingly interesting to study, especially on SMEs. Entrepreneurial orientation has a strong influence on business performance because it is triggered by the ability to identify and exploit untapped opportunities [26]. This research becomes more interesting when THK's local cultural values are used in organizational culture practices in collaboration with entrepreneurial orientation to encourage financial performance.

## **2. METHODOLOGY**

Entrepreneurial orientation is the level where companies are able to be more proactive, innovative, and dare to take risks which are seen as playing an important role in improving business performance. Meanwhile, an entrepreneurial orientation becomes an acceptable meaning to explain business performance [27]. Here, the entrepreneurial orientation refers to processes, practices, and decision-making that lead to new inputs and has three aspects of entrepreneurship, namely taking risks, acting proactively and always being innovative [28].

Dare to take risks is an entrepreneurial attitude that involves a willingness to commit resources and dare to face challenges by exploiting or engaging in business strategies where the possible outcome is full of uncertainty. Proactivity reflects the entrepreneurial willingness to dominate competitors through a combination of aggressive and proactive moves, such as introducing new products or services above the competition and activities to anticipate future demand to create change and shape the environment. Innovativeness refers to an entrepreneurial attitude to be creatively involved in the process of experimenting with new ideas that allow generating new production methods so as to produce new products or services, both for the current market and for new markets. High entrepreneurial orientation is closely related to the main driver of profit so that an entrepreneur has the opportunity to take advantage of the emergence of these opportunities, which in turn has a positive effect on business performance [29]. Other empirical evidence showing that there is a positive influence between entrepreneurial orientation and business performance [30, 31]. Here, the entrepreneurial orientation can improve the company's ability to market its products towards better business performance. Companies that are more innovative, proactive, and dare to take risks tend to be able to perform better.

Furthermore, culture is the actualization of one's behavior because various decisions taken will be influenced by their respective cultural identities. Companies with different cultural backgrounds have different business management behaviors. The elements of these differences are found in the cultural style that characterizes management in which one of the elements of the difference is determined by culture and religious teachings. Organizational culture as a pattern of values and beliefs that help individuals understand the functioning of the organization and provide them with norms to behave within the company. Empirical research on organizational culture has been carried out by several studies finding that organizational culture is an important factor in determining entrepreneurial potential; organizational culture has a positive and significant effect on business performance also organizational culture is able to synergize with business performance [32]. THK is a philosophy as well as a concept of Balinese life in all aspects of life. THK contains elements of harmonious relationship between humans and God, harmonious relationships between humans, harmonious relationships between humans and the environment, which are basically analogous to the cultural system. The concept of THK culture is a concept that puts forward the principles of togetherness, harmony, and balance between economic goals, environmental and cultural preservation, as well as aesthetics and spirituality. In this regard, business people and all components of Balinese society are required to apply the THK culture in their daily lives. Likewise, in carrying out business activities, one should consider the

balance between fulfilling worldly needs and religious needs. This can be seen from the concept of a balance of human relations which includes initiative-creativity, hard work without knowing despair, respect for time, cooperation and harmony, honesty and loyalty, and ethical efficiency. The principle is interrelated with the business activities must be based on dharma and the business activities must pay attention to the environment. Based on the literature study above, we obtain the several hypotheses, as follows:

***H<sub>1</sub>: Entrepreneurial orientation has an effect on financial performance.***

***H<sub>2</sub>: THK culture effects on financial performance***

***H<sub>3</sub>: THK culture moderates the effect of entrepreneurial orientation on financial performance***

### 3. RESULT AND DISCUSSION

This study we use a quantitative causality design to analyze the causal relationship between research variables in accordance with the hypotheses compiled using statistical analysis tools. The causal relationship in this study is the role of THK culture in moderating the entrepreneurial orientation variable on the financial performance variable. The scope of this research was carried out on export-oriented SMEs in Bali with the object of research on entrepreneurship orientation, THK culture and financial performance. The population in this study are all export-oriented handicraft industries in Bali. Currently, the handicraft industry that meets the specified criteria is 42 business units according to the data obtained at the Department of Industry and Trade in 2018. Furthermore, the entire sample is taken so that this study uses a saturated sample with the owner or manager analysis unit. The technique that can be used to test the validity is the product moment correlation technique while the item is declared valid if the correlation coefficient [33]. In this test, the value of a reliability is shown through Cronbach's Alpha score where if the score is higher than 0.60 then the instrument it can be said to be reliable. Furthermore, the data that has been collected was analyzed using descriptive statistics and Inferential Analysis. Based on the results of research conducted on export-oriented craftsmen as many as 42 persons. In testing the hypothesis, the value analyzed is the value in the t-statistic generated from the PLS output by comparing it with the t-table value. The PLS output is an estimate of the latent variable which is a linear aggregate of indicators. Hypothesis testing with PLS was carried out in two stages, namely directly calculating the effect of the independent latent variable on the dependent latent variable, and the effect of the independent latent variable on the dependent latent variable by moderating THK culture. The outputs of the PLS results to test the research hypotheses (H1 to H3) while the calculation results are showed in Figure 1 and Table I, respectively.

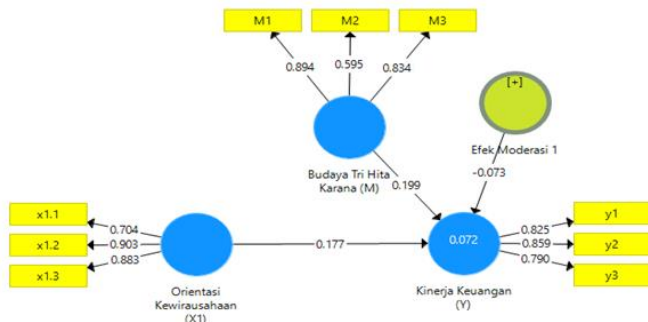


Figure 1. Calculation result on PLS software

Table I. Hypothesis calculation results

Variables	Original sample estimate	Mean of subsamples	T-Statistic	p-value	Remark
EO -> FP	0,177	0,228	0,228	0,053	Sig.
THK culture -> FP	0,199	0,072	0,072	0,011	Sig.
THK* EO -> FP	-0,073	0,025	0,025	0,076	Non sig.

The results of hypothesis testing with the PLS approach shows a path coefficient of direct influence of entrepreneurial orientation on financial performance with a value of 0.177 with t-statistics of 2.670 and p-value of 0.053. The t-statistics value of 2.670 is greater than 1.896 (alpha 5%), then the effect of entrepreneurial orientation on financial performance is significant. Thus, hypothesis 1 (H1) which states that entrepreneurial orientation has a significant positive effect on financial performance is accepted. This implies that the better the implementation of work entrepreneurship orientation can improve financial performance. The results of hypothesis testing state that entrepreneurial orientation has an effect on financial performance. This means that the better the implementation of the entrepreneurial orientation, the better the perceived financial performance of the company. Entrepreneurial orientation as measured by innovative, proactive and risk taking can increase the relationship between entrepreneurial orientation and financial performance. The high entrepreneurial orientation is closely related to the main driver of profit so that an entrepreneur has the opportunity to take advantage of the emergence of these opportunities, which in turn has a positive effect on business performance. showing that there is a positive influence between entrepreneurial orientation and business performance.

The results of hypothesis testing state that THK Culture has an effect on financial performance. This means that the better the implementation of the THK Culture, the better the company's financial performance. THK culture which is measured using indicators of human relationship with God, human relationship and human relationship with environment is able to improve the financial performance. This is in line with research conducted by Empirical research on organizational culture has been carried out by several studies finding that organizational culture is an important factor in

determining entrepreneurial potential; organizational culture has a positive and significant effect on business performance, and organizational culture is able to synergize with business performance. In addition, the THK philosophy is a philosophy as well as a concept of Balinese life in all aspects of life. THK contains elements of harmonious relationship between humans and God, harmonious relationships between humans, and harmonious relationships between humans and the environment, which are basically analogous to the cultural system. In addition, the implementation of the production processes the harmonization concept is used as a guide without reducing business productivity. This is done by increasing the variety of resources that must be utilized to produce output. Thus, business people in Bali are obliged to prioritize the principles of balance based on the THK concept. The goal is to increase the ability of entrepreneurial orientation to excel.

4. CONCLUSION

The results of this study indicate that the entrepreneurial orientation has a positive and significant effect on financial performance. This implies that the better the entrepreneurial orientation, the better the financial performance. THK culture has a positive and significant effect on financial performance. This implies that the application of the THK Culture helps in improving financial performance. Moreover. the THK culture is not proven to be able to moderate the relationship between entrepreneurial orientation and financial performance. This implies that the role of the THK culture is not capable of strengthening the application of an entrepreneurial orientation to financial performance.

References

- [1]. Keskgñ, H., Gñntürk, C., Sungur, O., & Kğrğg, H. M. (2010). The importance of SMEs in developing economies. In 2nd International Symposium on Sustainable Development. pp. 183-192.
- [2]. Tambunan, T. (2009). Export Oriented Small and Medium Industry Clusters in Indonesia. *Journal of Enterprising Communities: People and Places in the Global Economy*, Vol. 3, No. 1., 25-58.
- [3]. Chee-Choung Sun. (2004). A Taxonomy of operation Strategies of High Performing Small and Medium Enterprises in Singapore. *International Journal of Operations and Production Management*. 24, 321-332.
- [4]. Savlovski, L. I., & Robu, N. R. (2011). The role of SMEs in modern economy. *Economia, Seria Management*, 14(1), 277-281.,
- [5]. Floyd, D., & McManus, J. (2005). The role of SMEs in improving the competitive position of the European Union. *European Business Review*.
- [6]. Millard, D. (2011). Management learning and the greening of SMEs: Moving beyond problem-solving. *German Journal of Human Resource Management*, 25(2), 178-195.
- [7]. Scarborough, N.M. and Zimmerer, T.W. (2008). *Essential of Entrepreneurship and Small Business Management*, Prentice Hall International Inc., New Jersey.
- [8]. Brigham, Eugene F. and Houston, Joel F. (2011). *Fundamentals of Financial Management, Concise 7th Edition*. South-Western College Pub; 7th edition (January 26, 2011).
- [9]. Dinas Perindustrian dan Perdagangan Propinsi Bali. (2018). *Desperindag dalam Angka Tahun 2018*, Bali.
- [10]. Mahfouz, M. A., & Muhumed, D. A. (2020). Linking organizational culture with financial performance: A literature review. *Bussecon Review of Social Sciences* (2687-2285), 2(1), 38-43

- [11]. Brown, T. E., & Ulijn, J. M. (Eds.). (2004). Innovation, entrepreneurship and culture: the interaction between technology, progress and economic growth. Edward Elgar Publishing.
- [12]. Taheri, B., Bititci, U., Gannon, M. J., & Cordina, R. (2019). Investigating the influence of performance measurement on learning, entrepreneurial orientation and performance in turbulent markets. *International Journal of Contemporary Hospitality Management*.
- [13]. Stanley, L. J., Hernández-Linares, R., López-Fernández, M. C., & Kellermanns, F. W. (2019). A typology of family firms: An investigation of entrepreneurial orientation and performance. *Family Business Review*. Vol. 32. Number 2. pp. 174-194.
- [14]. Alvarez-Torres, F. J., Lopez-Torres, G. C., & Schiuma, G. (2019). Linking entrepreneurial orientation to SMEs' performance. *Management Decision*.
- [15]. Lim, S. (2002). Entrepreneurial Orientation and The Performance of Service Business, St. Mary's University, One Camino Santa Maria, San Antonio, TX 78228.
- [16]. Keh, A.T., Nguyen, T.T.M. and Ng, H.P. (2007). The effects of entrepreneurial orientation and marketing information on the performance of SMEs. *Journal of Business Venturing*. Vol. 22. pp. 592-611.
- [17]. Amankwah-Amoah, J., Danso, A., & Adomako, S. (2019). Entrepreneurial orientation, environmental sustainability and new venture performance: Does stakeholder integration matter?. *Business Strategy and the Environment*, 28(1), 79-87.
- [18]. Gupta, V. K., & Batra, S. (2016). Entrepreneurial Orientation and Firm Performance in Indian SMEs: Universal and Contingency Perspectives. *International Small Business Journal*. Vol. 34. Number 5. pp. 660-682.
- [19]. Buli, B. M. (2017). Entrepreneurial orientation, market orientation and performance of SMEs in the manufacturing industry. *Management Research Review*
- [20]. Vitale R, Giglierano J, and Miles M. (2002). Entrepreneurial Orientation, Market Orientation, and Performance in Established and Startup Firms, <http://www.uic.edu/cba/ies/2003papers>
- [21]. Todorovic, Zelimir William and Ma, Jun. (2008). Entrepreneurial and Market Orientation Relationship to Performance: The multicultural perspective. *Journal of Enterprising Communities: People and Places in the Global Economy*. Vol. 2. No.1. pp. 21-36.
- [22]. Wiagustini, Ni Luh Putu. (2011). *Peranan Budaya Hindu dalam Mengembangkan Kewirausahaan di Bali*. *Jurnal Wacana Ekonomi*. Vol. 5.
- [23]. Lee. S.K. dan Yu.K. (2004). Corporate Culture And Organization Performance. *Journal Of Managerial Psychology*. Vol. 19. Number 4.
- [24]. Armstrong, P. Amd Chouke. (2000). Contradiction and Social Dynamics in ther Capitalist Agency Relationship. *Accounting Organization and Society*. pp. 1-25.
- [25]. Astiti, S., Wayan, N., Windia, W., & Lestari, P. F. K. (2015). *Penerapan Tri Hita Karana untuk Keberlanjutan Sistem Subak yang Menjadi Warisan Budaya Dunia: Kasus Subak Wangaya Betan, Kecamatan Penebel, Kabupaten Tabanan*. *Jurnal Manajemen Agribisnis*, 3(1), 26290.
- [26]. Baker, W. E., & Sinkula, J. M. (2009). The complementary effects of market orientation and entrepreneurial orientation on profitability in small businesses. *Journal of small business management*, 47(4), 443-464.
- [27]. Miller, D. and Friesen, P. H. (1982). Innovation in Conservative and Entrepreneurial Firms: Two Models of Strategic Momentum. *Strategic Management Journal* Vol. 3. pp. 1- 25.
- [28]. Lumpkin, G.T. and Dess, G.G. (2001). Linking Two Dimensions of Entrepreneurial Orientation to Firm Performance: The Moderating Role of Environment and Industry Life Cycle. *Journal of Business Venturing*, 16 (5), pp. 429-451.
- [29]. Wiklund, J. (1999). The sustainability of the entrepreneurial orientation-performance relationship. *Entrepreneurship Theory and Practice*. Vol. 24. Number 1. pp. 37-48.
- [30]. Covin, J. G., & Slevin, D. P. (1991). A Conceptual Model of Entrepreneurship as Firm Behavior. *Entrepreneurship Theory and Practice*. 16 (Fall):7-26.
- [31]. Smart, D. T., & Conant, J. S. (1994). Entrepreneurial Orientation, Distinctive Marketing Competencies And Organizational Performance. *Journal of Applied Business Research (JABR)*. Vol. 10. Number 3. pp. 28-38
- [32]. Thomas, A. S., & Mueller, S. L. (2000). A case for comparative entrepreneurship: Assessing the relevance of culture. *Journal of international business studies*, 31(2), 287-301
- [33]. Solimun. (2002). Structural Equation Modelling (SEM) Lisreldan Amos. Malang: FMIPA Universitas Brawijaya.

Received: 18 May 2021, Accepted: 22 July 2021