Analysis of Religiosity and MSME’s Performance: the Mediating Role of Entrepreneurial Orientation

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Abstract
This study aims to examine the impact of religiosity on MSME’s performance using a quantitative method. Primary data were collected by distributing questionnaires to the MSME’s owners and managers. Employing purposive sampling technique, a total of 300 respondents were recruited. SMART PLS SEM 3.0 approach was implemented to analyze the data. One result show that there is a positive and significant relationship between entrepreneurial orientation and MSME’s performance. Another result is that there is a positive and significant correlation between religiosity on entrepreneurial orientation, but there is a positive and insignificant correlation between religiosity on MSME’s performance. The interesting finding in this study is that entrepreneurial orientation mediates the relationship between religiosity on MSME’s performance.

Keywords: entrepreneurial orientation; MSME’s enterprises; religiosity.

Analisa Religiusitas dan Kinerja UMKM di Provinsi DKI Jakarta: Peran Orientasi Kewirausahaan sebagai Pemediasi

Abstrak
Tujuan dari kajian ini adalah untuk melihat pengaruh antara religiusitas terhadap kinerja UMKM. Kajian ini menggunakan metode kuantitatif. Studi ini menggunakan sumber data primer dengan kuesioner. Teknik sampling yang digunakan dalam kajian ini adalah menggunakan purposive sampling dengan menggunakan angket tertutup. Jumlah sampel adalah 300. Analisa statistik menggunakan smart PLS 3.0. Hasil penelitian menunjukkan bahwa terdapat hubungan yang positif dan signifikan antara orientasi kewirausahaan terhadap kinerja umkm, serta terdapat hubungan yang positif dan signifikan antara religiositas terhadap orientasi kewirausahaan, tetapi tidak terdapat hubungan yang positif dan tidak signifikan antara religiositas terhadap kinerja umkm dan menariknya dalam kajian ini adalah orientasi kewirausahaan memediasi secara positif dan signifikan hubungan antara religiusitas terhadap kinerja UMKM.

JEL Classification:
INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one of the main pillars of the national economy. Based on the data released by the Ministry of KUKM in 2020, the number of MSMEs reached 64.2 million with a contribution to GDP as much as 61.07 percent or IDR 8,573.89 trillion. MSMEs also contribute to absorbing 97 percent of Indonesia's total workforce and have an investment portion of 60.4 percent (Putra, 2021).

Although MSMEs outstandingly contributes to the economic growth, its endowment to GDP has slightly declined due to the outbreak of Coronavirus Disease (COVID-19), which was declared by the World Health Organization (WHO) as a simultaneous pandemic in all countries on March 11, 2020. Consequently, there were about 54,810 businesses (93.63 percent) in DKI Jakarta that got affected by the pandemic. Some of them had to change their type of business, and stopped running their business for a while.

Only a small proportion of MSMEs have been able to survive and seize opportunities during the pandemic, such as the pharmaceutical, medicinal and traditional medicine businesses, and the chemical and chemical goods businesses (BPS, 2020). Thus, the performance of MSMEs declined. Performance is defined as a company’s success due to the achievement of organizational goals (Jones et al., 2016). Desiyanti & Kassim (2020) on the other hand, argue that business performance is the way or method used by the company in achieving its goals or the result of individual and company work under certain conditions.

Furthermore, MSME’s performance actually has long been known as having a low performance (Ali et al., 2020) due to product similarity between the MSME’s and low innovation (Auvillea, 2022). Entrepreneurial orientation is an important factor for performance as it is an important foregoing to entrepreneurial success (Rauch et al., 2009), which is the ultimate goal of entrepreneurship (Bernoster et al., 2020), as many studies have acknowledged that there is a positive and significant relationship between entrepreneurial orientation on performance (Gupta & Wales, 2017; Al Makmun & Fazal, 2018; Alvarez-Torres et al., 2019; Basco et al., 2019; Prabu, 2019; Susanto et al., 2021). This means that the entrepreneurial orientation is an important aspect for MSME’s performance. Isichei (2018) also said that there are still limited studies regarding the effect of entrepreneurial orientation on performance through infrastructure capability. Bernoster et al. (2020) also argues that although the literature on the impact in the field of entrepreneurship (i.e., the extent to which an individual subjectively experiences feelings and emotions) is increasing rapidly, the impact has not received sufficient attention to entrepreneurial success-entrepreneurial orientation. Consequently, the bias has taken place.

Religiosity is also another issue that the owners or managers of MSME’s should know about, because studies on religiosity are still limited (Eid & Gohary, 2015). Therefore, this study is undertaken with the aim of addressing this gap; and thus, this paper has contributions because, firstly, we discuss the relationship between religiosity and MSME’s performance and secondly, we discuss the mediating role of entrepreneurial orientation and its impacts on the relationship between religiosity and MSME’s performance.

Hypothesis Development
The Relationship between Entrepreneurial Orientation and MSME’s Performance

Presutti & Odorici (2018) found that entrepreneurial experience can reinforce
the impact of entrepreneurial and market orientation on firms’ performance growth. Whereas, Fadda (2018) says that innovativeness, proactiveness and autonomy were significantly associated with tourism firm performance but not risk-taking and competitiveness. On the other hand, numerous scholars have found that there is a positive and significant effect between entrepreneurial orientation and performance (Gupta & Wales, 2017; Abu-Rumman et al., 2019; Prabu, 2019; Fang et al., 2021; Susanto et al., 2021). Thus, in this study the researchers propose the following hypothesis:

H1: Entrepreneurial orientation has a positive and significant effect on the performance of MSMEs.

The Relationship between Religiosity and Entrepreneurial Orientation

On the other hand, religiosity refers to religious commitment, which is related to religion or faith and which can be seen through the activities or behavior of individuals concerned with the religion or faith adhered to. Religiosity is living the depth of belief that is expressed by performing daily worship, praying, and reading holy books (Desiyanti & Kasim, 2020). Religious orientation was evident as a context moderator within which relations of trust and ethno-religious compatibility.

Pearce et al. (2010) also found that an entrepreneurial orientation in religious congregations is found to be positively associated with organizational performance. Correa et al. (2017), on the other hand, shows that churches and pastors exhibit characteristically entrepreneurial behavior (innovation, proactivity, competitive aggressiveness, risk-taking, autonomy). Thus, the researchers propose the following hypothesis:

H2: Religiosity has a positive and significant effect on the Entrepreneurial orientation.

The Relationship between Religiosity and the performance of MSMEs.

Pearce et al. (2010) also reported that an entrepreneurial orientation in religious congregations is found to be positively associated with organizational performance. However, Seifendi (2023) argues that religiosity did not affect the performance of SMEs. It strengthened the relationship between entrepreneurial orientation, market orientation, and the performance of SMEs. Tehrani (2023) said that based on the structural model outcomes, the practicing religious believers are reported a significantly higher level of corporate SEO and propensity for social proactiveness, innovativeness, risk-taking, socialness and persistence (dimensions of SEO) than the nonpracticing believers. Therefore, the researcher proposes the following hypothesis:

H3: Religiosity has a positive and significant effect on MSME’s Performance.

Mediating Role of Entrepreneurial Orientation

Husti & Maryani (2019) found a mediation effect (using Sobel test) of competitive advantage and innovation in the relationship between Islam leadership and the performance of SMEs: SME in Riau. Whereas, Liu et al. (2018) argues that entrepreneurial risk-taking (it is one of the dimensions on entrepreneurial orientation) mediates the relationship between Buddhist entrepreneurs and new venture performance. They found that risk-taking can mediate as much as 50% of the effects of Buddhism on new venture performance. Thus, the researcher proposes the following hypothesis:

H4: Entrepreneurial orientation mediates positive and significant effect between religiosity on MSME’s Performance.
METHOD

The research employed a quantitative methodology, collecting primary data through distributed questionnaires among MSME owners and managers. The study focused on this specific demographic as its population. Utilizing purposive sampling, a total of 300 respondents participated. The analysis was conducted using the Smart PLS SEM 3.0 application. Data were gathered through a survey utilizing closed-ended questionnaires with a 5-point Likert scale.

RESULTS AND DISCUSSION

In hypothesis testing within this study, the Smart-PLS 3 application was utilized for data analysis. The results were presented through both a measurement and a structural model. The measurement model’s assessment included tests for convergent validity and Average Variance Extracted (AVE). Convergent validity was evaluated through the loading factor of each indicator in the construct. Generally, a loading factor exceeding 0.6, preferably above 0.7, is considered indicative of strong validity. Moreover, the AVE, ideally above 0.5, was examined, aligning with guidelines from Hair et al. (2022) and Solihin & Ratmono (2021).

In addition, to test the reliability, both a Cronbach’s alpha and a composite reliability were utilized, with the rule of thumb must be greater than 0.7 for each construct. After that, the discriminant validity for the correlation between constructs was also tested (Solihin & Ratmono, 2021).

The analysis of the measurement model demonstrates the validity of all indicators within this study, meeting the minimum loading factor criterion (> 0.60) and surpassing the AVE threshold (> 0.5), thus affirming convergent validity. Furthermore, both Cronbach’s alpha and composite reliability values exceeding 0.7 signify the reliability of all constructs involved in this study, aligning with the standards outlined by Solihin & Ratmono (2021).

Validity dan Reliability Test

Table 1. Loading Factor

<table>
<thead>
<tr>
<th>Indicator</th>
<th>K2</th>
<th>K3</th>
<th>K4</th>
<th>K5</th>
<th>K6</th>
<th>K7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entreprenu</td>
<td>0.755</td>
<td>0.851</td>
<td>0.876</td>
<td>0.878</td>
<td>0.880</td>
<td>0.770</td>
</tr>
<tr>
<td>MSME’s Pe</td>
<td>OK1</td>
<td>0.823</td>
<td>OK2</td>
<td>0.873</td>
<td>OK4</td>
<td>0.849</td>
</tr>
<tr>
<td>rformance</td>
<td>OK5</td>
<td>0.845</td>
<td>OK6</td>
<td>0.767</td>
<td>R1</td>
<td>0.770</td>
</tr>
<tr>
<td>Religiosi</td>
<td>R10</td>
<td>0.819</td>
<td>R2</td>
<td>0.797</td>
<td>R3</td>
<td>0.821</td>
</tr>
<tr>
<td>ty</td>
<td>R4</td>
<td>0.790</td>
<td>R5</td>
<td>0.813</td>
<td>R6</td>
<td>0.904</td>
</tr>
</tbody>
</table>

Source: Proceed (2023)

Table 2. Construct Reliability and Validity

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Cronbach’s Alpha</th>
<th>rho_A</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation</td>
<td>0.889</td>
<td>0.891</td>
<td>0.918</td>
<td>0.693</td>
</tr>
<tr>
<td>MSME’s Performance_Religiosity</td>
<td>0.914</td>
<td>0.929</td>
<td>0.933</td>
<td>0.700</td>
</tr>
<tr>
<td>Religiosity</td>
<td>0.922</td>
<td>0.982</td>
<td>0.933</td>
<td>0.668</td>
</tr>
</tbody>
</table>

Source: Proceed (2023)
In terms of the discriminant validity, the Fornell Larckler criterion for the discriminant validity was utilized as shown in Table 3. It shows that the AVE square root value is higher than the correlation value. Thus, it can be concluded that the estimated model is valid because it has met the criteria of the discriminant validity.

**Structural Model**

Table 4 illustrates the outcomes of hypothesis testing for direct relationships. Hypothesis testing results 1 indicates a positive and significant impact of entrepreneurial orientation on MSMEs’ performance, with a coefficient of 0.386 and a p-value of 0.000. The corresponding statistic of 7.013 surpasses the critical t-table value, validating the acceptance of the first hypothesis. In Hypothesis 2, the findings reveal a positive and significant impact of religiosity on entrepreneurial orientation, displaying a coefficient of 0.150 with a p-value of 0.015. The statistic of 2.437 exceeds the t-table value, leading to the acceptance of the second hypothesis.

In Hypothesis 3, the results indicate a positive but statistically insignificant effect of religiosity on MSMEs’ performance, displaying a coefficient of 0.077 with a p-value of 0.298. The statistic of 1.041 falls below the t-table value, leading to the rejection of the third hypothesis.

Table 5 shows the indirect relationship-specifically, the mediating role of entrepreneurial orientation. The H4 test

### Table 3. Discriminant Validity

<table>
<thead>
<tr>
<th></th>
<th>Entrepreneurial Orientation</th>
<th>MSME’s Performance_</th>
<th>Religiosity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Orientation</td>
<td>0.832</td>
<td>0.398</td>
<td>0.150</td>
</tr>
<tr>
<td>MSME’s Performance_</td>
<td>0.837</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Religiosity</td>
<td>0.135</td>
<td>0.817</td>
<td></td>
</tr>
</tbody>
</table>

Source: Proceed (2023)

### Table 4. Hypothesis (Direct Effect)

| Relationship                      | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|-----------------------------------|---------------------|-----------------|----------------------------|-----------------|----------|
| Entrepreneurial Orientation -> MSME’s Performance_ | 0.386               | 0.393           | 0.055                      | 7.013           | 0.000    |
| Religiosity -> Entrepreneurial Orientation | 0.150               | 0.177           | 0.062                      | 2.437           | 0.015    |
| Religiosity -> MSME’s Performance_ | 0.077               | 0.079           | 0.074                      | 1.041           | 0.298    |

Source: Proceed (2023)

### Table 5. Indirect Effect

| Relationship                      | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|-----------------------------------|---------------------|-----------------|----------------------------|-----------------|----------|
| Religiosity -> Entrepreneurial Orientation -> MSME’s Performance_ | 0.058               | 0.070           | 0.026                      | 2.207           | 0.027    |

Source: Proceed (2023)
reveals a t-statistic value of 2.207 for the indirect effect of religiosity on MSMEs’ performance, mediated by entrepreneurial orientation. This value surpasses the critical t-table threshold of 1.96. Thus, confirming entrepreneurial orientation as a mediating factor in the influence of religiosity on MSMEs’ performance, the H4 hypothesis is accepted.

Discussion

The findings from testing hypothesis 1 align with previous studies conducted by Gupta & Wales (2017), Abu-Rumman et al. (2019), Prabu (2019), Fang et al. (2021) Susanto et al. (2021) reinforcing the significance of entrepreneurial orientation in enhancing MSMEs’ performance. This underscores the crucial link between the quality of entrepreneurial orientation and the resultant performance of MSMEs. In essence, improved entrepreneurial strategies lead to better MSME performance, and vice versa.

Regarding Hypothesis 2, the correlation between religiosity and entrepreneurial orientation corroborates the work of Correa et al. (2017), highlighting that religious institutions and figures often exhibit entrepreneurial behaviors such as innovation, proactivity, competitive aggressiveness, risk-taking, and autonomy. Additionally, Pearce et al. (2010) also supports this by demonstrating a positive association between entrepreneurial orientation within religious congregations and organizational performance.

In the context of Hypothesis 3, while the influence of religiosity on MSMEs’ performance might be statistically insignificant, Sefnedi (2023) argues that religiosity strengthens the relationship between entrepreneurial orientation, market orientation, and SMEs’ performance. Elias et al. (2018) similarly find that religious leadership significantly impacts the performance of MSMEs in specific market segments, emphasizing the importance of religiosity in augmenting MSMEs’ performance.

Testing hypothesis 1 shows that entrepreneurial orientation has a positive and significant influence on the MSME’s performance. This finding is in line with previous study done by (Gupta & Wales, 2017; Abu-Rumman et al., 2019; Prabu, 2019; Fang et al., 2021; Susanto et al., 2021). This reveals that entrepreneurial orientation is important in improving the MSME’S performance. This means that the better the entrepreneurial orientati-
on conducted by MSMEs, the better the MSME’s performance or vice versa. Testing hypothesis 2 shows that the religiosity has a positive and significant effect on the entrepreneurial orientation. This finding is in line with the study conducted by Correa et al. (2017), who shows from their work that churches, pastors exhibit characteristic entrepreneurial behavior (innovation, proactivity, competitive aggressiveness, risk-taking, autonomy). Pearce et al. (2010) also reported that an entrepreneurial orientation in religious congregations is found to be positively associated with organizational performance. Testing hypothesis 3 shows that the religiosity has a positive and insignificant effect on the MSME’s performance. This is in line with the study of Sefnedi (2023) who argues that religiosity did not affect the performance of SMEs. However, it strengthened the relationship between entrepreneurial orientation, market orientation, and the performance of SMEs. Elias et al. (2018), also found that religious leadership has a significant effect on the performance of MSMEs in certain market segments. This means that religiosity is essential for MSME’S performance. The rise in religiosity effects the MSME’S performance to rise as well. Testing hypothesis 4 shows that entrepreneurial orientation mediates positive and significant on effect of religiosity on the MSME’s performance.

CONCLUSION AND RECOMMENDATION

All discussion of research results above conclude that entrepreneurial orientation has a positive and significant effect on the MSMEs performance. MSMEs tend to achieve higher levels of performance as their entrepreneurial orientation increases. Conversely, as the level of entrepreneurial orientation decreases, the performance level of MSMEs also decreases. Interestingly, there is a correlati- on between religiosity on entrepreneurial orientation. This suggests that stronger religious beliefs among MSME owners or managers may positively influence their entrepreneurial orientation. Furthermore, entrepreneurial orientation mediates the influence between religiosity and the performance of MSMEs. This shows that entrepreneurial orientation is able to strengthen the influence of religiosity on the performance of MSMEs. This study offers a significant contribution to the recent literature by empirically analyzing the link between religiosity and MSME’s performance, the mediating role of entrepreneurial orientation.

Furthermore, this study also has several limitations. Firstly, the literature on Islamic marketing or specifically regarding religion is still quite limited, so it is quite difficult to develop a more detailed explanation on this topic. Secondly, given that this study was conducted solely in DKI Jakarta, future research with a broader geographic scope encompassing multiple provinces would likely yield more comprehensive and insightful results. Then, the managerial implication of this study could be that the owners or managers of MSMEs in the tourism sector have confidence in practicing religion better so that they can run their business according to good religious teachings.

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