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Exploring the influence of entrepreneurial orientation on firm performance: absorptive capacity in family-owned food and beverage enterprises

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ABSTRACT

Growth in Indonesia's food and beverage industry is primarily dominated by family companies that contribute significantly to Gross Domestic Product. The food and beverage industry is predicted to be one of the sectors with the most dynamic growth. The importance of the performance of family companies engaged in the food and beverage sector in Indonesia and previous research gaps are the reasons for researching and examining the effect of entrepreneurial orientation on firm performance with absorptive capacity as a mediating variable. This research is a quantitative study with a sample of 120 family companies engaged in Indonesia's food and beverage sector, especially in the Jakarta, Surabaya, and Sulawesi regions. Data on research respondents were obtained by distributing research questionnaires through social media or visiting research respondents directly. The data obtained was then analyzed using the Structural Equation Model - Partial Least Square. The results obtained are entrepreneurial orientation positively affects firm performance, entrepreneurial orientation affects absorptive capacity, and absorptive capacity affects firm performance. The role of absorptive as mediation enables the transformation of entrepreneurial orientation to firm performance. Family firms must integrate knowledge and create new capabilities aligned with the knowledge-based view.

Keywords: *entrepreneurial orientation; absorptive capacity; firm performance; family business; food and beverage sector*

1. INTRODUCTION

A wide variety of family-owned businesses define Indonesia's thriving and quickly expanding food and beverage industry (Nurhayati-Wolff, 2024a). The average growth rise in the Indonesian food and beverage industry's performance from 2015 to 2019 was 8.16% (Kominfo, 2021). In contrast to the non-oil and gas sector, the food and beverage sector grew by 1.58% during the fourth quarter of 2020 (Kominfo, 2021).

The food and beverage industry's family businesses significantly propel the economy (Upe & Aswan, 2022). Indonesia's food service sector heavily relies on small, family-run street vendors, with approximately 97.9 thousand street stalls and kiosks nationwide (Nurhayati-Wolff, 2024a). According to preliminary GDP data, Indonesia's food and beverage

service industry generated approximately 405 trillion Indonesian rupiah in 2023 (Nurhayati-Wolff, 2024b). The value rose by almost 38 trillion Indonesian rupiah compared to the previous year (Nurhayati-Wolff, 2024b).

Due to lockdowns and social distancing measures, the COVID-19 epidemic has significantly influenced Indonesia's food service sector, resulting in a spike in food delivery (Nurhayati-Wolff, 2024a). Many eateries resorted to takeout and home delivery to stay in business, and when more full-service restaurants saw the benefits, they started using these services as well (Nurhayati-Wolff, 2024a). Consequently, the performance of family businesses operating in the food and beverage industry has undoubtedly been impacted by these changes. According to Kominfo (2021), the food and beverage sector is one of the seven industries that will be prioritized to implement industrial technology 4.0 to enhance sector performance—particularly in investment, productivity, and developing a skilled workforce.

Now extending beyond Industry 4.0, the food and beverage industry is anticipated to become one of the most dynamic and innovative sectors, showing significant growth. As we enter the era of Industry 5.0, which emphasizes human-machine collaboration, the challenges for this industry have increased. These challenges are driven by technological innovations, shifts in consumption patterns, and heightened consumer interest in sustainability (Bahtera Adi Jaya, 2025; Teknosional, 2024). To withstand the challenges and changes, family companies in the food and beverage sector must enhance their performance. Company performance refers to using existing resources efficiently to meet predetermined goals (Taouab & Issor, 2019).

According to Nabass & Abdallah (2019), company performance is the organization's ability to produce various products and handle external factors such as market characteristics, the company's position compared to competitors, and market turbulence, which aims to increase customer satisfaction, reduce internal and external failures, and increase growth and profitability. Performance is a complex concept of adaptability, effectiveness, and efficiency (Abdallah & Al-Ghwayeen, 2020). Especially in family firms,

performance can be influenced by various factors such as family member involvement, innovation, leadership, entrepreneurship, and so on (Arzubiaga et al., 2018; Taouab & Issor, 2019; Maharajh et al., 2024). According to Hernández-Perlines et al. (2017), the performance of family companies can be achieved by implementing entrepreneurial orientation because it allows companies to adapt to change.

Entrepreneurial orientation is an important concept in the business management literature, so it deserves to be studied more (Hernández-Perlines et al., 2017). Miller first introduced entrepreneurial orientation as a decision-making process involving a company's desire to innovate, act proactively and aggressively compared to competitors, and bear risks (Hernández-Perlines et al., 2017). Purwiantri (2021) defines entrepreneurial orientation as an organization's readiness to identify, embrace, and practice new opportunities and changes.

Organizations with an entrepreneurial orientation tend to actively seek new technology and product development, make investments despite uncertain conditions, and pursue technological and product differentiation compared to their competitors (Cho & Lee, 2020). Therefore, entrepreneurial orientation is a valuable predictor of a company's success in achieving competitive advantage (Hernández-Perlines et al., 2017; Purwiantri, 2021). Still, there are unanswered questions about the findings of earlier studies.

According to Purwiantri (2021), there is no correlation between entrepreneurial orientation and business performance. Rezaei & Ort (2018) discovered that while the innovativeness and proactiveness dimensions benefit company performance, the risk-taking component has a negative impact. Liew & Loo (2024) found that *entrepreneurial orientation* positively affects family company performance. However, the higher generational involvement of top management teams can weaken entrepreneurial orientation and can reduce the positive impact of entrepreneurial orientation on company performance.

Transforming entrepreneurial orientation into improving the performance of family companies is not easy and can be done directly, so absorptive capacity is needed in the implementation process (Hernández-Perlines et al., 2017). Absorptive capacity in this study is seen as a dynamic capability that plays a role in forming and utilizing knowledge

(Chaudhary & Batra, 2018). Absorptive capacity is a mediator that helps organizations effectively utilize new knowledge and innovations, thus enabling family companies to align strategic orientation with corporate goals (Hughes et al., 2018).

According to Chaudhary and Batra (2018), absorptive capacity is necessary not only for large-scale family companies that have been run professionally but also for small-scale family companies. Small-scale family firms need absorptive capacity to create a sustainable competitive advantage (Chaudhary & Batra, 2018). Applied together with absorptive capacity, entrepreneurial orientation helps companies recognize potential market opportunities and improve their performance (Raisal et al., 2021).

Family companies need to combine and reconfigure existing knowledge with new knowledge in the environment, thus enabling companies to implement entrepreneurial orientation, understand customer needs, and keep up with technological changes, which leads to superior company performance (Chaudhary & Batra, 2018; Raisal et al., 2021). According to Purwiantri (2021), entrepreneurial orientation positively affects absorptive capacity. The existence of entrepreneurial orientation allows companies to form absorptive capacity through the process of identifying and evaluating new opportunities (Raisal et al., 2021).

Absorptive capacity positively affects company performance (Purwiantri, 2021). In family companies, there is a tendency for absorptive capacity to tend to be inherent, accustomed to being formed, and strategically recreated over time (Santos et al., 2021). Absorptive capacity is an important factor for the company's long-term resilience and success because it can help strengthen and increase the information base through the transformation of external knowledge into company performance (Raisal et al., 2021).

Absorptive capacity helps identify, learn, and understand new knowledge that is important to the organization but comes from outside sources (Tho, 2017). Absorptive capacity is the company's ability to utilize external knowledge through a three-stage process of recognizing and understanding valuable new knowledge from outside the company through exploration, assimilating valuable new knowledge through transformative learning,

using assimilated knowledge to create new knowledge for commercial purposes through exploitative learning (Jiménez-Barrionuevo et al., 2019). In other words, four phases of capacity are required to learn knowledge, namely the process of value recognition (acquisition), absorption, integration, and applying new knowledge to competitive advantage (Tho, 2017).

Absorptive capacity consists of routines and processes that enable companies to build knowledge flows to increase collective capacity to learn and develop innovative potential, thereby improving organizational performance (Jiménez-Barrionuevo et al., 2019). The absorptive capacity allows companies to innovate, be proactive, take risks compared to their competitors, and adapt well to the changes that occur (Purwiantri, 2021). However, companies that will implement absorptive capacity require flexibility and openness in the exploratory learning process, while effective management in the exploitative learning process relies on strict control and mechanistic structures (Darwish et al., 2018).

Exploratory learning includes the process of acquiring external knowledge and corresponds to the idea of potential absorptive capacity, while exploitative learning includes the process of applying the required knowledge according to the idea of realized absorptive capacity (Darwish et al., 2018). Potential absorptive capacity includes recognizing the value and assimilating knowledge that allows organizations to receive knowledge from outside (Jiménez-Barrionuevo et al., 2019). Realized absorptive capacity includes knowledge transformation capacity and knowledge exploitation capabilities that enable the organization to provide commercial benefits from the new knowledge that has been acquired (Jiménez-Barrionuevo et al., 2019).

The previous explanation shows that there is a priority in examining company performance in the era of globalization, which emphasizes human and technological expertise (Alzahrani, 2021), not least for family companies. To the author's knowledge, not many studies examine the role of absorptive capacity on family company performance (Darwish et al., 2018; Pütz & Werner, 2024) because data related to family companies in Indonesia are not well available. This study also aims to answer the limitations of previous

research conducted by Hernández-Perlines et al. (2017), which only examined companies registered with the Spanish Institute for Family Firms. Jiménez-Barrionuevo et al. (2019) explained that there is still little research on organizational performance related to absorptive capacity and corporate entrepreneurship, so research on the role of absorptive capacity and entrepreneurial orientation on company performance still needs to be done.

Figure 1 shows the research framework. Three hypotheses show the direct effect, while the fourth hypothesis shows the indirect effect of absorptive capacity. The following are the hypotheses of this study, namely:

H₁: Entrepreneurial orientation affects firm performance.

H₂: Entrepreneurial orientation affects absorptive capacity.

H₃: Absorptive Capacity affects firm performance.

H₄: Entrepreneurial orientation affects firm performance with absorptive capacity as a mediating variable.

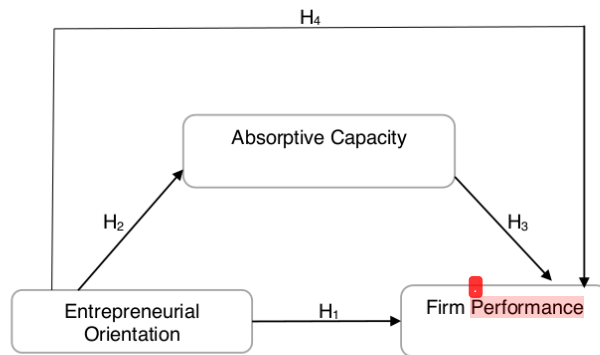


Figure 1. Research Framework

2. METHODOLOGY

This research is a quantitative study that uses a sampling technique, namely purposive sampling. The research population is family companies. The family company referred to in this study is a company that is owned and actively managed by family members. Family

companies that become research samples have criteria, namely engaged in food and beverage and have been operating for at least 5 years.

The research sample is calculated using the formula Hair et al. (2021) so that the minimum research sample is 120 respondents. The unit of observation in this study is family members involved in the management of family companies or leaders in family companies because this study requires respondents who understand the conditions of family companies and are involved in decision-making in the company. The respondents of this study are also limited, namely at least 20 years old, and have been involved in the family company for at least 1 year.

This study uses primary data obtained by distributing research questionnaires. The research questionnaire uses a Likert scale (strongly disagree = 1, disagree = 2, moderately agree = 3, agree = 4, and strongly agree = 5). The research questionnaire was distributed through various social media platforms or directly to research respondents who fit the criteria.

The independent variable in this study is entrepreneurial orientation. Entrepreneurial orientation has a definition of the processes, practices, and decision-making activities carried out by companies to recognize opportunities, evaluate, and implement new changes (Lumpkin & Dess, 1996; Zellweger et al., 2012; Stam & van de Ven, 2021). The entrepreneurial orientation indicator is adapted from the research of Lumpkin & Dess (1996) and Zellweger et al. (2012), which consists of five dimensions: competitive aggressiveness, innovativeness, proactiveness, risk-taking, and autonomy. Competitive aggressiveness is related to the company's ability to compete to outperform its competitors; innovativeness is related to the company's ability to create and try new ideas; proactiveness is related to the company's ability to take new opportunities; risk-taking is related to the company's ability to take risks from available opportunities, and autonomy is related to the freedom of company members to be able to act for the progress of the company.

Absorptive capacity as a mediating variable. The definition of absorptive capacity refers to Jiménez-Barrionuevo et al. (2019). According to Tho (2017), the indicator of

absorptive capacity is the ability to recognize, absorb, integrate, and apply new external knowledge. Ability to recognize is related to the ability of company members to recognize new knowledge and expertise in business; absorb is related to the ability of company members to understand new knowledge and expertise in business; integrate is related to the ability of company members to combine new knowledge and expertise in business, and apply new external knowledge is related to the ability of company members to apply new knowledge and expertise in business.

Company performance as the dependent variable. The definition of company performance refers to Nabass & Abdallah (2019). The company performance indicators used refer to Abdallah & Al-Ghwayeen (2020): sales growth, customer satisfaction, and company profitability. Data on sales growth, customer satisfaction, and profitability use the perceptions of owners/family members involved in company management based on improvements in the last three years.

The data analysis technique used Partial Least Square-Structural Equation Modeling (PLS-SEM). PLS was chosen because it can overcome the limitations of the SEM method, which requires a large amount of data without missing values, does not contain collinearity, and is normally distributed (Jogiyanto & Abdillah, 2019). The outer model test is carried out to measure the validity of the data obtained by testing discriminant validity, convergent validity, Cronbach's alpha, and composite reliability (Jogiyanto & Abdillah, 2019).

The value of discriminant validity is seen from the cross-loading value of the intended latent variable, which is greater than other variables, or by comparing the AVE (Average Variance Extracted) root of each construct with the correlation between constructs. The factor loading value on convergent validity is more than 0.70; the AVE value is more than 0.50 (Jogiyanto & Abdillah, 2019). Cronbach's alpha and composite reliability of less than 0.60 are considered weak; 0.70 is categorized as acceptable, while 0.80 is considered good (Jogiyanto & Abdillah, 2019). The inner model test is conducted to predict the causal relationship between latent variables by looking at the coefficient of determination (R-

square), predictive relevance, and path coefficient (Jogiyanto & Abdillah, 2019; Hair et al., 2019).

3. RESULTS AND DISCUSSION

The profile of the respondents is shown in Table 1. There is no significant difference between male and female respondents in the study, although men slightly dominate the number. The average age of respondents who filled out the research questionnaire was 20 to 30 years, followed by the age range of 41 years to 50 years. The family companies obtained, on average, have involved the next generation in the management system. This can be seen from the 44% of respondents who have been involved in the family company for 4 to 6 years. Most respondents have undergraduate and high school education.

The family companies that became the research sample are those in Indonesia, especially those dominated by Surabaya, Jakarta, and Sulawesi. On average, they have an annual sales turnover of IDR 300,000,000 to IDR 2,500,000,000 or are in the small business category, followed by family companies in the medium and micro business categories. The family companies sampled in this study have an average system that has been running quite well based on the results of observations that have been made during the data search process for almost 1 month, from mid-May 2022 to mid-June 2022.

Table 1. Demographic Profiles

Characteristics	Frequency	Percentage
Gender		
Male	68	57%
Female	52	43%
Age		
20 – 30	40	33%
31 – 40	25	21%
41 – 50	36	30%
Over 50	19	16%
Education		
Elementary school	7	6%
Junior high school	16	13%
Upper secondary school	30	25%

Bachelor's degree	45	38%
Other	22	18%
Length of Work		
1 – 3 years	18	15%
4 – 6 years	53	44%
7 – 9 years	32	27%
More than 10 years	17	14%
Sales Turnover		
IDR 0 – IDR 300.000.000	30	25%
IDR 300.000.000 – IDR 2.500.000.000	44	37%
IDR 2.500.000.000 – IDR 50.000.000.000	32	26%
Over IDR 50.000.000.000	14	12%

Source: Data processed (2022)

Table 2 shows the results of descriptive analysis and outer model tests. The highest average value on entrepreneurial orientation is in indicator EO5, which states that company members are free to act toward the company's progress. This is due to the characteristics of family companies, which show a culture of sustainability, focus on the long term, and continuity (Chaudhary & Batra, 2018).

The AC4 indicator has the highest average value in the absorptive capacity variable, which indicates that the company's ability to apply new knowledge and expertise in business is high. On average, research respondents from family companies are very aware of the importance of new knowledge and expertise in the food and beverage business. The FP3 indicator has the highest average on the firm performance variable, which indicates an increase in company profits over the last three years.

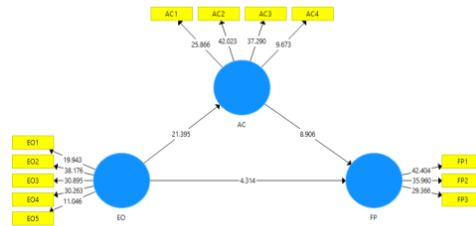
The convergent validity test results show that all indicators have a factor loading value above 0.70, which indicates that all indicators are valid at the 5% significance level. The AVE value of the three variables is above 0.50, which shows that all research variables have good discriminant validity. The composite reliability and Cronbach's alpha values above 0.80 indicate that all of these research variables meet the requirements for good reliability testing. Figure 2 shows the model output in PLS.

Table 2. Descriptive Analysis Results & Outer Model Test

Variables	Item description	Mean	Factor Loading	AVE	Cronbach's Alpha	Composite Reliability
Entrepreneurial Orientation				0.716	0.900	0.926
EO1	Able to outperform competitors.	3.71	0.838			
EO2	Able to create and try new ideas.	3.88	0.880			
EO3	Able to take new opportunities.	3.85	0.879			
EO4	Dare to take risks from available opportunities.	3.82	0.877			
EO5	Have the freedom to act for the progress of the company.	4.17	0.750			
Average Entrepreneurial Orientation		3.89				
Absorptive Capacity				0.729	0.874	0.915
AC1	Able to recognize new knowledge and skills in business.	3.98	0.833			
AC2	Able to understand new knowledge and skills in business.	3.93	0.918			
AC3	Able to combine new knowledge and skills in business.	3.78	0.907			
AC4	Able to apply new knowledge and skills in business.	4.09	0.747			
Average Absorptive Capacity		3.95				
Firm Performance				0.802	0.876	0.924
FP1	Sales growth increased in the past three years.	3.78	0.913			
FP2	Customer satisfaction has increased in the past three years.	3.96	0.909			
FP3	Company profits have increased in the past three years.	3.98	0.863			
Average Firm Performance		3.91				

Source: Processed Data (2022)

Figure 2. Output Model



Source: Processed Data (2022)

Table 3 shows that the R^2 value of absorptive capacity is 0.744, which means that the percentage of variation in absorptive capacity can be explained by entrepreneurial orientation by 74.40%. The R^2 value of the firm performance variable of 0.844 indicates the percentage of variation in firm performance that can be explained by absorptive capacity and entrepreneurial orientation of 84.40%, while other variables outside this study influence 15.60%.

The predictive relevance value (Q^2) is 0.9600, which indicates a good predictive relevance for the structural model of this study, which is 96%, while other variables outside the research model explain the remaining 4%. Suppose we do not take into account absorptive capacity as a mediating variable. In that case, the predictive relevance value is the same as R^2 for the firm performance variable, which is 84.40%. Still, after including the mediating variable, the predictive relevance value increases to 96%, indicating that this research structural model has better predictive relevance with a reduced error rate.

Table 3. Adjusted R-square Result

Variable	Adjusted R-Square
Absorptive Capacity	0.744
Firm Performance	0.844

Source: Processed Data (2022)

The results of hypothesis testing are shown in Table 5. The path coefficient in the first hypothesis (H1) is 0.326 with a T-value of 4.314 at a significance level of 5%, indicating that

H1 is accepted, which means that entrepreneurial orientation positively affects firm performance. This study's results align with Hernández-Perlines et al. (2017) and Liew & Loo (2024). Family companies with a strong entrepreneurial orientation will be more innovative, proactive, responsive to changes and opportunities in the market, and able to calculate risks that bring potential returns, thus having an impact on improving company performance (Kallmuenzer et al., 2018).

Entrepreneurial orientation positively affects firm performance when governance is effective, and there is the involvement of family CEOs and directors (Lee & Chu, 2017). On average, the family companies that are respondents in this study are classified as small and medium-sized businesses, so corporate governance is not too complex. This will be an advantage for family companies in implementing entrepreneurial orientation and obtaining the benefits of entrepreneurial orientation.

The second hypothesis (H_2) is accepted, as seen from the path coefficient value of 0.864 with a T-value of 21.395 at a significance level of 5%, which indicates a positive effect of entrepreneurial orientation on absorptive capacity. This study's results align with Hughes et al. (2018) and Purwiantri (2021). Entrepreneurial orientation helps companies form absorptive capacity by identifying and evaluating new opportunities (Raisal et al., 2021).

Family firms that implement entrepreneurial orientation tend to learn new things and engage in innovative activities (Hughes et al., 2018). This allows companies to have the capacity to absorb and utilize new knowledge that can increase absorptive capacity (Hughes et al., 2018). Entrepreneurial orientation helps family companies proactively seek new opportunities and information that impact increasing the company's ability to identify valuable external knowledge and integrate this knowledge into company operations to increase the company's absorptive capacity (Hughes et al., 2018).

The path coefficient value in the third hypothesis (H_3) is 0.624 with a T-value of 8.906 at a significance level of 5%, indicating that H_3 is accepted and absorptive capacity positively affects firm performance. These results are in line with the research of Hernández-Perlines et al. (2017), Santos et al. (2021), and Raisal et al. (2021), which explain the role of

absorptive capacity as a critical factor for firm success in the global market. Absorptive capacity contributes to innovation in companies because new knowledge is needed to achieve competitive advantage (Santos et al., 2021). The absorptive capacity process also reflects the importance of the company's capacity and ability to respond quickly to changes to strengthen the information base and transform external knowledge into company performance (Santos et al., 2021; Raisal et al., 2021).

The fourth hypothesis (H₄) shows the indirect effect of entrepreneurial orientation on firm performance through absorptive capacity as a mediating variable. This can be seen from the path coefficient H₄ of 0.539 with a T-value of 8.058. The total effect of entrepreneurial orientation on firm performance is 0.865. This study's results align with those of Hughes et al. (2018) and Hernández-Perlines et al. (2017). The results of this study are also in line with the knowledge-based view, which states that companies need to integrate knowledge and create new capabilities (Chaudhary & Batra, 2018).

Absorptive capacity facilitates the transformation of entrepreneurial orientation into improved firm performance by enabling firms to effectively utilize new knowledge and innovation (Raisal et al., 2021). Family firms have the characteristics of emphasizing long-term orientation and close family member ties to encourage the development of absorptive capacity, which impacts the company's overall performance (Chaudhary & Batra, 2018; Santos et al., 2021). Companies need flexibility and openness to explorative learning, while effective management requires an exploitative learning process accompanied by strict control and mechanistic structures to form absorptive capacity (Darwish et al., 2018).

Table 5. Result of Testing Hypothesis

Hypothesis	Path Coefficient	T-Value	Assessments
H ₁ . Entrepreneurial Orientation → Firm Performance	0.326	4.314	H ₁ supported
H ₂ . Entrepreneurial Orientation → Absorptive Capacity	0.864	21.395	H ₂ supported
H ₃ . Absorptive Capacity → Firm Performance	0.624	8.906	H ₃ supported
H ₄ . Entrepreneurial Orientation → Absorptive Capacity → Firm Performance	0.539	8.058	H ₄ supported

Source: Processed Data (2022)

4. CONCLUSIONS

Entrepreneurial orientation plays an important role for family firms, even though they have been established for an extended period. Entrepreneurial orientation plays a role in improving company performance because family companies with a strong entrepreneurial orientation tend to be more innovative, proactive, responsive to market changes, and able to take profitable risks, leading to improved company performance.

Entrepreneurial orientation has a positive effect on absorptive capacity. The existence of entrepreneurial orientation in family companies will help companies recognize and evaluate new opportunities and increase the ability to absorb and utilize new knowledge. Absorptive capacity is needed by large-scale companies that are managed professionally and small-scale family companies.

Absorptive capacity is a mediating variable in transforming entrepreneurial orientation into firm performance. Family firms with high entrepreneurial orientation and strong absorptive capacity tend to be more proactive in seeking new opportunities and information and more effective in integrating knowledge into company management operations. This will increase the company's innovation capabilities and competitive advantage in the global market.

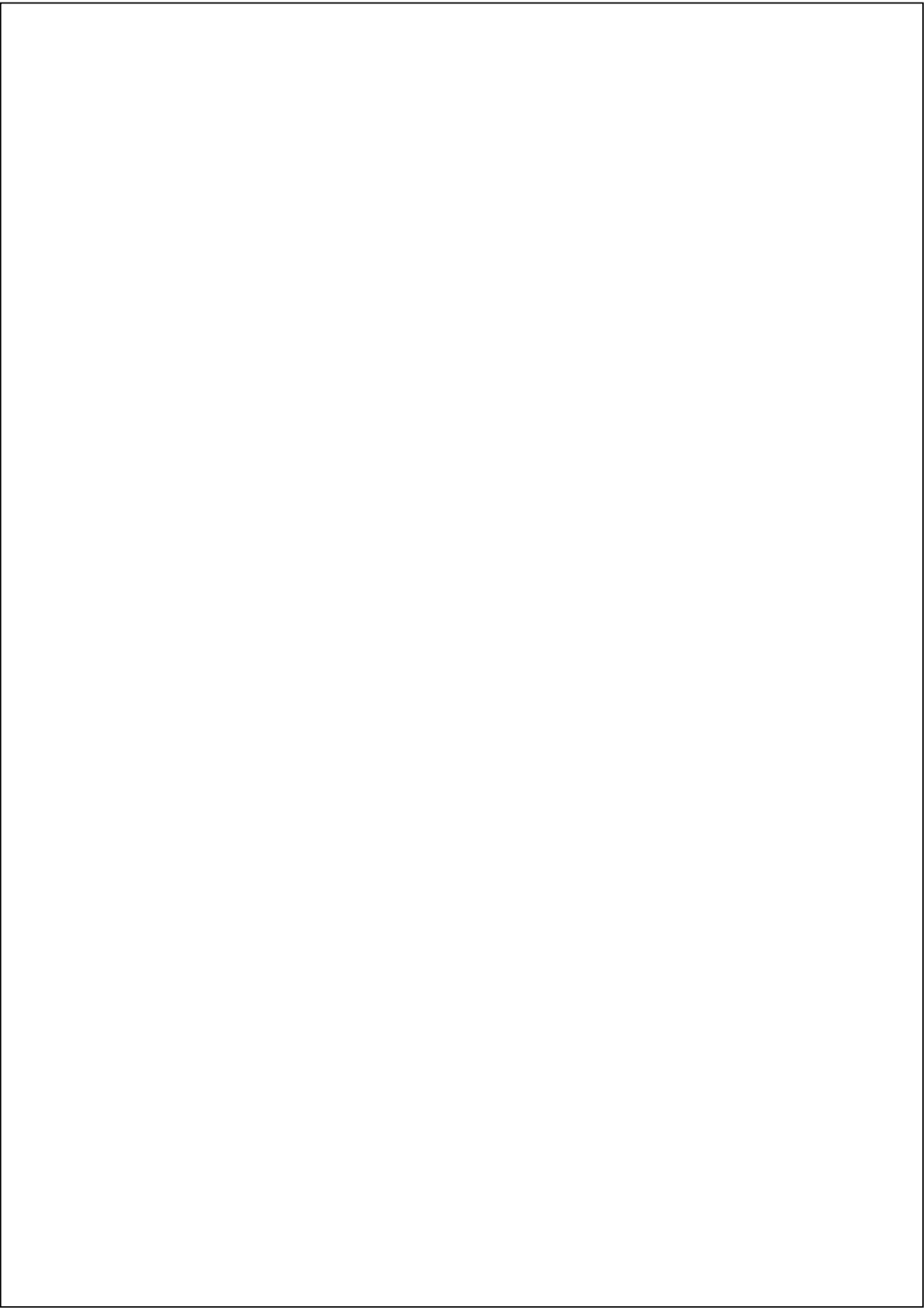
The limitation of this research is that it only examines family companies in Indonesia, with data acquisition dominated by the Surabaya, Jakarta, and Sulawesi regions. Future research can expand the scope of research to all of Indonesia evenly and can use multi-group analysis in the data analysis process, for example, including family generation elements as a basis for seeing the application of absorptive capacity in each family generation, so as to provide more comprehensive research results. The mixed method research method can also enrich and sharpen the research results obtained.

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