ENTREPRENEURIAL ORIENTATION IN TURBULENT ENVIRONMENTS: THE EFFECT OF PRODUCTIVE ORGANIZATIONAL ENERGY TO MAKE ABSORPTIVE CAPACITY MORE EFFECTIVE.

Udut Damero ¹, Anton Wachidin Widjaja ²

¹ Strategic Management, University of Indonesia, udut.damero@gmail.com
² Faculty of Business, President University, antonwachidinwidjaja@gmail.com

ABSTRACT:

The COVID-19 outbreak that occurred at the end of 2019 in China and then entered Indonesia in March 2020 has given a lot of impacts on various industries, including small and medium enterprises (SMEs) that focus on food and beverage such as restaurants, cafés and others. Many studies confirmed that entrepreneurial orientation (EO) has a positive relationship with firm performance and that relationship’s dependence on several contingencies. The purpose of this study is to investigate that the positive emotional, cognitive and behavioral resources of organizational members jointly manifest as a higher-level resource (i.e. productive organizational energy) that increase the absorptive capacity (ACAP) of the organization which moderate the relationship between EO and firm performance in turbulent situation. Regarding the objectives of this model, this research will empirically validate using survey data from 50 cafés in Jakarta which selected using stratified random sampling method. Data will be analyze using partial-least-square, structural-equation model of (PLS-SEM). Our study provides useful information that could inform SMEs like cafés in Jakarta that in turbulent situation, organizational energy is needed to increases the absorptive capacity which positively moderates the relationship between EO and firm performance.

Keywords: Firm performance, Entrepreneurial orientation, Absorptive capacity, Market turbulence, and Organizational energy

Introduction

The Covid-19 outbreak that occurred at the end of 2019 in China and then entered Indonesia in March 2020 has given a lot of impacts on various industries, including small and medium enterprises that focus on food and beverage such as restaurants, cafés and others. The Provincial Government of DKI Jakarta implements Large-Scale Social Restrictions (PSBB) to prevent the spread of the corona virus. The PSBB was first
The 4th International Conference on Family Business and Entrepreneurship

implemented on April 10, 2020 and was extended three times until June 3, 2020. At the first PSBB, almost all business industries were closed except for markets and malls which were opened specifically to fulfill basic and daily needs. Restaurants and cafes were not allowed to open. After three times of extensions of PSBB, the cases were decreasing, then the government decided to enforce the PSBB transition where many sectors were allowed to operate but still has to follow a set of regulations known as ‘new normal’ such as limiting visitor capacity for the restaurant or cafes sector. Jakarta residents were imposed trying to adapt to the regulations such as require wearing protective face masks in public area and washing their hands regularly. Whilst Jakarta has imposed the strict protocols, several Indonesian provinces reported a sharp spike in coronavirus infections in August and September, with the highest single-day rise of 4,494 cases recorded nationally on September 26, 2020, to which Jakarta alone contributed 1,322 cases. Within a moment, Jakarta Governor Anies Baswedan decided to re-enforce PSBB measures from September 14, 2020 for a period of 14 days. The growth of daily new cases in Jakarta were shown in Figure 1.

![Figure 1. The Growth of Daily New Cases of Covid-19 in DKI Jakarta (Source: https://corona.jakarta.go.id/en/data-pemantauan, 2020)](image)

Reported by the media in Indonesia (2020) such as kompas.com, suara.com and tirta.com, during new normal era, many restaurants and cafes had adapted by opening their business places by implementing health protocols set by the government, such as limiting the number of visitors / customers, providing a distance between dining tables of approximately 1 meter, checking body temperature, and providing hand sanitizing. They were ready to rebuild their restaurants and cafes after approximately 2 to 3 months closed due to PSBB phase I. Then the PSBB phase II reappears where restaurants and cafes could only serve orders to carry out, no one is allowed to serve meals on the premises. Not many restaurants are ready for this condition, such as serving online orders or takeaway orders. Many restaurants or cafes also make dine-in as a strategy to attract consumers to be in their restaurant or cafes all day long. In facing turbulent situation like this innovation, new breakthroughs, and the right strategy are needed so that restaurant and cafe can survive in this situation.

This study tries to answer the problems that are being faced by several SMEs in Jakarta which are engaged in the food and beverage field and we focus in cafes. In a turbulent situation like this, restaurants or cafes in Jakarta are required to be proactive in finding solutions by innovating and taking risks in order to survive. Miller in 1993 introduced Entrepreneurial Orientation (EO) as a conceptualization of three dimensions at the company level: innovation, proactivity, and risk taking. Furthermore, many studies confirm the positive
performance contribution of EO (Rauch et al., 2009). However, Ireland et al. (2003) find that no positive relationship between EO and performance. Extant research is more consistent in showing that the strength of the EO–performance relationship depends on various contingencies (Lyon et al., 2000), including external conditions (Zahra and Covin, 1995) and internal variables (Covin et al., 2006). Internal variables that can moderate EO-firm performance are the existing resources and capabilities of the company (Wiklund and Shepherd, 2005). Therefore, to be able to implement entrepreneurial activities, dynamic capabilities are needed to reconfigure the existing resources or capabilities of the company (Eisenhardt and Martin, 2000). Zahra and George (2002) argue that firm’s absorptive capacity (ACAP) can be said as major dynamic capability. Absorptive capacity (ACAP) can be said to be one of the dynamic capabilities of a company that seems very relevant to EO because the main obstacle in carrying out entrepreneurial activities effectively and efficiently is the handling of uncertain situations where usually established knowledge and information is not available (Lumpkin and Dess, 1996). Zahra et al., (2006) argue that dynamic capabilities like ACAP are most valuable in dynamic environments. Therefore, the role of ACAP on the EO-performance relationship should be strongest in the turbulent situation. ACAP is not a capability that suddenly owned by a company, a process is needed to form this capability. According to Scherer and Tran (2003), emotional, cognitive, and positive behavior of organizational members together manifest as higher level resources (productive organizational energy) which can increase organizational learning ability which in turn can increase the absorptive capacity of the organization.

The purpose of this study is to investigate that the positive emotional, cognitive and behavioral resources of organizational members jointly manifest as a higher-level resource (i.e. productive organizational energy) that increase the absorptive capacity (ACAP) of the organization which moderate the relationship between EO-firm performance in turbulent situation. Followed by hypotheses for the proposed research model, research methodology, discussion and implications of the study.

**Literature Review**

**The Entrepreneurial Orientation and Firm Performance Relationship**

This study relies on several experts’ opinion that mentioned entrepreneurial is one of dimension contributed in strategy making which related to excellent performance of a firm (Covin and Miller, 2014, Covin and Slevin, 1989, Hernandez-Perlines, 2018, Kropp et al., 2006, Rigtering et al., 2017). Entrepreneurial orientation reflects on the firms’s tendency to entrepreneurial activity that generally outperform the more conservative firm (Lumpkin dan Dess, 1996, Wiklund dan Shepherd, 2005, Zahra, 1991). In 1983, Miller said firm with entrepreneurial orientation, often said as entrepreneurial firm, most likely involved in innovation and technology advancement for the sake of being the first initiator who innovates for the pursuit of profit even though it is quite risky. Most of the former researches found direct positive relationship between EO and firm performance (Engelen, Gupta, Strenge, & Brettel, 2015; Tang, 2008; Wales, Patel, & Lumpkin, 2013; Wiklund, 1999, Zahra, 1991). This relationship supported by dimension of the EO. Covin and Wales, 2012, said that EO integrate three dimensions owned by the firm which are innovation, proactive, and risk-taking behavior. Innovation needs creative process to create experiments and new ideas (Chandra et al., 2009, Covin et al., 2016, Kropp et al., 2006, Miller dan Friesen, 1983).
Proactive is a capability of firm to anticipate future needs and future demands, seeks profit from the opportunity of forming new business (Covin dan Slevin, 1989, Lumpkin dan Dess, 1996a, Rigtering et al., 2017). Therefore risk-taking behavior relates to the adoption of bold actions involving resources which there isn’t single assurance of how much profits could be taken from the conduct (Kraus et al., 2012, Lumpkin and Dess, 1996a, Rigtering et al., 2017). Supported by Rigtering et al. in 2017 who says the three dimensions of EO, innovation, proactive, and risk-taking behavior are the main determine competitive strategy factors in firm to be able conducting a sustain firm performance. Thus, it is hypothesized that:

**H1: Entrepreneurial Orientation is positively related to firm performance.**

**Absorptive Capacity moderates EO-Firm Performance in Turbulent Market**

Cohen & Levinthal (1990) define absorptive capacity (ACAP) as the firm’s ability to recognize the new value, internal information, then assimilate and adjust it for the sake of achieving commercial goals. ACAP often times being relate to few genre of researches such as innovation (Cohen & Levinthal, 1990) and learning (Brettel et al., 2011; Flatten, Greve et al., 2011; Jansen, van den Bosch, & Volberda, 2005). Acquisition, as the first step, consist of identifying process and recognize knowledge which potentially useful for the firm (Zahra & George, 2002). The second step is assimilation which consist of analyzing and interpreting newly acquired knowledge (Zahra & George, 2002). After that, the third step is transforming which consolidates newly acquired knowledge with pre-existing knowledge (Flatten, Greve et al., 2011; Zahra & George, 2002), there’s possibility of reform to organizational process (Zahra & George, 2002). The last step to do is exploiting, which using the newly acquired knowledge commercially (Cohen & Levinthal, 1989).

As previously described, there are many previous researches that found the direct positive relationship between EO dan firm performance (Engelen, Gupta, Strenge, & Brettel, 2015; Tang, 2008; Wales , Patel, & Lumpkin, 2013; Wiklund, 1999, Zahra, 1991), meanwhile different result found by Covin & Slevin, 1989; Madison , Runyan, & Swinney, 2014; Stam & Elfring, 2008. This inconsistency made researchers argue that other variables needed to moderate the relationship between EO and firm performance. According to Englen et. al., 2005, internal organization and external environment of a firm could moderate the relationship between EO and firm performance. Internal variables that can moderate EO-firm performance are the existing resources and capabilities of the company (Wiklund and Shepherd, 2005). Therefore, to be able to implement entrepreneurial activities, dynamic capabilities are needed to reconfigure the existing resources or capabilities of the company (Eisenhardt and Martin, 2000). Dynamic ability differs from "ordinary" resources and capabilities, because it allows firm to reconfigure resource and its capability base. According to Zahra & George (2002), high EO encourages the firm to increasing the process and/or their product to involve in exploration of newly acquired knowledge using ACAP (Acquisition, assimilation, transformation, and exploitation). Absorptive capacity (ACAP) can be said to be one of the dynamic capabilities of a company that seems very relevant to EO because the main obstacle in carrying out entrepreneurial activities effectively and efficiently is the handling of uncertain situations where usually established knowledge and information which not available (Lumpkin and Dess, 1996). Thus, hypothesis is consistent with Lumpkin and Dess, 1996:

**H2: Absorptive Capacity (ACAP) moderates Entrepreneurial Orientation- firm**
After that this research look up for other factors that can make moderation as given by ACAP to the relationship EO and firm performance become stronger. In 1998, Govindajaran found turbulent market condition can strengthen moderation given by ACAP. Market turbulence by Jaworskidan Kohli (1993) define as alteration in composition and consumers preference. The higher the turbulence faced by the market, the faster it is for the composition and consumers preference change. Therefore firm has to make innovation quickly in order to respond the high turbulence market (Jaworski dan Kohli, 1993; Slater dan Narver, 1994). According to Eisenhardt & Martin (2001), in a turbulence situation, a firm must be adapting to the new condition.

According to Helfat et al. (2007), turbulent market actually give other opportunities for firms, and entrepreneurial firms are ought to respond positively with changes and updates. Not all opportunities has to be responded by the firm. The capability of the firm to choose which one is the best opportunity based on experience, pre-existing knowledge, and their internal ability to interpret (Shane, 2000). Zahra & George (2002) also mention that ACAP make entrepreneurial firms could comprehend faster and commercialize promising opportunities.

This research ACAP's moderation level will be seen on the relationship between EO and Company Performance which is affected by market turbulence. It is hypothesized that:

H3: The role of ACAP on the EO-performance relationship which is affected by market turbulence.

Organizational Energy and Absorptive Capacity Relationship

Absorptive Capacity (ACAP) which is owned by the company needs to be built on a scale. Characteristics of each member of the company affect the company's ACAP. Each member of the company provides its own energy where according to Etzioni (1968) energy is formed from the psychic and social of each member. De (1979) adding humans as members of social and psychological systems that are formed from experiences reacted by committing to a transcendental mission to bring about social change. Ingalls also defines energy as the level of psychological and physical strength a member must complete existing tasks and develop relationships that have been selected. This is very close to the reactions given by each member and has an impact on the quality of work.

The energy given by each member is believed to have an impact on the company and to ensure that organizations engaged in psychology research this through a series of theories with implicit or explicit energetic implications, such as the theory of employee fatigue, engagement, emotional dissonance, development, and human development (Quinn et al., 2012; Schippers dan Hogenes, 2011). Then in 2003, Brunch and Ghoshal said that organizational energy has a substantial effect and can be related to organizational performance. Four years later, Cross et al. (2003) linked organizational learning associated with energetic activation of work members. Cross added that the basic basis of everything lies in the affective and cognitive domains owned by members. The relationship between energy and organizational learning becomes stronger when it incorporates the role of emotions, cognition and organizational members' behavior in the learning process (More, 1974; Shipton dan Sillince, 2012).

According to Scherer dan Tran (2003), Emotions are an important phase in the learning
process such as readiness to learn, seek and to process an information or new dispositions to generate information and knowledge. Cognition represented by intellectual processes which include the acquisition, distribution and interpretation of information is also the base for individual learning abilities. The last thing, the behavior of organizational members such as the directive nature given by organizational members generates motivation that generates enthusiasm and future vision and mission and persistence in the learning process (Brophy, 1983; Dweck, 1986). From the above explanation, it is clear that the three components of corporate energy which include emotions, cognition and behavior of organizational members have an effect on the quality of learning in an organization.

Organizational members who are passionate about the learning process are good objects as centers of information exchange because of their open, committed and positive attitudes (Cross et al., 2003). Because the openness is expected to build better internal communication, stronger informal networks and relational contracts, and an increased culture of trust, where all of which contribute to organic absorption capacity (Argote et al., 2003; Swift dan Hwang, 2013; Volberda et al., 2010). Accordingly, this research propose:

**H4: Organizational energy is related in the development of absorptive capacity**

![Figure 2. Research Model](image)

**Research Method**

**Sample and Data Collection**

The hypothesis will be test with primary data by conducting online and offline surveys of 50 SMEs in Jakarta which is engaged in food and beverages, this research focus on cafes in Jakarta. The selection of samples was carried out randomly using the stratified random sampling method. This method was chosen because the size of the cafes in Jakarta is quite diverse. There are cafés that are famous for being exclusive, and some cafes are not. SMEs are suitable as a context in this study, because the organizational structure is quite flexible, therefore it is quite easy to build an entrepreneurial orientation in an organization. Supported by Ling's opinion in et al., (2008) SMEs are easier to react than large organizations due to less intervention level from managers or intermediate boards of directors. This is very necessary in responding to turbulent market conditions.

This survey will be carried out for 4 months. This research will try to look several cafes in Jakarta first, then classified them into two types, they are exclusive cafés and not.
To avoid bias, samples of both cafés are (exclusive and not) have to be balanced. After getting a sample by the stratified random sampling method, visit the cafés directly and then will do online, if the management can’t meet personally. Same as Dilman (2000), before to conduct both online and offline surveys, the respondents have to know the background and purpose of our research first and to enrich the results of our survey, we conduct research on social media and news.

**Measurement and validation of constructs**

This study developed a survey questionnaire from previous research that measured similar research variables. In developing the questionnaire, this research are following the approach of Troilo, De Luca, dan Atuahene-Gima (2014) where this research do 3 steps to make sure our questionnaires are valid. First, translated the questionnaire that mostly in English to ensure the quality and accuracy of the text for measurement and delivered the questionnaire in Indonesian language. The second step, tested the instruments in the survey by conducting an offline survey with 15 respondents from the management team or cafés owner. The purpose of this testing is to ensure the validity and understanding of respondents about the survey questions. From the feedback given by respondents, the questionnaire will be modify.

This research adapt the validity measure that be used in previous studies. This research use a likert scale from 1 to 7. To answer questions that indicate the extent to which they agree, respondents can give a scale of 1-7 where 1 = strongly disagree to 7 = strongly agree. To evaluate the extent of the company's performance, respondents can give a scale of 1-7 where 1 = underperformed to 7 = very good performer.

*Firm performance.* This research use firm survival for measure the firm performance. Naidoo (2010) also uses firm survival as a performance that can be achieved by the company. The context experienced by Naidoo's research and this research is similar to the environmental conditions. Naidoo uses firm survival in crisis conditions and this research uses firm survival for turbulent conditions. In the turbulence conditions, survive is also a great achievement.

**Indicators:**

- **Survive1:** My firm will survive the current economic crisis.
- **Survive2:** My firm possesses the ability to withstand the challenges of the current economic crisis.
- **Survive3:** My firm is in a good position to address the slow down in business activity currently being experienced as a result of the economic crisis.
- **Survive4:** Sales volume have decreased in the last three months as a result of the economic crisis but sales will rebound back to pre-crisis level.

*Entrepreneurial orientation.* This research use instruments introduced by Covin and Slevin (1989). Covin and Slevin refers to the three-dimensional concept of EO presented by Miller’s (1983) those are innovation, proactive and risk taking.

**Indicators:**
In general the top managers of my business unit favor . . .

A strong emphasis on the marketing of tried and tested products or services 
A strong emphasis on R&D technological true products or services innovations

How many new lines of products or services has your business unit marketed during the past three years?

- No new lines of products or services 
- Changes in product or service lines have been mostly of a minor nature

Innovativeness

In dealing with its competitors my business unit . . .

- Typically responds to actions which competitors initiate
- Typically seeks to avoid competitive clashes preferring a live-and-let-live posture

Proactiveness

In general top managers of my business unit have . . .

- A strong proclivity for low-risk projects (with low returns)
- A strong proclivity for high-risk projects (with normal and certain rates of return) high returns

Risk Taking

In general the top managers of my business unit believe that . . .

- Owing to the nature of the environment it is bold best to explore it gradually via cautious acts are necessary to achieve incremental behavior

Absorptive capacity. There are two instruments that catch our attention, First instrument presented by Jansen et al.’s (2005) where he is refers to the four-dimensional concept from ACAP which presented by Zahra dan George (2002). Those are acquisition, assimilation, transformation, and exploitation. But Jansen’s Instrument et al.’s measure ACAP based on R&D (Research & Development) conducted by the company. As for the café business in Jakarta, we are not sure whether to carry out R&D in their business. Therefore, this research use the second instrument introduced by Lane et al. (2006). Lane et al. using a non-R&D (Research and Development) approach in measure ACAP. To determine which instrument will be used, this research conducting an offline survey with 15 management team or cafés owner, hopefully it can help.

Indicators:

Acquisition
• AC1: Our unit has frequent interactions with corporate headquarters to acquire new knowledge.
• AC2: Employees of our unit regularly visit other branches.
• AC3: We collect industry information through informal means (e.g., lunch with industry friends, talks with trade partners).
• AC4: Other divisions of our company are hardly visited.
• AC5: Our unit periodically organizes special meetings with customers or third parties to acquire new knowledge.

Assimilation

• AS1: We are slow to recognize shifts in our market (e.g., competition, regulation, demography).
• AS2: New opportunities to serve our clients are quickly understood.
• AS3: We quickly analyze and interpret changing market demands.

Transformation

• TR1: Our unit regularly considers the consequences of changing market demands in terms of new products and services.
• TR2: Employees record and store newly acquired knowledge for future reference.
• TR3: Our unit quickly recognizes the usefulness of new external knowledge to existing knowledge.
• TR4: Employees hardly share practical experiences.
• TR5: We laboriously grasp the opportunities for our unit from new external knowledge.
• TR5: Our unit periodically meets to discuss consequences of market trends and new product development.

Exploitation

• EX1: It is clearly known how activities within our unit should be performed.
• EX2: Our unit has a clear division of roles and responsibilities.
• EX3: We constantly consider how to better exploit knowledge.
• EX4: Our unit has difficulty implementing new products and services.
• EX5: Employees have a common language regarding our products and services.

Market turbulence. This research use instruments introduced by Jaworski and Kohli’s (1993). Indicators:

• MT1: In our kind of business, customers’ product preferences change quite a bit overtime.
• MT2: Our customers tend to look for new products all the time.
• MT3: Sometimes our customers are very price-sensitive, but on other occasions, price is relatively unimportant.
• MT4: We are witnessing demand for our products and services from customers who never bought them before.
• MT5: New customers tend to have product-related needs that are different from those of our existing customers.

Organizational energy. This research use instruments introduced by Cole et al. (2012). Cole et al. (2012) refers to the three-dimensional concept of organizational energy those are
emotion, cognitive and behavior the organization member.

Indicators:

- OE1: Members don't know where the organization is going to. Members don't know anything about the organizational goals for example.
- OE2: This certainly has an influence on member’s motivation to look for new knowledge.
- OE3: Members are more concerned now about keeping their job than searching for new knowledge to improve their work.
- OE4: The speed of action is not important for the members.
- OE5: Members are exciting to lookout for opportunities.

Discussion

This research has not been tested empirically but has been tested conceptually by developing previous research. Our study provides useful information that could inform SMEs like cafés in Jakarta that in turbulent situation, organizational energy is needed to increases the absorptive capacity which positively moderates the relationship between EO and firm performance. The management team or café’s owner can realize that building positive energy in their work environment can make a positive contribution to their business. Even though we are engaged in a field that prioritizes the taste the quality of food and beverage, it is also important to have an absorptive capacity. This capacity makes their café different from other cafes. It is important too for build an entrepreneurial orientation in their business. By having these 3 components, hopefully could make their business can survive in any situation.

There are several obstacles in this study. First, we don’t know exactly how many cafés in Jakarta. The second obstacle is that many cafes in Jakarta do not have a website, so it is difficult for us to find out the business background that aims to get a sense of their business. The third obstacle is that we will do more offline surveys because there is no data regarding the contact person of the café owner or management. This offline survey will take a lot of time. The final obstacle, perhaps in this study, it is necessary to add control variables that can make the model more useful.

To overcome existing limitations, we are planning to go directly to the field to see what cafes and take samples using the stratified random sampling method. After we get the list of the sample, we share about our purpose of the research and asked them to be our respondents.

References

Ciabusci, Francesco (2020). Supporting innovation against the threat of antibiotic resistance: Exploring the impact of public incentives on firm performance and