

The Effect of Entrepreneurial Orientation on the Firm Performance through Strategic Flexibility: A Study on the SMEs Cluster in Malang

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Received: March 1, 2013 Accepted: April 16, 2013 Published: July 1, 2013

doi:10.5296/jmr.v5i3.3339

URL: <http://dx.doi.org/10.5296/jmr.v5i3.3339>

Abstract

In the globalization era, the competition faced by all companies can not be avoided, as happened to small businesses in the city of Malang. Globalization will lead to the environment becomes increasingly complex and changing. To cope with the ever-changing environment changes, so SMEs need to increase the EO to improve firm performance. The

purpose of this study was to determine the effect of EO on the firm performance. The population in this study are the owners or managers of SMEs cluster in Malang. Quantitative approaches were used to data collection from 140 SMEs cluster and data was analyzed by using AMOS 16. The results indicate that the significance of the direct effect of EO on firm performance is reduced when the indirect effect of EO through strategic flexibility is included in a total effect model. Consequently, EO is positively related to firm performance, and strategic flexibility plays a mediating role in this relationship.

Keywords: Entrepreneurial Orientation, SMEs, Organizational Performance

1. Introduction

Many nations, particularly developing countries, have recognized the value of small and medium-sized enterprises (SMEs). SMEs play a role in enhancing a country's economic growth (Kilby, 1983; Venesaar and Loomets 2006; Jeswal, 2012). The characteristics of a dynamic, innovative and efficient SMEs, able to deal with the dynamics of the SMEs environment so that it is able to survive in a difficult situation (Miller, 1983). Therefore, realize the importance of the existence of SMEs in boosting a country's economic growth, then it should be the focus of attention of the entrepreneurship field for the Government.

In Indonesia, the role of SMEs in improving the economy of the country has been widely studied by several researchers, such as Partomo (2004); Tambunan (2005, 2008); Winarningsih (2006). Nevertheless, the magnitude of the potential possessed by SMEs was not offset by the ability of the owner to manage the effort. As a result, the growth of a SMEs under the SMEs will be followed by others. We suspect that the limitations of the resources owned by a factor causing SMEs do not capable of demonstrating innovative behavior, proactive and willing to take risks. Simply put, we can state that the lack of ability of SMEs entrepreneurial orientation in pointing out the critical factor that determines the development effort.

Entrepreneurial orientation (EO) of a firm is defined as firm that involves in technological innovation, undertakes risky ventures, and pursue opportunities proactively (Miller, 1983). EO refers to the processes, practices, and decision-making activities that lead to new entry (Lumpkin and Dess, 1996). EO is the degree of the phenomenon of companies that demonstrate a process, practice and decision-making activities that will lead the company to become a leader in the newly entered the business (Kroegeer, 2007). From the behavioral perspective, Covin and Slevin (1989) shows the conceptual model of EO based on entrepreneurial activity, include innovative, proactive and risk taking. Business oriented organizations will enhance the EO behavior in the form innovative, willing to take risks and always trying to produce new products through proactive behavior in order to capture market opportuniy (Covin and Slevin, 1991; Wiklund and Sheperd, 2005). Based on the above explanation, we can describe that a firm should consistently be innovative, be proactive and be taking risks in order to be labeled as “*entrepreneurial*”.

Previous studies showed that the direct effect between EO gives rise to consequences on the firm performance (Covin and Slevin, 1989; Smart and Conant, 1994; Lumpkin and Dess, 1996; Wiklund, 1999; Lee and Peterson, 2000; Nelson and Coulthard, 2005; Loss and Coulthard, 2006; Naldi, *et al.*, 2007; Kaya, 2009; Hui Li, *et al.*, 2009). Although the results of the study have been found and the resulting findings are quite significant, the relationship between EO and company performance can not be seen in the simple perspective. Authors such as Covin and Slevin (1991), Zahra (1991) referred to the lack of systematic empirical evidence in causal relationships between EO and performance. Environmental factors, including the complexity and dynamics, are going to play a role in determining the relationship between EO and company performance (Zahra, 1995; Lumpkin and Dess, 1996; Wiklund and Sheperd, 2005; Nelson and Coulthard, 2005). Therefore, the extent to which the

company's ability in dealing with dynamics and complexity of the environment is an important issue in determining the positive relationship between EO and performance.

Based on that issue, more researches are needed to test mediated effect EO – performance rather than direct relationship, and provide more accurate explanations of performance outcomes. Some authors argue that the complexity and dynamics of the environment can be faced with managing the company flexibly (i.e., Sanchez, 1995; Volberda, 1996; Shimizu and Hitt, 2004; Kroeger, 2007). By flexibility we mean the ability of the firm to exploit changes in the environment and turn them into opportunities that lead to sustained favourable market positions (Gjerding, 1999). Consequently, flexibility implies that the firm must explore new opportunities in order to adapt to or prepare for new events, but succeeds commercially only to the extent that it is able to exploit these new opportunities (Lumpkin dan Dess, 1996; Low dan MacMillan, 1988). Therefore, flexibility will be able to encourage corporations to behave proactive and innovative in an effort to improve performance (Lewin and Massini, 2003, see Knight, 2004).

In organizational context, the relationship between entrepreneurial orientation and performance had several levels of strategy. Flexible organization will be able to generate and implement strategies that can adapt to the environment. Therefore, strategic flexibility will greatly assist the company in the face of environmental changes. On the other hand, entrepreneurship characterized as an organization that is flexible (Miller, 1983). The statement indicated that smaller organizations are more flexible, allowing them to quickly change and take advantage of new opportunities appearing in the environment (Rauch et al, 2009). That explanation describe that the relationship between EO and firm performance can be mediated by the strategic flexibility. This was confirmed by a statement from Yu (2012) that strategic flexibility refers to a firm ability to adapt to environmental changes through continuous changes. Furthermore, focuses on strategic flexibility resource flexibility and coordination organization flexibility, which integrate key inner organization factors that influence the relationship between EO and firm performance.

The paper will proceed as follows. We begin with a brief discussion of literature related to EO and three types of dimension that mentioned previously. We develop testable hypotheses related to the impact of EO on the firm performance. Furthermore, we describe our data collection and analysis procedures, followed by the presentation of empirical results. The findings from our empirical study illustrate the importance of EO on the firm performance. We conclude the manuscript with a discussion of the research and practical implications of our study, as well as a brief discussion of limitations of the current study and direction for future research.

2. Theory and Hypotheses

2.1 Entrepreneurial Orientation and Performance

Basically, the concept of entrepreneurship is not a new field in business ventures. It's just that, some of the authors had previously always use different terms in the explain conception of entrepreneurship. For example, Mintzberg (1978) wrote about entrepreneurial firms, referring

to them as “entrepreneurial organizations” in the case of former. Miller and Freisen (1982) describes 'entrepreneurial' firms may try to obtain a competitive advantage by routinely making dramatic innovations and taking the concomitant risks. Miller (1983) describes the company entrepreneurship as “one who is involved in product innovation, market-driven business, do a little risky, and it first came up with the proactive innovation, as well as provide punch to beat competitors”.

EO involves a willingness to innovate, take risks and be more proactive than competitors toward new marketplace opportunities (Covin dan Slevin, 1991; Lumpkin dan Dess, 1996; Wiklund, 1999; Wiklund dan Sheperd, 2005). This conceptual argument put forth by Miller (1983) has received empirical support in the literature. The innovativeness dimension of EO reflects a tendency to engage in and support new ideas, novelty, experimentation, and creative processes (Lumpkin and Dess, 1996). Proactiveness refers to how firms relate to market opportunities by seizing initiative in the marketplace; competitive aggressiveness refers to how firms react to competitive trends and demands that already exist in the marketplace (Lumpkin and Dess, 2001). That statement describe that proactive related with seek an opportunity, forward-looking perspective involving the introduction of new products or services ahead of the competition. Risk taking means a tendency to take bold actions such as venturing into unknown new markets and willingness to commit more resources to projects where the cost of failure may be high (Lumpkin and Dess, 2001). It also implies committing resources to projects where the outcomes are unknown. It largely reflects that the company is willing to break away from the tried-and-true and venture into the unknown (Wiklund and Sheperd, 2005).

Nevertheless, Lumpkin and Dess (1996) posited that not all of the dimensions of EO would directly or positively affect business performance under different circumstances. In addition, some researchers use performance measurement as a subjective (Keh, et al., 2007; Hui Li, et al., 2009; Frank, et al., 2010) and objective (Wiklund, 1999; Wiklund and Sheperd, 2005; Ferreira and Azevedo; 2007). We use EO conception as described by Miller (1983); Covin and Slevin (1989); Wiklund (1999) includes an innovative, proactive and take risks. While performance measurement was conducted subjectively. Based on the previous arguments and other supporting ones, the following hypothesis is to be empirically tested.

H1. EO is positively related to firm performance

2.2 Entrepreneurial Orientation, Strategic Flexibility And Performance

Some researches argue that the relationship between EO and firm performance may be more complex (Lumpkin and Dess, 2001; Wiklund and Sheperd, 2005). Environmental dynamics cause these factors play an important role in assessing the impact of EO on the firm performance (Miller, 1983). Literature studies describe that environmental dynamics may be faced with the creation of a flexible organization (Aaker and Mascarenhas, 1984; Volberda, 1996; Hitt, et al, 1998; Barringer dan Bluedorn, 1999). In line with the study of literature, some authors, (such as, Gerwin, 1993; Shrivastava, 1995) stated that the company will face the dynamics of the environment through the application of the strategic flexibility. Many organizations have found that it is almost impossible to address these competitive forces

without some major internal and external structural adjustments that provide greater strategic flexibility (Ybarra, et al., 1999). Strategic flexibility is necessary when the organization faces unfamiliar changes that have far-reaching consequences and needs to respond quickly (Volberda, 1996).

Strategic flexibility is a multidimensional concept (Suarez, et al., 1991; Volberda, 1996). Some authors have different perspectives in explaining the strategic flexibility. Shimizu and Hitt (2004) developed the conception of the strategic flexibility based on organizational capabilities to the face of environmental changes. Three types of organizational capabilities include; maintaining attention, completing an assessment, and taking action. Maintaining attention refers the firm sensitivity will provide feedback about market conditions, particularly the negative feedback (Shimizu and Hitt, 2004; pp. 2). Furthermore, sensitivity that is owned by the company will be able to give their response to the conditions encountered. Hitt et al (1998) argues that increased attention from the company will have an impact on the development of organisasi. Kalleberg (2001) state that a great deal of attention of organization designed to provide employees with skills, incentives, information and decision making responsibility that will be improve business performance and facilitate innovation.

Completing an assessment refers justification of the decisions taken and assess the mistakes that have been made so as to obtain results which are less satisfying. This assessment is usually related to mistakes in taking decisions on a company's external conditions (such as, economic conditions or events which could not be controlled). Thus, the dimensions of assessment with regard to the extent of the level of risk (Shimizu and Hitt, 2004) which may be accepted by the company as well as steps that can be done to show proactive behavior (Zhang and Sharifi, 2000, see Bernardes and Hanna, 2009) in minimizing the risks accepted. Taking action refers The decision was taken to maintain the commitment or change a weak performance to be superior. This dimension is particularly important because of the uncertainty of the environment will relate to the achievement of the performance in the future. Therefore, the uncertainty of the environment showed the gap between the information received by the company that acquired the potential outcomes.

Overall, the empirical studies previously indicated that strategic flexibility can mediate the relationship between EO and the firm performance (such, Li, et al., 2011; Yu, 2012). With mediated by oleh resource dan coordination flexibility, Li, et al. (2011) found that EO effect on speed of strategic change. In this study, speed of strategic change is used as a measurement of the firm performance. Rundh (2011) explained that bahwa entrepreneurial values support the development of new activities within the firm and the renewal of on going business activities that have become stagnant or in need of progress (p. 332). To develop the activity, the role of strategic flexibility is very important. While, Yu (2012) found that the relationship between EO and firm performance can be mediated by the strategic flexibility.

Based on the previous arguments and other supporting ones, the following hypothesis is to be empirically tested.

H2. EO is positively related to firm performance through strategic flexibility

2.3 Strategic Flexibility And Performance

Strategic Flexibility refers to a firm's ability to act or respond quickly to changing competitive conditions by adjusting its objectives to develop and maintain competitive advantage (Hitt et al., 1998). Shimizu and Hitt (2004) refer to strategic flexibility as a kind of organizational capability, which includes identifying changes and uncertainties, quickly committing resources to new projects in response to changes, and acting timely to halt or reverse existing resource commitments.

With a different perspective, Sanchez (1995) show that strategic flexibility enhances firm performance. In this study, the dimensions used to measure strategic flexibility are resource flexibility dan coordination flexibility. Studies conducted by Gerwin (1993) shows that some dimensions of flexibility inherent in the organization will affect the determination of the strategy so as to have an impact on performance. Morgan and Strong (2003, p. 167) stated that *"Only by engendering a flexible spirit of creativity and traditional rule breaking can riskiness provide the firm with potential improvements in business performance"*. Empirically, Nadkarni and Hermann (2010) indicating that conscientiousness, emotional stability, agreeableness, agreeableness squared, extraversion and openness to experience is dimension of strategic flexibility that affect the performance of the company.

Based on the previous arguments and other supporting ones, the following hypothesis is to be empirically tested.

H3. Strategic flexibility is positively related to firm performance

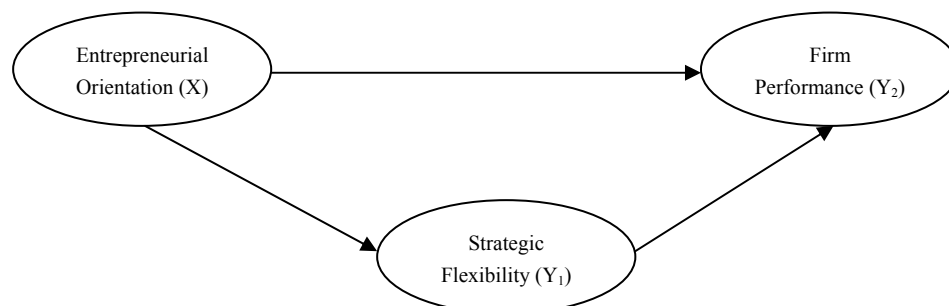


Figure 1. Conceptual Framework

3. Research Metodology

3.1 Sample and Data collection

To test three hypotheses posed, we surveyed SMEs cluster in Malang. Considerations used in the selection of the object of research are they have a dynamic market environment and competitive, so that it is suitable for testing the models that we submitted. In order to exceed competitors and was able to maintain a position of competition, SMEs must constantly change strategies that can be tailored to the capabilities and quick in following the market environment changes.

This study using data on SMEs cluster which listed in dept. of industry in Malang. A number 1078 SMEs and five cluster can we earn. Furthermore, in order to obtain the data in accordance with the research objectives, the criteria of SMEs that are used are:

1. SMEs who registered or have a business license and can be identified by the Department of industry in Malang
2. SMEs that have potential as one of the leading products in Malang.

Based on that considerations, we obtain one food processing cluster with a total of 213 SMEs. Based on that data, we use a Slovin formula to determine the sample research.

$$n = \frac{N}{1 + Ne^2}$$

Where;

n = sample size

N = population

e = 0,05, the percentage of allowances inaccuracy (precision) due to sampling errors can still be in tolelir

From the above formula, we obtain a total sample of 140 SMEs. We employed a questionnaire survey approach to collect data, and all items required five-point Likert-style responses ranged from 1=“strongly disagree,” through 3=“neutral,” to 5=“strongly agree.” After gathering the questionnaires, the obtained data were used to calculate kronbach alpha by using the statistical analysis software (SPSS). Alpha Cronbach used to calculate research instrument on EO, strategic flexibility and firm performance.

3.2 Measurement Variable

3.2.1 Entrepreneurial Orientation

An overview of previous studies (e.g., Miller, 1983; Covin and Slevin, 1991), EO measured by three-dimensional; innovativeness, proactiveness and risk-taking. Innovativeness refers the ability to support creativity and experimentation in introducing products/services, novelty and the use of technology in developing a new process. Proactiveness refers on the efforts of the company for a linking between the market opportunity with the resource that is owned in a bid to seize market share. While, risk-taking refers a tendency to take actions that are at risk, such as reaching for an unknown market, optimizing resources on an uncertain conditions as well as looking for a loan with a large refund. Innovativeness refers to a willingness to support creativity and experimentation in introducing new products/services, and novelty, technological leadership and R&D in developing new processes. Risk-taking means a tendency to take bold actions such as venturing into unknown new markets, committing a large portion of resources to ventures with uncertain outcomes, and/or borrowing heavily. Proactiveness refers to how firms relate to market opportunities by seizing initiative in the marketplace.

3.2.2 Strategic Flexibility

Strategy flexibility measured by the conception of development based on Shimizu and Hitt (2004), include; maintaining attention, completing an assessment, and taking action. Maintaining attention refers the firm sensitivity will provide feedback about market conditions, particularly the negative feedback. Completing an assessment refers justification of the decisions taken and assess the mistakes that have been made so as to obtain results which are less satisfying. Taking action refers The decision was taken to maintain the commitment or change a weak performance to be superior.

3.2.3 Firm Performance

To measure the firm performance, the study is based on a framework as described by Narver and Slater (1994), include; sales growth, return on investments, and the profit level relative to their main competitor. Respondents are requested to provide an assessment of each item of question on a scale of 5.

3.3 Data Analysis

To investigate the relationship between EO dimensions and the performance on SMEs cluster, we used statistical tools for this study. Path analyses were used to identify which dimensions of EO influence the performance through strategic flexibility on SMEs cluster. AMOS 16.0 was used for analysis.

3.4 Validity and Reliability

To test the research instrument, we will see the value of reliability and validity of each variable as the unit of analysis. Table 1 summarizes all measurement items, Alpha Cronbach, composite reliability, and their scales for all the items.

Table 1. Measurement items Validity and Reliability

VARIABEL	ITEMS	VALIDITY			RELIABILITY
		Corrected Item Total Correlation	Sig.	Cut off Value	Alpha Cronbach
Entrepreneurial Orientation (X ₁)	1	.519	0,000	0,30	.883
	2	.566	0,000	0,30	
	3	.682	0,000	0,30	
	4	.572	0,000	0,30	
	5	.609	0,000	0,30	
	6	.602	0,000	0,30	
	7	.495	0,000	0,30	
	8	.564	0,000	0,30	
	9	.644	0,000	0,30	
	10	.582	0,000	0,30	
	11	.583	0,000	0,30	
	12	.571	0,000	0,30	
	13	.489	0,000	0,30	
Strategic Flexibility (Y ₁)	14	.603	0,000	0,30	.871
	15	.692	0,000	0,30	
	16	.600	0,000	0,30	
	17	.730	0,000	0,30	
	18	.763	0,000	0,30	
	19	.668	0,000	0,30	
Firm Performance (Y ₂)	20	.740	0,000	0,30	.829
	21	.733	0,000	0,30	
	22	.694	0,000	0,30	
	23	.684	0,000	0,30	
	24	.453	0,000	0,30	
	25	.327	0,000	0,30	

Interpretation of the validity coefficient is considered valid when $p > 0.30$ so that the items in

question are considered to be valid, and vice versa. Meanwhile reliability of the multi-item scale for each dimension was measured using Cronbach alpha and composite reliabilities measures. Table 1 reports that Corrected Item Total Correlation values greater than 0.3 with $p < 0.1$. This indicates that the item in question is valid. In addition, Table 1 also report that the reliability of the EO, strategic flexibility and firm performance scale using Cronbach's coefficient alpha (Ferdinand, 2006). The overall coefficient alpha for the scale is greater than the value of 0.7 as suggested by Ferdinand (2006).

4. Analysis and Results

Before testing the hypothesis, the first is seen whether the path model has fulfilled *goodness-of-fit*. To that end, several components would be seen such as chi-square, goodness-of-fit index (GFI), the adjusted goodness-of-fit index (AGFI), the comparative fit index (CFI), the root mean square residual (RMSEA) and Tucker Lewis Index (TLI). By using AMOS, obtained results that the value of chi-square of 35,173 (df=24; profitability level=0,66). In addition to this chi-square value, the various goodness-of-fit indices also suggested a very good fit (GFI=0.952, AGFI=0.911, CFI=0.929, RMSEA=0.058; TLI=0,894). Furthermore, with a fit model thus the path diagram can be shown. This model can be described as follows:

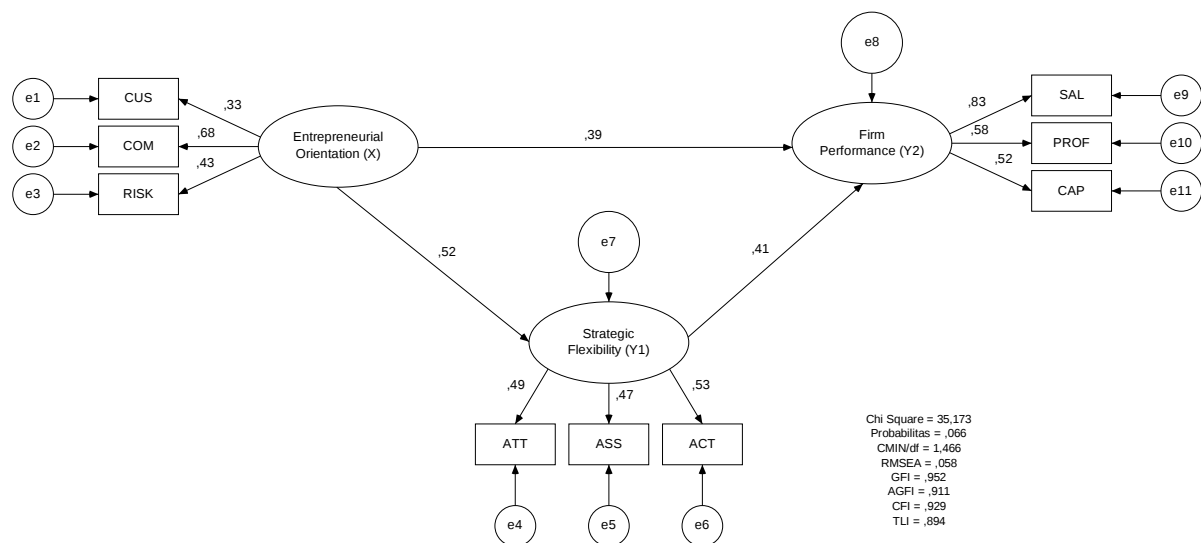


Figure 2. The Result of This Study

To test the hypothesis posed, we use AMOS 16. Calculating parameter estimates and standard errors that can be used to test statistical significance, AMOS also analyzes hypothesized relationships. As hypothesized, there is a positive relationship between EO and firm performance ($\rho_{Y_2X}=0,39$). Therefore, H1 is supported. Results uphold the proposition that the two concepts are indeed related and, therefore, support the conclusions, which postulate that EO is important to enhance firm performance. A positive relationship between EO and firm performance through strategic flexibility is established ($\rho_{XY_1Y_2}=0,623$). Therefore, H2

is supported. As predicted, there is a significantly positive relationship between strategic flexibility and firm performance ($\rho Y_1 Y_2 = 0.41$). Therefore, H3 is supported. The finding may add to the understanding that strategic flexibility is indeed necessary and may be linked to a firm performance.

Table 2. Path Coefficient

	Path		Direct Effect	Indirect Effect	Result
EO (X)	→	Firm Performance	0.387	-	Supported
Strategic Flexibility	→	Firm Performance	0.414	-	Supported
EO (X)	→	Strategic Flexibility			
		Firm Performance	0.520	0,623	Supported

This study will prove the influence of EO on firm performance through the strategic flexibility. Thus, the strategic flexibility has a role as a mediating variable from that relationship. An empirical study with mediator must propose that (1) the independent variable significantly influence the mediating variable, (2) the independent variable significantly influence the dependent variable without the mediator, and (3) the inclusion of the mediator attenuates the relationships between the independent and the dependent variables while showing a significant relationship between the mediator and the dependent variable (Baron and Kenny, 1986, see. Hui li, et al, 2009). The independent variable was EO, and the proposed mediating variable was strategic flexibility. The dependent variable was firm performance.

In the third condition, the relationship between EO and firm performance through strategic flexibility is positive and significant ($\rho Y_2 Y_1 X = 0,623$). To test the third condition, we consider the magnitude of the path coefficients of a direct connection between EO and the firm performance before and after the inclusion of variables mediating, strategic flexibility. Previously has shown that the path coefficients of a direct connection between EO and the firm performance amounted to 0.39. On one side, the path coefficients from the relationship between EO and firm performance through strategic flexibility amounted to 0,623. From the description it can be stated that an indirect relationship between the EO and the firm performance is greater than the directly relationship. In other words, the significance of direct connection between EO and the firm performance will be reduced when the company implemented the strategic flexibility. These results indicate that the role of strategic flexibility in linking between the EO and the firm performance very important.

5. Discussion and Conclusion

This study developed a conceptual model that describes the role of mediation of strategic flexibility in conjunction between the EO and the firm performance. The results showed that EO is related positively to significantly and positively to the performance of the company. Empirically, this finding supports previous studies that EO is related positively and significantly with the firm performance (e.g., Lumpkin and Dess, 2001; Wiklund and Sheperd,

2005; Coulthard, 2007; Hui Li, et al., 2009; Liu et al., 2009; Frank, et al., 2010; Huang, et al., 2011; Rundh, 2011) that EO associated positively with the firm performance. Nevertheless, when we incorporate strategic flexibility as a mediation variable, the positive relationship between EO and the firm performance will be weakened. This suggests that the role of strategic flexibility as a mediation variable able to provide great benefits for improved firm performance. These findings supported previous studies (e.g., Li, et al., 2011; Yu, 2012) that strategic flexibility will be mediate the relationship between EO and a firm performance.

Our findings provide theoretical contributions as follows. First, when the relationship between EO and the firm performance is considered to be the important thing, the findings of this study found consistent results. Thus, these findings confirm the framework of relations between the EO and the firm performance as developed by Lumpkin and Dess (1996); Covin and Slevin (1991). By incorporating strategic flexibility as mediation variables will ease in understanding how the impact of EO against the firm performance. Second, these findings develop the conception of entrepreneurship with respect to EO as a part of strategic management perspective. In the study literature, EO developed from the contingency perspective (Lumpkin and Dess, 1996) can be combined with the theory of capabilities (Shimizu and Hitt, 2004) from the perspective of strategic management. These findings also indicate that the impact of strategic flexibility as a mediation can be enhanced through an understanding of EO in achieving the firm performance. This condition is not surprising, because of the strategic flexibility will encourage the firm to able to deal with the environmental dynamics (Shrivastava, 1995; Sanchez, 1995; Volberda, 1996; Hitt, et al., 1998; Shimizu dan Hitt, 2004; Matthyssen, et al., 2005). Furthermore, firm with the high strategic flexibility will be able to demonstrate organizational behavior that can be applied to the less common conditions so that fit with the environmental changes (Gjerding, 1999). In mediate of EO, strategic flexibility will take the firm to decide a flexible decisions so that they have a difference in showed an innovative behaviour, proactive and bolder in taking risk (Combe dan Greenley, 2004; Rundh, 2011).

Furthermore, the consideration of strategic flexibility makes a related support of the capability theory. Based on capability theory, a firm must have the ability to interact with the environment (Aaker dan Mascarenhas, 1984; Hitt, et al., 1998; Shimizu dan Hitt, 2004). It implies that the ability of companies to boost innovative behavior, proactive and bold in taking risks so that those activities had differences with other companies. Such differences will have an impact on performance improvements so that competitive advantage can be achieved. Finally, this study contributes to integrate the domains of EO and strategic management research. Entrepreneurship literature (e.g. Covin and Slevin, 1991; Lumpkin and Dess, 1996) suggests that EO of the ventures became a critical success because EO represents an important means to discover and exploit profitable business opportunities. On one hand, the strategic management theory (e.g., Aaker and Mascarenhas, 1984; Barringer and Bluedorn, 1999) show a hierarchy process starts with planning up to decision making in to create opportunities and achieve excellence. The argument was consistent with statements from some of the authors (e.g. Hitt and Ireland, 2000; Venkataraman and Sarasvathy, 2001, see. Hitt, et al, 2001) that *“While the fields of strategic management and entrepreneurship*

have developed largely independently of each other, they both are focused on how firms adapt to environmental change and exploit opportunities created by uncertainties and discontinuities in the creation of wealth". By this study, we showed that the strategy planning process must be shown flexibly as a key element in improving the understanding of the EO development, thus the implementation will have an impact on the achievement of the firm performance.

Based on practical contributions, our study found that the manager should have realized the importance of strategic flexibility in relation of EO and firm performance. Managers can improve its ability to demonstrate innovative behavior, proactive and bold in taking risks. In addition, the understanding of managers about the existence of competitors also should be a concern for managers. To that end, the proactive behavior becomes a major concern for companies in an effort to improve performance. This was confirmed by the statements of Lumpkin and Dess (1996) that proactive dimension has greater dominance compared to other dimensions.

The results of the study have been found and can be expressed has confirmed some of the previous findings. However, these studies have limitations and can be used as a basis for future research. Some limitations in this study are; First, the study only focused on SMEs in the region of Malang Indonesia. Therefore, to get the results more widely, further research could develop a research location in some areas. Second, this study departs from another study that describes a potential mediator of the relationship between EO and the firm performance. We do not consider the role of other variables that determining the relationship between EO and the performance of the company. In an entrepreneurship perspective, the firm orientation will be looks at how a owned business perspective by a managers or owner. If the manager or owner is changed or changes, EO and firm performance may be influenced. The future research may be developed by including other variables that are potentially as mediation from the relationship between EO and the firm performance, such as a cultural factor. Third, the samples on this research only focuse on SMEs. There is a different characteristics and complexity between SMEs and a large-scale firm. On the future research, this limitation can be developed by the use of firm with a larger scale. Fourth, performance measurement is done subjectively. The use of subjectivity in measuring the firm performance potentially caused bias in the measurement. In the subsequent research, performance measurement can be done objectively.

In summary, EO is critical for enhancing firm performance. Our study highlights the crucial importance of the mediating role of strategic flexibility when examining the relationship between EO and firm performance. The viewpoints proposed in this study have important implication for ventures in today's dynamic and competitive environment.

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