

# The Roles Of Entrepreneurial Characteristics On Business Strategies And Performance Of Female Entrepreneurs

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## ABSTRACT

*This study aimed to consider the effect of entrepreneurial characteristics on business strategy and business performance of female entrepreneurs. This also investigated the indirect impact of entrepreneurial characteristics on female entrepreneurs' business performance through the mediator of business strategy. In this study, the populations were all female entrepreneurs in Surabaya. Fifty respondents as samples were taken with non-probability sampling. They were determined to meet the particular criteria of research purposes. Then, this research data were collected through questionnaires and interviews. Furthermore, the data were analyzed using Partial Least Square (PLS) as the equation model of Structural Equation Modeling (SEM) which was based on components or variants. As the results, this study indicated that entrepreneurial characteristics affected female entrepreneurs' business strategy and business performance. While business strategy affected female entrepreneurs' business performance. However, business strategy did not mediate the effect of entrepreneurial characteristics on the female entrepreneurs' business performance.*

*Keywords: Entrepreneurial characteristics, business strategy, business performance, female entrepreneurs*

## Introduction

The movements of medium-small scaled enterprises have been currently dominated by male entrepreneurs. Historically, business actors were males since trading and business have been generally controlled by men (Casson et al., 2006). In the past, women were rarely involved in business, except for small trades in the traditional market. The World Bank (2011) found that the involvement of women for productive business activities were lessened rather than men in most of countries worldwide. However, the increasing technology has led women to contribute their roles in developing UMKM (Small-Medium Scaled Enterprises). Nowadays, women have taken their position as equal as men to run a business without leaving their natural roles as wives and housewives.

In Surabaya, female entrepreneurs are acknowledged as *wanita pahlawan ekonomi* (female heroes for economics). Indonesian women are barely as wives and housewives, but the government is able to empower them as economical heroes. In other words, the government leads the woman as female entrepreneur who are perceived to be successful business women. They are required to be more attentive in exploring business creativities, capital management, time management, human's energy, natural resources, product application and production. Then, their business can be successful and accessible to compete against global competition. Accordingly, some studies found that the success of small-scaled enterprises were due to various factors. The successful business performance can be influenced by the owner's behaviour (Zoysa and Herath, 2007, Kotey and Meredith, 1997; Olson and Currie, 1992). The success can also affected from business strategy (Li et al, 2005, Dess et al, 1997). Therefore, this study intended to know the effect of entrepreneur characteristics on business strategy and entrepreneurial business performance.

## Literature Review

### Entrepreneurial Characteristics

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The characteristics of entrepreneurs can be viewed from physical or personal traits. A characteristic of which a businessman contributes to success is the result of achieving motivation. While, the personal characteristics include desire for free, locus of control, creativity, risk-taking tendency (Rauch & Frese, 2005), and accomplishment needs (Rauch & Frese, 2005). Industrial, managerial, and entrepreneurial experiences along with other external factors positively affect business owners' or managers' success in running business (Davidsson, 1991). In particular, Hashim, Wifa, and Suliman (1999) argued that entrepreneurial characteristic of the owner or manager is in relation to a company's success. O'regan et al (2006) empirically proved that ownership is a key factor in overall business performance. Otherwise, Attahir (1995) assumed that the successful performance of a small business is determined by individual factor and environmental factor. A person may apply entrepreneurial characteristics, such as self-esteem, task orientation and outcome, risk-taking, leadership, originality, and future orientation. Only those who have entrepreneurial characteristics are able to act the entrepreneurship in their work (Meredith et al., 2000). In brief, high entrepreneurial characteristics positively affect the success of a business (Ardichvili et al., 2003).

### **Business Strategy**

Strategy is defined as the unified, broad, and integrated plans that relate a company's strategic superiority and environmental challenges. It is designed to ensure that the company's main objectives can be achieved through appropriate implementation within the organization. Referring to Strickland (in Winardi, 2004), organizational strategies involve business actions and approaches that are implemented by management in order to achieve a pre-defined organizational performance. However, McCarthy (2003) states that strategy is viewed less formal in small companies since the owners or managers are the key decision makers. Schindehutte and Morris (2001) prove that small companies usually have no written statements of business strategies. Theirs are concluded from the owner's or manager's behavior development patterns and the available resource allocation (Boohene, et al. 2008). The strategy implementation of small businesses obviously reflect to the individual purposes and desires of owners or managers who originally have personal values. The options to consider particular business strategies can be based on the owners' personal goals, wishes, and individual characters (Kotey & Meredith 1997; Olson & Currie, 1992 in Boohene, et al. 2008). Moreover, personal values that relate to proactive strategies are often referred to as entrepreneurial characteristics, including creativity, risk-taking, innovation, performance-oriented, mmbition, and independence (Hodgetts & Kuratko, 2001; Kickul & Gundry, 2002 in Boohene, et al. 2008). In contrast, the conservative strategies that refer to reactive types compromise values of equality, compassion, social protection and compassion (Kotey, 1994 in Boohene, et al. 2008).

### **Business Performance**

Business performance is a concept to measure the market achievement of a product. Each company generally concerns to know the market attainment of its products as the mirror of its success within business competition. Voss and Voss (2000) define business performance as efforts to fulfil a particular level of accomplishment, including the number of sales, number of subscribers, profit and sales growth. The simpler and more practical concept is conveyed by Ferdinand (2002) that good marketing performance involves three major measurements, such as: customer growth, sales growth, and market share that overall address to business profits. Moreover, Vanessa (2008) argues that the success of female home-based entrepreneurs is based on quality relationships with consumers, personal satisfaction, self-fulfillment satisfaction, ability to balance, and responsibilities between work and family. Within small-scaled businesses, the managers including the owners, employers, and investors operate their company as well as take various decisions independently (Suryana, 2001). They should have adequate abilities to formulate and implement effective strategies that can influence the survival or failure of small businesses (Boohene et. al, 2008). Thus, a company's performance is primarily determined with the strategies that are adopted by the managers (Covin, et al., 1990 in Boohene, et al. 2008). Literatures about strategy plans and business performance

indicate the different degrees of companies' performance. The companies which have invested time proactively to develop good strategies tend to demonstrate their higher level of business performance rather than those which provide less proactive on environment in developing business strategies.

### Conceptual Framework

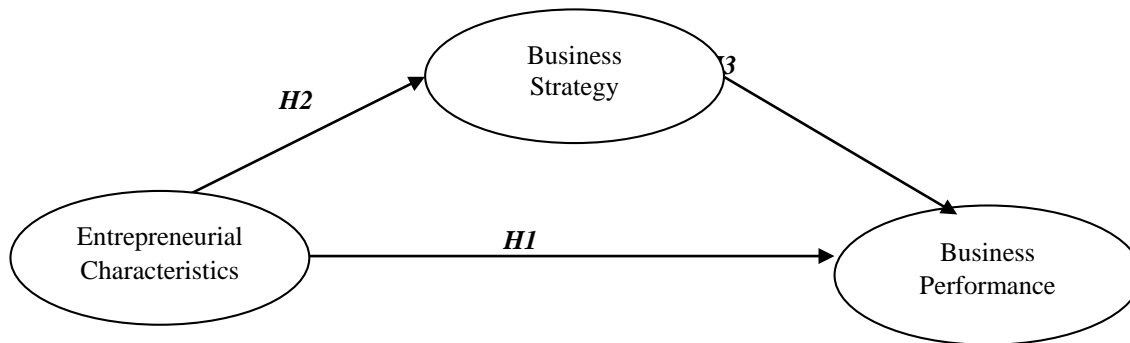


Figure 1: Conceptual Framework

### Methodology

This research applied survey method. The research data involved primary and secondary data. The primary data was collected by distributing questionnaires to get detailed information and problems being researched. The population of this study were female entrepreneurs of SMEs in Surabaya. The number of samples were 50 respondents who were taken with non-probability sampling that provided different opportunities for each respondent and with purposive sampling technique that were taken with specified criteria. The samples were addressed to Small-Medium Enterprises (SMEs) that had an individual owned business with at least three employees and possessed legal or illegal entity. The SMEs had run for more than three years so their business performance could be indicated having particular degree of performance, business statuses, employees growth, and profit levels.

### Research Variables

In this study, the first variable is entrepreneurial characteristic. This is the value that is inherited on SMES. Its indicators refer to the concept of Meredith et al. (2000), including confidence, task-orientation and results, risk-taking, leadership, originality, and future orientation.

The second variable is business strategy. This is the ability of a business owner or an entrepreneur in analyzing external and internal environments within a company, strategy formulation, implementation of business plans to achieve the objectives of a company as well as to conduct evaluation to obtain feedback in formulating further strategies. The indicators follow the concept of Boohene et.al (2008), i.e. planning strategies, financial strategies, human resource strategies, operational strategies, and marketing strategies.

The last variable is business performance. This refers to female entrepreneurs in the level of achievement within a certain period of time. The indicators refer to the framework of Ozer and Tinaztepe (2014), including the growth of customers, ability to dominate the market, ability to develop products, customer satisfaction, and company profits.

### **Analysis Technique**

In this study, data were analyzed using Partial Least Square (PLS). This technique refers to Structural equation Modeling (SEM), the equation models that are based on components or variants. According to Ghozali (2005), the goal of PLS is to assist researchers for prediction. Its formal model addresses latent variable as the linear aggregate of its indicators. The Weight estimation is to create score component on the latent variables that are gained from inner and outer models. While the indirect impact was tested using Sobel test.

### **Results**

In this study, analysis of data applied Structural Equation Modelling (SEM) with Smart PLS (Partial Least Square) software. In the PLS Path Modeling, there are 2 models, including outer model and inner model.

### **Evaluation of Outer Model**

Convergent validity of a measurement model with reflexive indicator can be identified from the correlation between score of item/indicator with constructed score. Individual indicators are considered reliable if the correlation values are above 0.7. Nevertheless, the scale development phase, loading 0.50 to 0.60 is still acceptable (Ghozali, 2002:40). The results of correlation between indicators and their constructs can be concluded that the variable dimensions of entrepreneurial characteristics, business strategy, and business performance are considered valid as a measuring instrument since each value convergent validity is above 0.5. Moreover, the construction of estimated model has been considered as discriminant validity when the value of AVE of each construction is greater than the correlation value between constructions. The AVE value that equals or above 0.50 indicates a good convergent. As the test results, this study found that the AVE value of entrepreneurial characteristic variable (X) was 0.529; the business strategy variable (Z) was 0.558; and the business performance (Y) was 0.525. Obviously, the indicators of each construct converged with other items in one measurement at the critical limit of 0.5. While, the test results of composite reliability indicated that the value of the entrepreneurial characteristic variable (X) was 0.870; the value of business strategy variable (Z) was 0.862; and the business performance variable (Y) was 0.844. Furthermore, this study then concluded that the overall constructions that were examined had met the criteria of composite reliability so that each construct was able positioned as research variables. In turn, this indicated that composites of entire variables had an adequate internal consistency in measuring the latent variables that could be used for further analyses.

### **Evaluation of Inner Model**

Inner models are often named as inner relation, structural model, and substantive theory that specify relationships between research variables (structural models). Testing inner model evaluates the relationships between latent constructions that were hypothesized in the study.

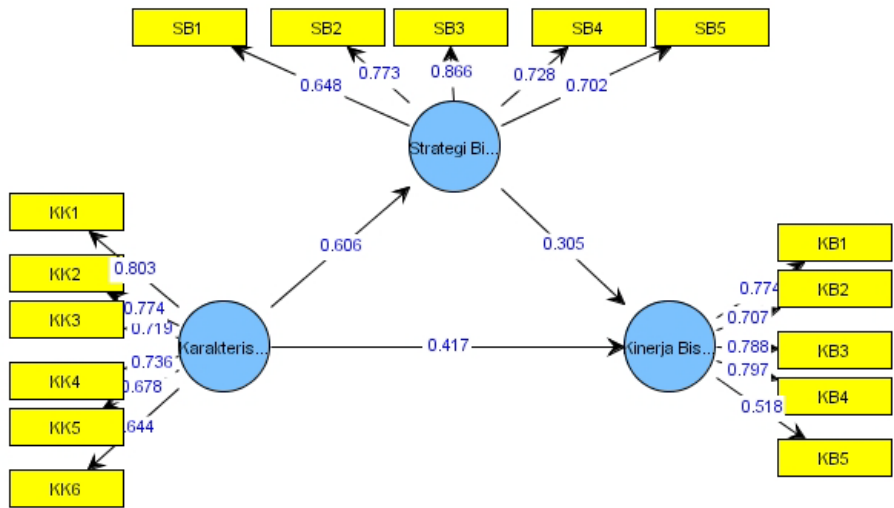


Figure 2. Model of PLS Research

Referring to the figure above, the value of inner weight demonstrated that the business strategy (Z) was influenced by the entrepreneurial characteristics (X). Otherwise, the business performance (Y) was influenced with the entrepreneurial characteristic (X) as well as the business strategy (Z) as proposed in the hypothesis testing.

**Structural Model Testing (Inner Model)**

Assessing a model with PLS is started by looking at R-Square for each dependent latent variable. The changes of R-Square value can be used to assess the effect of particular independent latent variables on the dependent latent variables that have substantive impact. Then, the endogenous latent variables of structural model with R2 yield of 0.67 was indicated as "good" model, R2 of 0.33 as the "moderate" model, R2 of 0.19 as "weak" model (Ghozali, 2009). The output PLS is described below:

Table 1. R-Square Value

|                                    | R-square |
|------------------------------------|----------|
| <b>Entrepreneur Characteristic</b> |          |
| <b>Business Strategy</b>           | 0.368    |
| <b>Business Performance</b>        | 0.421    |

Source: data primer diolah tahun 2018

The latent variable of characteristic of entrepreneur (X) that affected the business strategy variable (Z) in the structural model had a R2 value of 0.368. This indicated that the model was "moderate". The latent variables of characteristics of entrepreneurs and business strategies that affected the business performance variable in the structural model had a value of R2 of 0.421. This indicated that the model was also "moderate". Moreover, the conformity of structural models can be seen from Q2 below:

$$Q^2 = 1 - [(1 - R_1^2) (1 - R_2^2)]$$

$$\begin{aligned}
 &= 1 - [(1 - 0.368) (1 - 0.421)] \\
 &= 1 - [(0.865) (0.823)] \\
 &= 1 - [(0.711)] \\
 &= 0,289
 \end{aligned}$$

The Q2 result was 0289, so the value Q2 above zero was indicated as predictive relevance.

**Hypothesis Testing**

**Table 2. Construction Table**

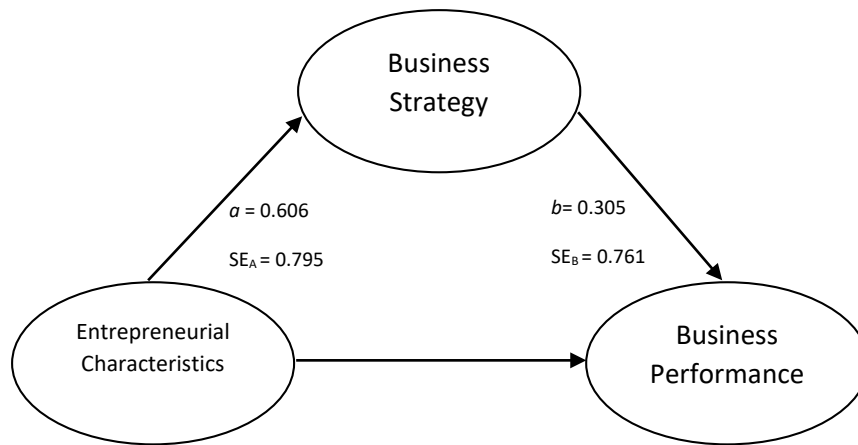
|   | Original sample estimation | Mean of subsamples | Standard deviation | t-Statistic |
|---|----------------------------|--------------------|--------------------|-------------|
| <b>Entrepreneurial Characteristics -&gt; Business Strategy</b>    | 0.606                      | 0.631              | 0.067              | 9.072       |
| <b>Entrepreneurial Characteristics -&gt; Business Performance</b> | 0.417                      | 0.456              | 0.138              | 3.031       |
| <b>Business Strategy -&gt; Business Performance</b>               | 0.305                      | 0.303              | 0.113              | 2.700       |

Source: Primary Data, Processed in 2018

In this study, the hypothesis test evidenced four results:

1. The entrepreneurial characteristics (X) had a positive effect on business performance (Y) because the T-statistical value was 9, 072 that was indicated greater than 1.96. Therefore, the hypothesis result of H1 that entrepreneurial characteristics influenced business strategy was accepted.
2. The entrepreneurial characteristics (X) had a positive effect on business performance (Z) because the T-statistical value was resulted 3,031. This was greater than 1.96. Thus, the hypothesis result of H2 that entrepreneurial characteristics affected business performance was declared acceptable.
3. The business strategy (Z) had a positive effect on business performance (Y) because the T-statistical value was 2.700 that was meant greater than 1.96. Therefore, the result of H3 hypothesis that the business strategy affected business performance was accepted.
4. The indirect influence can acknowledged with Sobel test. This is to test whether the relationships between variables of mediation are significantly proficient to be a mediator within the connections.

| Path         | b      |       | SE     |       |
|--------------|--------|-------|--------|-------|
|              | Z<-- X | Y<--Z | Z<-- X | Y<--Z |
| Y <-- Z <--X | 0.606  | 0.305 | 0.795  | 0.761 |



$$Z = \frac{ab}{\sqrt{(b^2 SE_a^2) + (a^2 SE_b^2)}}$$

$$z = \frac{0.606 \times 0.305}{\sqrt{(0.305^2 \times 0.795^2) + (0.606^2 \times 0.761^2)}}$$

$$z = \frac{0.185}{\sqrt{(0.059) + (0.213)}}$$

$$z = \frac{0.185}{\sqrt{0.271}}$$

$$z = \frac{0.185}{0.521}$$

$$Z = 0.355$$

The value of T was 0.355 < 1.96 indicating that the mediation parameter was not significant. Thus, the model of indirect effect of entrepreneurial characteristic on the business performance of female SMEs through business strategy was not accepted.

## **Discussion**

### **Effect of Entrepreneurial Characteristics on Business Performance of Female SMEs**

In this study, the first hypothesis test showed that there was an effect of entrepreneurial characteristics on female entrepreneurs' performance for about 0.417. This result proved that the entrepreneurs' characteristics directly influenced their business performance. Although the influence of entrepreneurial characteristics was not great, but it could be determined as the primary capital in doing a business, particularly with business competition. Instead, the business women's characters could be formed to plan their future business. Meanwhile, the stronger entrepreneurial characteristic of SME's owners also had an impact on business performance. The characteristics of entrepreneurship were identified as the traits of small and medium business owners, including: confident, task-oriented and outcome, risk-taking, leadership, originality, and future-oriented characters. This study argues when the female entrepreneurs have confidence, so their business will highly succeed. It is necessary to run the business with an effort to develop product innovation. Indeed, the female entrepreneurs realized that the current business world had challenges; therefore, they needed to bring about an idea authenticity as well as to manage their business compassionately to achieve higher level of business performance. Such findings reinforce previous researches by Zoysa and Herath (2007), Lee and Tsang (2001), Street and Cameron (2007), Blackman (2003), Nimalathasan (2008), and Solichin (2005) of which all argue that the owner or manager is essentially the key factor in business performance.

### **Effect of Entrepreneurial Characteristics on Business Strategy of Female SMEs**

In the second hypothesis, the test indicated that there was an effect of entrepreneurial characteristics on business strategy for about 0.606. This result proved that entrepreneurial characteristics directly influenced business strategy. The female entrepreneurs had a strong belief that their executed business would have a good performance. The impact of good entrepreneurship characteristic lead for coherent business objectives to preserve customers. Then, the female entrepreneurs are able to improve their products quality as the market demands. Moreover, a marketing strategy of SMEs is generated to win a competition within target market. A competition can be won if an enterprise is able to create competitive strategies that address for competitive advantage (Porter, 1991). Competitive strategies involve combination of business objectives that include policies as a medium to achieve business goals as well as to maintain a profitable position within an industry as the place of competition. In brief, electing appropriate strategies may derive from two factors, i.e. industrial attraction that provides long-term profit rates and relative positioning within an industry.

### **Effect of Business Strategy on Business Performance**

The hypothesis testing result presented that business strategies influenced business performance in the value of 0.303. This result indicated that business women intended to look for market opportunities by choosing a strategy that suited with their business objectives. Otherwise, SMEs businesses were not declared publicly and apparently. This study argued that the existing SME owners run their business with a flowing strategy that aimed to increase profits, growth of customer numbers, market control, capability on products development, and consumer satisfaction.

### **Indirect Effect of Entrepreneurial Characteristics on Business Performance through Business Strategy**

The Sobel test results indicated that indirect effect of entrepreneurial characteristics on business performance through a business strategy was not accepted because of T statistical < t table. This result showed that the business strategy was incapable in processing entrepreneurial characteristics and business performance of female entrepreneurs in Surabaya. In this study, the business purposes of female entrepreneurs were identified unclear so that their business strategies simply followed the market



environment. As the argumentation of McCarthy (2003), business strategies of SMEs are mostly informal and generated by the owners as the decision makers. Instead, Schindehutte and Morris (2001) explain that a small enterprise usually has no written statements on business strategies. Their strategies are inferred from the development patterns of owners' behavior and resources. In summary, this study found that small companies usually have no written strategies, but theirs are maintained from the entrepreneurs' behavior and resources (Boohene, et al. 2008).

## Conclusion

The study resulted three proposed hypotheses that were all accepted. First, the characteristic of entrepreneurs affected business strategy. Second, the characteristic of entrepreneurs affected business performance. Third, the business strategies affected the performance of female entrepreneurs. However, the business strategy was incapable to be the mediator to influence the characteristics of entrepreneurs on business performance. The results identified that entrepreneur's characters influenced the selection of women's business strategies even though the strategies were never written clearly. The business women simply run a business for only earning income and profit.

This study had several limitations that might affect interpretation of study findings. First, the samples of this study were limited to micro and small businesses located in one city. Second, this study applied only three variables being investigated. The future research is perceived to expand the coverage areas into many cities so that the research results can be generalized into larger population. The findings of this study also indicate that three variables only predict 30 percent of variances in performance. Therefore, the future studies should investigate the effects of uncertain factors to add comprehensive results gained from this study.

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