

ENTREPRENEURSHIP ORIENTATION AND BUSINESS PERFORMANCE: DO BUSINESS STRATEGY AND GOVERNMENT POLICY MATTER?

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Abstract:

Background: Entrepreneurial-oriented business actors are better able to innovate and create products or services that align with market needs. It helps them stay relevant and competitive. Entrepreneurial orientation is closely related to the competitiveness of companies and the acquisition of competitive advantages. Thus, entrepreneurial orientation is critical to the sustainability of MSMEs and contributes to overall economic growth.

Purpose: This research investigates the influence of entrepreneurial organizations on the performance of halal food-based Micro, Small, and Medium Enterprises (MSMEs) in developing countries. This study further explains business strategy as a mediating role and government policy as a moderator in the relationship between entrepreneurial orientation and business performance.

Design/methodology/approach: This research uses hierarchical regression techniques using cross-sectional data collected from March to April 2024 from 180 MSMEs based on the halal food sector in Malang City, Indonesia. This study relies on resource-based theory, which provides a theoretical lens to test the hypothesized relationships between EO, business strategy, government policy, and halal food business performance.

Findings/Result: The findings show that business strategy and government policy are essential in the relationship between entrepreneurial organizations and business performance. Namely, EOs of halal food businesses can improve business performance both directly and indirectly through their business strategies. Government policies can also increase EO's influence on their business performance.

Conclusion: This study has practical implications for management and policymakers. Regarding its practical implications for management, research shows that government policies strengthen the influence of EO on business performance. Therefore, halal food entrepreneurs can take advantage of the institutional environment, such as government policies, programs and norms, and societal norms, to develop and strategically improve their business performance.

Originality/value (State of the art): This study emphasizes the importance of long-term growth over short-term profits for MSMEs. The capacity for long-term development is considered necessary for MSMEs, and this study reveals the impact of entrepreneurial orientation on MSME growth and performance both directly and through business strategies with strengthening from government support.

Keywords: entrepreneurial orientation, business performance, business strategy, government policy

How to Cite:

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INTRODUCTION

Research on Micro, Small, and Medium Enterprises (MSMEs) is growing due to their critical role in the global economy. Indonesia's MSMEs contribute significantly to GDP, job creation, and poverty reduction. The food and beverage industry, a leading manufacturing sector (Deku, Wang, and Das, 2023), has a high potential for MSME development (Sumadi, Jumintono, and Ardiani 2020). With a majority Muslim population, Indonesia has excellent business potential for MSMEs, particularly those with halal certification (Giyanti and Indriastiningsih, 2019). The halal industry in Indonesia is rapidly growing (Artadita and Lestari, 2019), with young Muslim consumers influencing the business world (Muhammad et al. 2020). However, challenges such as limited funding, skills gaps, inadequate infrastructure, regulatory complexity, and market competition hinder the full potential of MSMEs, highlighting the need for sustainable growth (Aisyah et al. 2024).

The issue of business performance has attracted world researchers in the last three years (Meitriana et al. 2021). However, studies on the performance of MSMEs in developing countries still need to be more extensive regarding their scope and focus. Moreover, research that focuses on business performance at the MSME level is still lacking (Chege and Wang, 2020). Halal status in SME products can be a competitive advantage for Indonesia in the international market. As a country with a majority Muslim population, the issue of halal is a crucial issue for the global market (Aisyah et al. 2024). Even recent companies are operating in a chaotic business environment where they must continually overcome new challenges to compete and survive (Garrido-Moreno, Martín-Rojas, and García-Morales, 2024).

Resource-based theory is a research concept developed by economic experts worldwide to help companies gain a competitive advantage (Barney and Clark, 2007). It focuses on the ownership of critical resources with unique qualities, such as values and obstacles, and their optimal management to achieve superior quality (Dasuki, 2021). This theory explains why companies use unique, rare, non-exemplary, and well-structured resources to achieve exceptional performance. The relationship between resources and strategy in business is crucial, with qualifications and effective utilization of resources determining strategy development and

performance achievement. The theory was first discovered by Edith Penrose and is used to understand the strengths and abilities of a company's workforce (Foss, 1998). The objective part of resource theory explains the strengths and abilities of the workforce, helping companies succeed in developing different ways (Bontis, Janošević, and Dženopoljac, 2015).

Entrepreneurial orientation is crucial in shaping business performance (Wahyuni & Sara, 2020; Putniņš & Sauka, 2020), particularly in MSMEs. It encompasses innovation, proactivity, and risk elements, influencing sales, profit, and asset growth (Rachmawati, Suliyanto, and Suroso, 2022). Research suggests entrepreneurial orientation catalyzes exceptional performance and sets MSMEs apart (Arzubiaga et al. 2018). However, it can also negatively impact goal orientation, hindering the organization's ability to pursue new opportunities and develop innovative solutions (Lumpkin and Dess, 1996).

Despite the recognized importance of entrepreneurial orientation in enhancing business performance, research focusing on its impact within the halal food SMEs sector in Indonesia remains limited. Furthermore, the role of business strategy as a mediator and government policy as a moderator in this relationship has not been comprehensively examined. Given the strategic importance of the halal industry for Indonesia's economic growth and its potential in the international market, understanding these dynamics is critical. The study is motivated by the following factors. First, addressing the gap in literature. Existing research predominantly focuses on entrepreneurial orientation and business performance in general contexts, often neglecting the specific challenges and opportunities in the halal food sector. This study aims to fill this gap by exploring how entrepreneurial orientation affects the performance of halal-certified MSMEs in Indonesia. Second, exploring the role of government policy. As Indonesia implements mandatory halal certification by 2024, understanding how government policies influence MSMEs performance is essential. This research investigates how supportive policies is essential. This research investigates how supportive policies can amplify the positive effect of entrepreneurial orientation on business performance. The last is practical implication for MSMEs and policy makers. The findings of this study are intended to offer practical insights for MSMEs owner and managers on leveraging entrepreneurial orientation and business strategies to

enhance performance. Additionally, it aims to inform policymakers on designing effective interventions and support mechanism to foster the growth of halal food MSMEs.

This study presents a current contribution to the filed by addressing critical gaps in the existing literature consist of: specific exploration in the halal food sector. Unlike the previous studies that focus on generalized MSMEs sectors, this research zeroes in on the halal food industry, a growing and strategically important sector in Indonesia. Beside it, this research integrates Resource Based Theory to examine how entrepreneurial orientation mediated by business strategy, affects the performance of halal food MSMEs. In further evaluates the moderating role of government policy, offering a comprehensive model that elucidates both direct and indirect pathways influencing business performance. This position the research as a significant advancement in understanding the dynamics of entrepreneurial orientation in the context of halal- certifies MSMEs, offering new perspectives for academia, industry practitioners and policy makers alike.

Malang City is a potential halal industry center with a large MSME sector contributing 60% to the food and beverage industry. With 6,500 businesses obtaining NIB (Business Registration Number), Malang City Diskopindag (Department of Cooperatives, Industry and Trade) encourages halal certification. Halal certification provides more value to products and makes purchasing decisions safer (Alfarizi, 2023). Law Number 33 of 2014 and PP Number 31 of 2019 regulate halal product guarantees, promoting transparency and growth. The Ministry of Religion ordered all food and beverage industries to have halal certification by 2024.

The research purposes is examines the relationship between entrepreneurial orientation and business strategy in shaping firm performance. It examines how the Indonesian government's policies, such as microfinance, capacity-building programs, tax incentives, and regulatory reforms, can strengthen the influence of entrepreneurial orientation on MSMEs business performance. This study further explains business strategy as a mediating role and government policy as a moderator in the relationship between entrepreneurial orientation and business performance.

METHODS

A cross-sectional survey was conducted to investigate how entrepreneurial orientation, business strategy, and government policy influence the business performance of Micro, Small, and Medium Enterprises (MSMEs) in the food sector that are halal certified. The object of this research is MSMEs in Malang City, Indonesia. The choice of MSMEs in Malang City as the research object is considered appropriate because Malang City is a creative city with an economy supported by 17 creative economic subsectors. Apart from that, Malang is a city of education, where most universities have a Halal Centre program that can collaborate with related departments to facilitate halal certification for MSMEs.

The population for this research consists of micro, small, and medium enterprises in the food sector that are halal certified and located in Malang City, East Java province. In this research, we adopted the definition of MSMEs, specifically regulated in PP UMKM No. 7 2021, concerning the characteristics of Micro, Small, and Medium Enterprises in Indonesia. According to PP UMKM no. 7, 2021, the criteria for MSMEs also lie in the business entity's number of employees. A business is considered a micro business if the number of workers is a maximum of 10 people. A small business is called if it employs more than 10 to 49 workers. Furthermore, a business is defined as a medium business with a workforce of at least 50 to 150 employees.

The sampling technique used in this research was nonprobability sampling with accidental sampling. The sample criteria in this research are owners/managers of MSMEs in the food and beverage sector who have halal certification. The population size in this study is relatively large, so the exact number is unknown. MSMEs are constantly updated and must be included in the latest database. So, the technique or formula used is by theory (Hair et al. 2014) by adding up the number of statement indicators at least multiplied by five to ten.

$$\begin{aligned}\text{Number of Samples} &= \text{number of indicators} \times 10 \\ &= 18 \times 10 \\ &= 180\end{aligned}$$

So, this study's total number of respondents was 180, and the survey was conducted in March to April 2024.

The questionnaire was designed based on previous research. The entrepreneurial orientation scale developed by Hutahayan (2019) measured respondents' entrepreneurial orientation in five indicators. The indicators for this variable are confidence and optimism, work-oriented and results-oriented, risk-taking, originality and future-oriented, and leadership. As Porter (1993) has used, business strategy uses three dimensions: differentiation, cost, and focus. As Hutahayan (2019) has noted, government policy uses three indicators: Training frequency, easy access to capital, and partnerships. Business performance in MSMEs can be seen from the company's success in product quality, innovation, human resource management, customers, and finance (Mukson et al. 2021). There are three indicators of MSME performance based on profitability, productivity, and market (Hutahayan, 2019). All items from the indicators of each variable are assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

This study uses correlation analysis to assess the linear connection (Aisyah, 2015) between variables and identify multicollinearity among them (Hair et al. 2014). It focuses on the direct and indirect impact of factors such as entrepreneurial orientation, business strategy, and government policy on business performance. The study also considers the moderating effect of government policy. Hierarchical regression analysis (Baron & Kenny, 1986) is used to examine the moderating influence of a variable on the relationship between other variables. The study uses a step-by-step process, testing direct effects and indirect effects and integrating moderators into the regression model. The study analyzed four stages: assessing the impact of entrepreneurial orientation on business performance, evaluating the direct influence of entrepreneurial orientation and government policy, determining the mediating role of business strategy variables, and assessing both direct and indirect effects and the role of moderators. The effectiveness of multiple regression analysis depends on several assumptions, including sample size, normality, linearity, homoscedasticity, and multicollinearity (Mardia, Kent, and Taylor 2024). The study evaluated these assumptions before conducting the analysis (Aisyah, 2015).

Hypothesis

Entrepreneurial Orientation and Business Performance

According to Glancey et al. (1998), the driving force behind an individual's decision to pursue entrepreneurship lies in the presence of both "pull" and "push" factors. These "pull" factors can be identified as the primary motivators. Individuals may be motivated by the potential for increased financial gains, the aspiration for greater responsibility and decision-making authority, and the drive to enhance their capabilities.

Meanwhile, the "push" factor concerns employees' self-motivation to leave the workplace and start a new business. In other words, "push" factors force someone to start entrepreneurship. Casillas & Moreno (2010) revealed that the entrepreneurial orientation variable is the maximum orientation carried out by MSMEs concerning products, target markets, and risks in making business decisions to maintain products. Entrepreneurial orientation will determine business performance. Innovation in entrepreneurship helps achieve its maximum potential, provides rewards, encourages viewing from a broad perspective, and educates about entrepreneurship (Tseng and Tseng, 2019). According to (Sorama and Joensuu-Salo, 2022), there is evidence to suggest that business performance can be enhanced through entrepreneurial orientation. Therefore, there is a positive correlation between entrepreneurial orientation and business performance (Cho and Lee, 2018).

Hypothesis 1: Entrepreneurial orientation has a significant effect on performance of halal food business

Moderating Effects of Government Policy

According to research by Thurik & Wennekers (2004), implementing government policies aimed at regulating the economy through technology and ensuring consumer stability plays a vital role in driving business performance. Rasiah (2002) emphasizes the importance of proactive autonomy, where the government supports the development of MSMEs through initiatives such as community training and disseminating market information. Additionally, Makhdoom et al. (2019) found that MSME innovation is influenced by entrepreneurial orientation. Government policies will

influence the performance of MSMEs (Kyal et al. 2022). In developed and developing countries, government policy is an essential factor in the growth of MSMEs (Nguyen et al. 2009). The growth and development of small and medium-sized enterprises (SMEs) are contingent upon implementing supportive and effective government policies and regulations within the business environment (Belyaeva, 2018). Empowering MSMEs through government-led programs can foster competitiveness, leading to enhanced business performance. The government is responsible for effectively managing economic resources to generate economic profitability and societal benefits (Maksum, Rahayu, and Kusumawardhani, 2020). Thus, the development of SMEs is intricately linked to favorable government policies and regulations that provide support and effective management (Belyaeva, 2018). Through such policies, MSMEs can be empowered, leading to increased competitiveness and improved business performance (Maksum, Rahayu, and Kusumawardhani, 2020).

Hypothesis 2: Government policy moderated the relationship between entrepreneurial orientation and the performance of halal food business

Entrepreneurial Orientation and Business Strategy

Strategy is an organizational guideline related to products, market scale, and elements of competitive competition (Ruekert, 1992). Nyello & Kalufya (2021) reveal that successful MSMEs will maximize market orientation where they sell and market their goods to consumers. The business strategy shows the company's ability to formulate strategies, implement plans, and prepare and conduct evaluations to get feedback in formulating future strategies by analyzing the internal and external environment. The future of MSMEs in terms of sustainable competitive advantage will depend on their ability to survive and excel in market competition. Therefore, MSMEs must create the right strategy to maintain the company's position in the market. Porter (1993) stated that companies must create superior competitiveness to maintain their market bargaining position. There is a significant relationship between entrepreneurial orientation and business strategy. It is essential to develop MSMEs in connection with the innovation companies must always carry out to excel in market competition (Aksoy, 2017).

Hypothesis 3: Entrepreneurial orientation has a significant effect on business strategy of halal food business

Business Strategy and Business Performance

The role and influence of organizational performance on business strategy is significant due to increasing trends in globalization and technology. The growing business scope requires a more strategic approach to overcome significant challenges. Strategic planning is essential in improving organizational approaches and performance (Yuliansyah, Gurd, and Mohamed, 2017). Utilizing various monetary, social, psychological, and functional values guides us toward specific goals. The success of organizational performance relies heavily on the business strategy, as stated by (Ritter and Gemünden, 2004), and not just on customers and employees. Small and medium enterprises (SMEs) opt for different yet effective business strategies to achieve the desired outcomes. These strategies are developed by assessing organizational performance, crafting profitable approaches, implementing them, and capitalizing on short-term and long-term advantages. However, this strategy must be created and executed through mutual agreement and understanding. All organization members actively consent to this strategy, including stakeholders, managers, leaders, and employees. Implementing effective business strategies leads to sustainable success and growth, enhancing the organization's competitive position, as noted by (Sophia and Owuor, 2015). As further stated (Gumel, 2019), business strategy directly triggers business success and improves human resource management and business growth.

Hypothesis 4: Business strategy has a significant effect on performance of halal food business

Mediating Effects of Business Strategy

Business strategy plays a vital role in improving business performance. It has been proven that business strategy can mediate entrepreneurial orientation and managerial ability in business performance. Entrepreneurial orientation reflects the behavior shown by MSME actors, namely innovativeness, proactiveness, and courage, which involve risk. Business performance is influenced by several factors, including entrepreneurial character, managerial ability, marketing, capital, entrepreneurial orientation, human resources, and

business strategy (Subagyo & Samari, 2022). When MSMEs can implement entrepreneurial organizations and manage their businesses well, entrepreneurs must also be able to develop business strategies effectively to compete. MSME entrepreneurs must have the right business strategy because, when creating a business, they must be able to identify opportunities and threats in their business environment. Choosing an effective business strategy has an impact on achieving optimal performance. In today's super competitive conditions, only MSMEs that have an effective business strategy can win the competition. Entrepreneurial orientation, which is reflected in innovative, proactive behavior and risk courage, contributes to creating effective business strategies. Likewise, managerial abilities support the creation of effective business strategies. By applying management functions to all business operational activities, MSMEs can carry out their strategies effectively and efficiently, which in turn impacts business performance. The impact of an effective business strategy is that business performance will increase. Previous research concluded that business strategy could mediate entrepreneurial orientation and managerial ability on business performance (Zhangm & Zhang, 2017; Subagyo & Samari, 2022).

Hypothesis 5: Business Strategy mediates the relationship between Entrepreneurial Orientation and the performance of halal food business.

Hypothesis 6: Business strategy has a mediating role and government policy has a moderating role in the relationship between entrepreneurial orientation and the performance of halal food business.

Based on the relationship between the variables above, this research model shows the direct and indirect influence of entrepreneurial orientation on business strategy, with business strategy as a mediating variable and government policy as a moderating variable (Figure 1).

RESULTS

Descriptive Statistics

As can be seen in Table 1, the majority of respondents were female (77.8 percent). The average age of respondents is in the range of 41-45 years. The majority's education level is high school/equivalent (50.0 percent). The majority will be halal certified in 2022 (58.3 percent) with business ownership status as owner (75 percent). The average company age is in the range of 6-10 years (47.2 percent). With the number of employees in the range of 1-10 people (84.4 percent), so based on the number of employees, most of these businesses are micro-scale.

Table 2 presents descriptive statistics and a correlation matrix. Entrepreneurial orientation positively and significantly correlates with other variables ($\rho < 0.01$). Business strategy is positively correlated with business performance. Government policy is positively correlated with business performance.

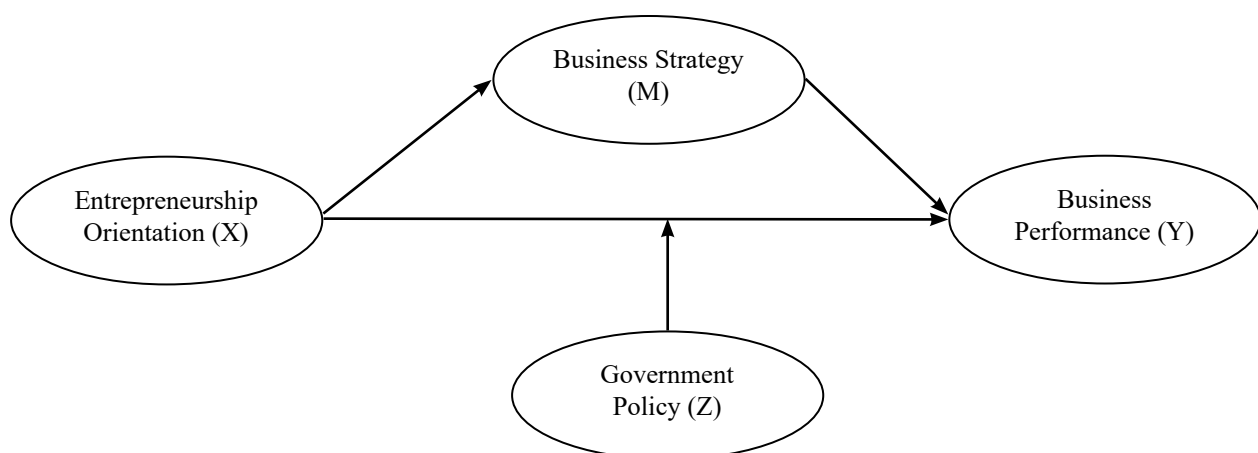


Figure 1. Conceptual framework

Table 1. Respondent description

Respondent Description		Frequency	%	Respondent Description		Frequency	%
Gender	Male	40	22.2	Halal	2021	32	17.8
	Female	140	77.8	Certified	2022	105	58.3
Respondent's age	25 – 30 years	7	3.9		2023	42	23.3
	31 – 35 years	26	14.4	Business status	Business Owner	135	75.0
	36 – 40 years	41	22.8		Business Manager	45	25.0
	41– 45 years	85	47.2	Company Age	1 – 5 years	56	31.1
	46 – 50 years	14	7.8		6 – 10 years	85	47.2
51 – 55 years	7	3.9	11 – 15 years	25	13.9		
Education level	Middle School/ Equivalent	39	21.7	16 – 20 years	14	7.8	
	High School/ Equivalent	90	50.0	Total Employees	1 – 10 people	152	84.4
	Diploma	11	6.1		11 – 50 people	20	11.1
	Undergraduate	34	18.9		51 – 150 people	8	4.4
	Postgraduate	6	3.3				

Table 2. Means, standard deviations, and deviations correlations among key variables

N =		Means	Standard deviations	1	2	3	4
1.	Entrepreneurship orientation	4.01	0.511	1			
2.	Government policy	4.01	0.527	0.336**	1		
3.	Business strategy	3.94	0.567	0.445**	0.327**	1	
4.	Business performance	3.87	0.597	0.335**	0.369**	0.818**	1

**p < 0.01

Table 3 shows the factor loading values of each item, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE). The recommended value is above 0.60 for the loading factor and above 0.60 for discriminant validity. All variable indicators have loading factor values above 0.60, with BP2 being the most significant. The indicator variables used in this research are suitable for reflecting latent variables, with the most excellent discriminant validity being the entrepreneurial orientation latent variable.

Regression Model

This research investigates the indirect influence of competitive strategy and government policy on entrepreneurial orientation and business performance. It uses four multiple regression models to test the hypothesis. The first model tests the influence of independent variables, particularly entrepreneurial orientation, on their contribution to business performance. The results of this model are used to evaluate hypothesis 1, which is the influence of entrepreneurial orientation on business performance. The study follows Baron and Kenny's (1986) stepwise

regression approach to analyzing data in research involving moderators. The first regression model is presented in the following equation:

Model 1:

$$\text{Business Performance} = \beta_0 + \beta_1 \text{Entrepreneurship orientation} + e$$

The second regression model is used to determine the interaction effect of government policy as a moderator variable. The results of this model are used to evaluate hypothesis H2. The third regression model is introduced in the following equation:

Model 2:

$$\text{Business Performance} = \beta_0 + \beta_1 \text{Entrepreneurship orientation} + \beta_2 \text{Government Policy} + \beta_3 \text{Entrepreneurship orientation} * \text{Government Policy} + e$$

The third model is introduced to determine the independent influence of variables, including the intermediary variable (business strategy) as a mediating variable. Thus, this model tests entrepreneurial orientation's direct and indirect influence on business

performance through business strategy. So, the results of this model are used to evaluate hypothesis 3, hypothesis 4, and hypothesis 5. The third regression model is shown in the following equation:

Model 3:

$$\text{Business Strategy} = \beta_0 + \beta_1 \text{ Entrepreneurship orientation} + e$$

$$\text{Business Performance} = \beta_0 + \beta_2 \text{Business Strategy} + e$$

$$\text{Business Performance} = \beta_0 + \beta_1 \text{ Entrepreneurship orientation} + \beta_2 \text{Business Strategy} + e$$

The fourth regression model determines the overall effect, namely the direct effect, indirect effect, and moderating role. The results of this model are used to evaluate hypothesis 6. The third regression model is introduced in the following equation:

Model 4:

$$\text{Business Strategy} = \beta_0 + \beta_1 \text{ Entrepreneurship orientation} + e$$

$$\text{Business Performance} = \beta_0 + \beta_2 \text{Business Strategy} + e$$

$$\text{Business Performance} = \beta_0 + \beta_1 \text{Entrepreneurship orientation} + \beta_2 \text{ Business Strategy} + \beta_3 \text{Government Policy} + \beta_4 \text{Entrepreneurship orientation} * \text{Government Policy} + e$$

Figure 2 shows the relationships between variables in the four models. The first model shows the relationship between EO and BP. The second model adds the GP variable as a moderating variable. The third model tests the indirect effect of EO on BP through BS without including the GP variable. The fourth model is complete, namely testing direct and indirect influences, as well as the role of moderation.

The results of the multiple regression test on the four models above are as follows (Table 4):

$$\text{Model 1: Business Performance} = \beta_0 + 0.381 \text{Entrepreneurship orientation} + e$$

$$\text{Model 2: Business Performance} = \beta_0 + 0.282 \text{Entrepreneurship orientation} + 0.295 \text{Government Policy} + 0.023 \text{Entrepreneurship orientation} * \text{Government Policy} + e$$

$$\text{Model 3: Business Performance} = \beta_0 + 0.054 \text{Entrepreneurship orientation} + 0.876 \text{Business Strategy} + e$$

$$\text{Model 4: Business Performance} = \beta_0 + 0.101 \text{Entrepreneurship orientation} + 0.857 \text{Business Strategy} + 0.106 \text{Government Policy} + 0.062 \text{Entrepreneurship orientation} * \text{Government Policy} + e$$

Table 3. Factor loading, cronbach’s alpha, composite reliability, and average variance extracted (AVE)

Variables	Indicators	Factor Loading	Cornbach’s alpha	Composite Reability	AVE
Entrepreneurship orientation	Confidence dan optimism (EO1)	0.696	0.854	0.894	0.629
	Work oriented and result oriented (EO2)	0.824			
	Risk taking (EO3)	0.799			
	Originality and future oriented (EO4)	0.868			
	Leadership (EO5)	0.766			
Government policy	Training (GP1)	0.822	0.758	0.861	0.674
	Capital access (GP2)	0.843			
	Partnership (GP3)	0.796			
Business strategy	Cost-Leadership (BS1)	0.806	0.789	0.876	0.702
	Differentiation (BS2)	0.826			
	Focus (BS3)	0.880			
Business performance	Profitability (BP1)	0.777	0.795	0.880	0.711
	Productivity (BP2)	0.894			
	Market (BP3)	0.855			

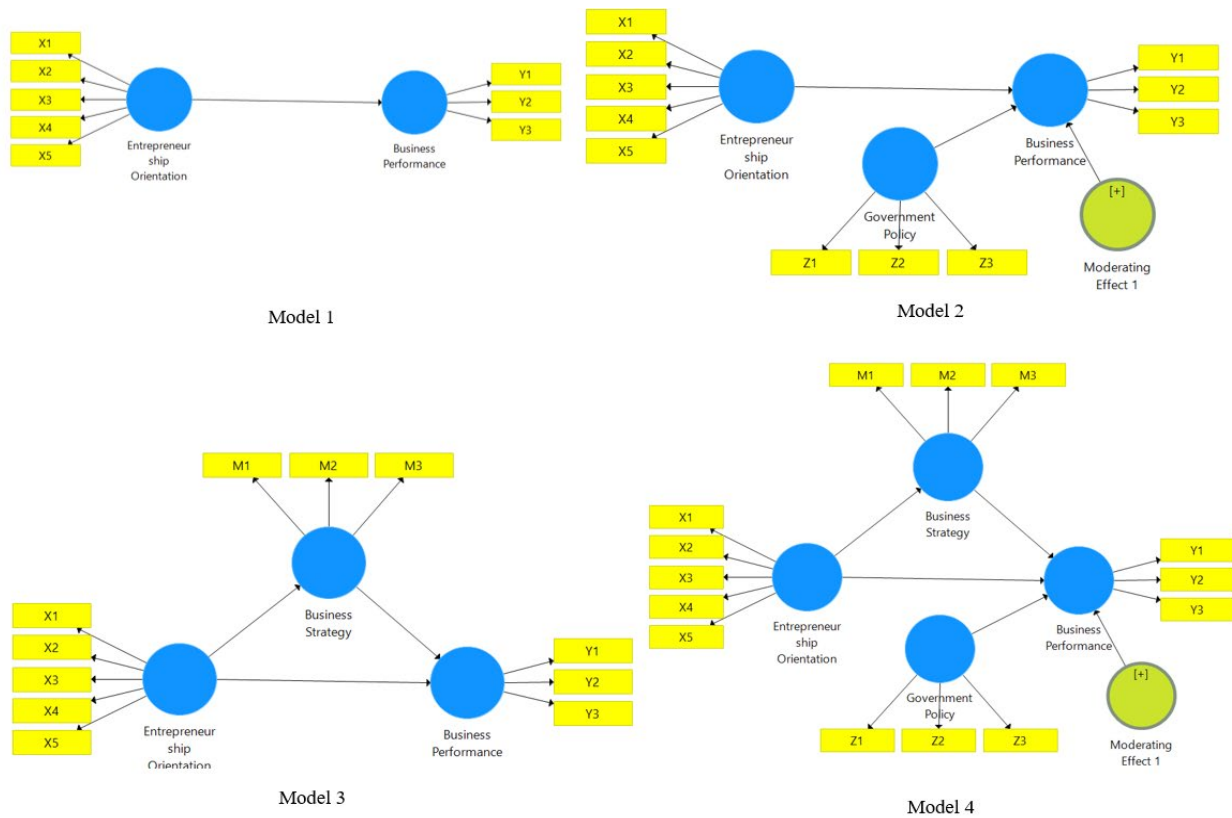


Figure 2. Multiple regression test on the four models

Table 4. The results of the multiple regression test

	Model 1	Model 2	Model 3	Model 4
Variables	Without Business Strategy and Government Policy	Government Policy as a Moderating Variable	Business Strategy as a Mediating Variable	Business Strategy as a Mediating Variable and Government Policy as a Moderating Variable
Entrepreneurship orientation	0.381***	0.282**	0.054	0.101*
Business strategy	-	-	0.876***	0.857***
Government policy	-	0.295***	-	0.106*
X × Z	-	0.023	-	0.062*
Indirect effect of X through M	-	-	0.424***	0.415***
R ²	0.145	0.215	0.724	0.740
Adjusted R ²	0.141	0.202	0.721	0.734

* p < 0.05 ; **p < 0.01 ; ***p < 0.001

The study examines the relationship between entrepreneurial orientation, government policy, and business performance. The results show that entrepreneurial orientation is positively and significantly related to business performance (model 1). In model 2, government policy and entrepreneurial orientation are positively related to business performance, while the interaction of these variables does not influence performance. In model 3, entrepreneurial orientation does not directly influence business performance but

can indirectly influence it through business strategy. The mediating role of business strategy is complete mediation, with entrepreneurial orientation only influencing performance through strategy. In Model 4, all variables significantly influence business performance, with entrepreneurial orientation directly and indirectly influencing business strategy. Government policy moderates the influence of entrepreneurial orientation on business performance, and the moderating role is included in the quasi-moderation type. The termination

test results show a significant increase in the moderating effect of government policy and the mediating effect of business strategy, with the latter having a significant impact.

Resource-based theory emphasizes that a company's competitive advantage and superior performance come from resources and capabilities that are unique and difficult for competitors to imitate (Grant, 1996). Entrepreneurial orientation (EO) is the driving force of an organization for entrepreneurial activities (Purnomo et al. 2019). It differentiates it from other businesses so that it can influence business performance, both financial and non-financial performance (Campopiano et al. 2017). Entrepreneurial orientation (EO) encompasses the strategies, methods, and choices that pave the way for individuals to enter the marketplace. A fundamental aspect of entrepreneurship involves venturing into untapped or recently established markets with either novel or preexisting products, ultimately giving rise to new enterprises. In short, EO has been used to refer to the strategy-making process of firms engaged in entrepreneurial activities (Lumpkin and Dess 1996).

EO in research is measured based on confidence and optimism, work-oriented and results-oriented, risk-taking, leadership, originality, and future-oriented (Hutahayan, 2019). Based on these five indicators, the highest values in forming the EO of MSMEs in the halal food sector are originality and future-oriented. Originality is creativity translated into something that can be applied and produce added value to the resources owned. An entrepreneur must plan and think ahead. They look for and anticipate possibilities that occur far in the future. The business activities are continually developed with new creations and quickly adapt to market developments or market segments. In order to stay ahead of competitors, it is crucial to constantly leverage advancements in science and technology when developing business operations.

The sustainability of MSME businesses hinges on implementing strategic business development, as highlighted by (Lechner and Vidar, 2014). According to Porter (1980), businesses can achieve a competitive advantage over their rivals by adopting either a cost leadership strategy or a differentiation strategy, regardless of their industry, type, or size, as noted

by (Parnell, 2013). While a cost leadership strategy necessitates significant financial resources, MSMEs are better suited to pursue a differentiation strategy that emphasizes speed, customer service, and flexibility, aligning with their innovative nature (Lechner and Vidar, 2014). It is worth noting that MSMEs that fail to implement any strategy experience slower growth than those that opt for either a low-cost or a differentiation strategy. Linton and Kask (2017) revealed that MSMEs can combine several strategies to improve MSME performance.

Through competitive strategies and policy formulation, government support is critical in developing MSMEs in today's dynamic business environment (Ahmedova 2015). Research by Bakar et al. (2020) highlights government support through policies and subsidies through various government agencies to help overcome the performance gap in MSMEs. Ahmedova (2015) further emphasized that government support has placed MSMEs in a conducive position in a competitive business environment, especially in improving competitive strategies and policy formulation. Several studies show that government policies will influence the performance of MSMEs (Kadarisman, 2019). In developed and developing countries, government policy is essential for the growth of MSMEs (Nguyen et al. 2009). The growth and progress of small and medium-sized enterprises (SMEs) are contingent upon the practical support and regulation of government policies in the business landscape (Belyaeva, 2018). The government can exert influence over their performance by implementing programs designed to empower MSMEs, thereby fostering competitiveness and enhancing overall business outcomes (Maksum, Rahayu, and Kusumawardhani, 2020).

The government plays a role in developing MSMEs by providing stimulation through making policies that support the growth of MSMEs. Arsyad (2015) stated the relationship between government policy, industrial attractiveness theory, and stakeholder theory. According to this theory, the government makes efforts to help and support by proficiencies, and the theory reveals that the government, society, and creditors called stakeholders have a direct relationship with MSMEs as stakeholders (Ghozali 2020).

Managerial Implications

The following are the managerial implications of this study that can be applied by SMEs; 1) Business strategy based on entrepreneurial orientation. SMEs owners and managers are advised to strengthen the main elements of entrepreneurial orientation such as innovation, risk-taking, and proactivity to create a more effective business strategy. To compete in the halal food market, SMEs need to develop unique and value-added products through consistent innovation and implementing a cost leadership strategy can help MSMEs reduce production costs while maintaining product quality. 2) Utilization of government policies. SMEs need to utilize government policies such as training, easy access to capital, and strategic partnerships to improve business performance. With the implementation of mandatory halal certification in 2024, SMEs must ensure that they meet the requirements to remain competitive and attract the Muslim market. Engaging in government innovation programs will provide opportunities to grow in a wider market. 3) Adapting to a dynamic business environment. SMEs must continuously evaluate and adjust their business strategies based on changes in market demand and consumer trends. Building partnerships with organizations and educational institutions can support technology development and product innovation. 4) Strategy management and evaluation. SMEs managers should enhance their capacity to formulate, implement, and evaluate relevant strategies. Using performance indicators such as productivity, profitability, and market share to ensure the effectiveness of the strategies implemented. 5) Recommendations for policy makers. The government should continue to create SMEs friendly policies, such as tax incentives and the removal of complex regulatory barriers. Providing access to technology infrastructure and distribution networks to accelerate MSME growth. Expanding training programs for SMEs to improve understanding of entrepreneurial orientation and business strategies. Through the implementation of a strong entrepreneurial orientation, effective business strategies, and optimization of government policies, SMEs in the halal food sector can increase their competitiveness in both domestic and international markets. This will also help strengthen SMEs' contribution to overall economic growth.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the findings, business strategy, and government policy are essential in the relationship between entrepreneurial orientation and business performance. Namely, EOs of halal food businesses can improve business performance both directly and indirectly through their business strategies. Moreover, Government policies can also increase EO's influence on their business performance. This study has practical implications for management and policymakers. Regarding practical implications for management, research shows that government policies strengthen the influence of EO on business performance. Therefore, halal food entrepreneurs can take advantage of the institutional environment, such as government policies, programs and norms, and societal norms, to develop and strategically improve their business performance. The business strategy of halal food players also has a more significant positive impact on the performance of halal food businesses. Therefore, implementing a halal food business strategy can help MSMEs achieve business growth. Halal food businesses must prioritize innovation, risk-taking, and proactiveness as the focus of entrepreneurial activities to increase productivity, competitive advantage, and profitability.

Recommendations

However, this research has the following limitations. First, this research only focuses on MSMEs in the halal food sector without considering halal businesses in other sectors. Second, in this study, we only measured entrepreneurial orientation with five dimensions; for future research, we can test these five dimensions by adding new variables such as halal orientation and environmental dynamics.

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