

## The Effect of Entrepreneurial Orientation on Innovation



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**ABSTRACT:** Performance improvement can be achieved if the organization can exploit and use its resources. One of the resources needed to achieve competitive advantage is entrepreneurial orientation. The entrepreneurial orientation helps organizations continuously create value chains by converting knowledge to be innovative and more competitive. The purpose of this research is to create innovation through entrepreneurial orientation. This study uses a quantitative approach with survey methods in data collection. The research location is in Kampung-Laweyan as the largest batik craft center in Solo. Samples were taken as many as 50 SMEs and analyzed using regression analysis. The results of the analysis show that innovativeness, risk-taking, and competitive aggressiveness have a positive and significant effect on innovation. The Proactive dimension has a positive but insignificant effect on the innovation variable. The Autonomy dimension has a negative and insignificant effect on the innovation variable. Suggestions for further research are that it is necessary to analyze the use of technology, especially for SMEs in anticipating uncertain conditions due to the Covid-19 Pandemic

**KEYWORDS:** Innovativeness, Risk-taking, Competitive Aggressiveness, Proactive, Autonomy, Innovation

### INTRODUCTION

The impact of the current Covid-19 pandemic is being felt by many people in various countries around the world, as well as in Indonesia. The increase in cases of the Covid-19 Pandemic has increased and will affect global economic growth. The Director-General of Taxes at the Ministry of Finance said there were three major impacts due to the Covid-19 pandemic on the economy in Indonesia so that it can be said to be an economic crisis. First, the decline in household consumption by up to 60% of the Indonesian economy. This statement is reinforced by BPS data which notes that household consumption fell from 5.02% in the first quarter of 2019 to 2.84% in the first quarter of 2020. The second impact, namely the Covid-19 pandemic, led to prolonged uncertainty resulting in weak investment so that it can causing the business to stop. The third impact is that commodity prices have fallen and export activities to various countries have also stopped (Zuraya, 2020).

The challenges for economies around the world are getting tougher. Conditions that require people to be vigilant and careful by limiting activities outside the home, results in reduced buying and selling transaction processes on the market. Minister of Finance of the Republic of Indonesia stated, there are four sectors most affected by the Covid-19 Pandemic, namely households, MSMEs, corporations, and the financial sector. It is predicted that economic growth will experience unstable shocks (Republika.co.id). According to Goldman Sachs data, 96% of MSME owners in the United States have felt the impact of the Covid-19 Pandemic, of which 75% of their businesses experienced a decline in sales. Meanwhile in Indonesia, the turnover of Indonesian MSMEs has decreased by up to 70% in the past week (personalfinance.kontan.co.id, 2020). Therefore, innovation is needed in the marketing of MSME products or products from entrepreneurs

Schumpeter (1934) and Rogers (2004) suggest that small businesses have greater difficulties than large firms to innovate because they have limited access to resources (Sahut & Peris-Ortiz, 2014). These limitations include the difficulty of being to adapt to the environment, the lack of ability to read business opportunities, the lack of innovation in anticipating various environmental challenges. On the other hand, in the internal operations of MSMEs, they are weak in managerial abilities, skills, promotions, and lack of capital. The form of application of entrepreneurial attitudes can be indicated by entrepreneurial orientation with an indication of

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innovation ability, proactivity, and ability to take risks (Looy et al., 2003 in Andriani Suryanita, 2006). Firms that have a strong entrepreneurial orientation will have the ability to innovate better than other firms that do not have an entrepreneurial orientation. Baker & Sinkula (2009) states that entrepreneurial orientation has a positive and significant effect on product innovation.

The results of empirical research show that entrepreneurial orientation has a positive and significant effect on product innovation, this indicates that entrepreneurial orientation plays a major role in creating innovation (Gosselin, 2005). This is because an entrepreneur always has a proactive nature in taking existing opportunities, paying attention to consumers and the market will help MSMEs and business actors to innovate. Miller (1983) defines entrepreneurial orientation as an orientation to be the first in terms of innovation in the market, to have a risk-taking attitude and to be proactive towards changes that occur in the market. Lumpkin and Dess (1996) stated that firms that have a strong entrepreneurial orientation will be more willing to take risks, and not only stick to past corporate strategies. This is because entrepreneurial orientation has five aspects, namely independence, innovation, risk-taking, proactive, and aggressive. Then the entrepreneurial orientation is considered capable of collaborating with innovation in creating unique opportunities for the continuity of a product and industrial growth.

Innovation can be an alternative that has a positive impact on economic strength and society in the midst of the current "new normal" discourse. Innovation is concerned with the process of creating something new and helping individuals to work more effectively and efficiently. Through innovation, new things will emerge which can be in the form of new products to new distribution systems. New products, for example, are not always related to sophisticated technology because simple products can also present a novelty, for example, various motifs in batik fashion (Wijatno, 2009).

### **THEORETICAL FRAMEWORK**

#### **Entrepreneurial Orientation**

Narver & Slater (1990) defines entrepreneurial orientation as a tendency or understanding of the need to be proactive to market opportunities and market dynamism, tolerant of risk, and flexible to change. Entrepreneurial orientation is defined as a form of description of how new entry is carried out by firms or it can be said that entrepreneurial orientation is described by the processes, practices, and decision-making activities that encourage new entry (Lumpkin & Dess; 1996). Entrepreneurial attitudes can be identified into entrepreneurial orientation with dimensions of being innovative, proactive, and the ability to take risks (Supranoto, 2009).

Entrepreneurial orientation is a company orientation that has principles on efforts to identify and exploit opportunities (Lumpkin & Dess, 1996). Miller (1984) defines entrepreneurial orientation as an orientation to be first in terms of innovation in the market, to have an attitude to take risks and to be proactive to changes that occur in the market. Miller & Friesen (1984) stated that firms that have a strong entrepreneurial orientation will have the ability to innovate more strongly than other firms. Meanwhile, Lumpkin & Dess (1996) argues that firms that have a strong entrepreneurial orientation will be more willing to take risks, and not only stick to the company's past strategies. In a dynamic environment, entrepreneurial orientation is very important for the survival of the company. Research conducted by Supranoto (2009) on entrepreneurial orientation variables explains several indicators including, taking risks, being flexible, and anticipatory. Research conducted (Parkman et al., 2012) states that indicators on entrepreneurial orientation variables include introducing new products quickly and finding new target markets. Entrepreneurial orientation is the key to creating innovation (Ejdys, 2015).

Processes, practices, and decision-making activities (entrepreneurial orientation) generate new entries (entrepreneurship). The entrepreneurial orientation reflects the company's tendency to engage in innovative behavior, take risks and be proactive to beat competitors. Firms that engage in this kind of behavior can effectively develop or improve the firm's performance and competitiveness. Knight (2000) explains that entrepreneurial orientation is related to finding opportunities, courage to take risks, and decisions to act from organizational leaders. Entrepreneurial orientation will be a value system for the company and will determine the company's motion or strategy. Firms that have the value to keep looking for opportunities will continue to move to try to enter new markets in order to take the opportunities that are there.

Conversely, successful new entries can also be achieved if only a few of these factors are operational. That is the extent to which each of these dimensions is useful for predicting the nature and success of a new venture depends on external factors, such as the industry or business environment, or internal factors, such as organizational structure (in the case of existing firms) or founder / top manager characteristics. This is in accordance with the opinion of Gartner (1989) regarding the formation of new businesses: The creation of new businesses is a multidimensional phenomenon where each variable only describes one dimension of the

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phenomenon and cannot be taken alone.

Entrepreneurial orientation is measured through five indicators, namely (Lumpkin & G. Dess, 1996): Autonomy is the tendency to work independently, make decisions, and take actions aimed at advancing business concepts and bringing them to completion. Innovativeness is the tendency to engage in creativity and experimentation through the introduction of new products or services and technological leadership through research and new processes. Risk-taking is the courage of a business actor to take risks for all the decisions he makes. Proactiveness is a search for opportunities, a forward-looking perspective characterized by introducing a new product or service first in the competition and acting in anticipation of future demand. Competitive aggressiveness is the intensity of the company's efforts to outperform competitors and is characterized by offensive attitudes or responses or aggressive responses to competitors' actions.

According to Miller & Friesen (1984), a firm with an entrepreneurial orientation is one that is involved in product innovation, doing risky ventures, first to do it with proactive innovation, and to beat competitors. Entrepreneurial orientation through market knowledge and competition causes firms to resist.

### Innovation

Thompson (1965) argues that innovation is "generating, receiving and implementing new ideas, processes, products or services". Meanwhile, according to Jensen and Webster (Sumarsono, 2010) the innovation aspect includes four indicators, including product, process, organization, and marketing. As an entrepreneur who is superior, he has creative, innovative, originality, risk-taking, forward-oriented and prioritizes achievement, resilient, perseverance, not easily discouraged, has high enthusiasm, is disciplined and steadfast in his stance.

Robbins (2010) states that innovation is an idea, idea, practice, or object/object that is realized and accepted as something new by a person or group for adoption. Pierce and Robinson (2011) stated that innovation is the initial advantage of the invention by producing and selling a new product, service, or process. Innovation can also be interpreted as individual creative thinking that can generate ideas for the firm. These ideas are used to create new thoughts in order to create strategies for dealing with existing customers, competitors, and markets. Innovation is not only about products, but also in the form of existing systems in the company regarding distribution channels and payment systems. Innovation can be used as one of the factors that help improve marketing performance with indicators in the form of design changes, distribution system changes, sales system changes, and payment systems (Pierce and Robinson, 2011).

### RESEARCH HYPOTHESIS

Entrepreneurial orientation is one of the important factors for innovation (Wu, Chang, & Chen, 2008). Firms will benefit a lot by adopting an entrepreneurial orientation (Ejdys, 2015) because entrepreneurial orientation is considered the first step in understanding innovation (Campos & Valenzuela, 2013; Wu et al., 2008) and plays a key role in the company's competitive advantage (Lumpkin & Dess, 1996). This is in line with the concept of strategic entrepreneurship (SE) which explains that effective opportunity-seeking behavior (entrepreneurial orientation) can encourage effective value creation and excellence (Hitt et al., 2011). Nelson (1991) assert that entrepreneurial orientation can be considered as an antecedent of innovation and can be a useful parameter to explain why firm performance is different. This is in line with studies conducted by Bleeker (2011); Alegre & Chiva (2013); Pratono et al. (2013) and Suyanto (2014) which produce evidence that entrepreneurial orientation plays an important role in innovation.

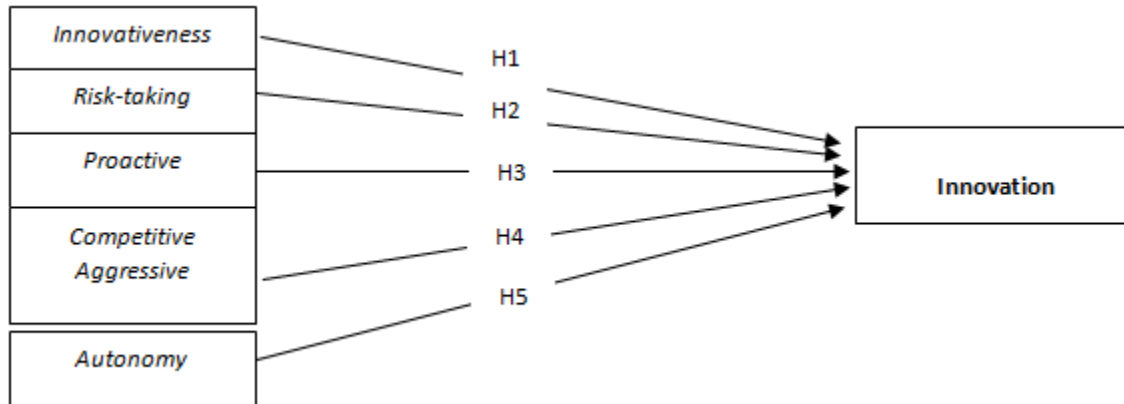
For this reason, the hypothesis of this research can be formulated as follows: H1: there is a significant influence between Innovativeness on innovation.

H2: there is a significant influence between risk-taking on innovation. H3: There is a significant influence between Proactive on Innovation.

H4: There is a significant influence between Competitive Aggressiveness on Innovation. H5: There is a significant influence between Autonomy on Innovation.

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## Research Model



## RESEARCH METHODS

The type of research is quantitative with a survey method. The survey was conducted on the owners/managers of Batik SMEs who are considered to represent the organization and understand the strategies and policies related to innovation and entrepreneurial orientation abilities. The research location is in the city of Surakarta, with the Batik SMEs analysis unit. The research period was 9 (nine) months, in March-November 2020. The population of this study was that Batik SMEs in the Largest Cluster of the Batik Industry in Central Java, the Laweyan area of Surakarta City, totaling 121 MSMEs. The sample size was calculated using the Slovin formula, and the total was 60 MSMEs. The sampling technique used Judgment Sampling, namely the criteria: (1). Owners of Batik in the City of Surakarta (2) Have a workforce of at least 5 people. For this reason, the number of samples taken was 50 SMEs.

### Measures

Entrepreneurial Orientation is measured using five indicators from Lumpkin & Dess (1996), namely: Innovativeness, Risk Taking, Proactive, Competitive Aggressiveness, and Autonomy, Each question item uses a Likert scale and shows the value of the validity test (> 0.552) and the reliability test (0, 92) which means that the variable is valid and reliable.

Innovation, using indicators adopted from research (Manual Oslo Guide, 2005), namely new products, services, and methods. A 5-point Likert scale is used to measure this variable. The results of the validity and reliability tests on the 3 questions resulted in a valid value (> 0.661) and a reliable value of (0.789).

## RESULT AND DISCUSSION

### Demographic Information

Descriptive statistics, show that the majority of Batik craftsmen in Laweyan were established in 2011-2015 (30%), most of the Batik craftsmen have been around for 10 years (28%), and only 8% of Batik craftsmen have only been operating for 3 years. More than half of Batik craftsmen do not have a legal entity (54%), with 45% of Batik craftsmen having employees between 11-20 people. The education of the owner/manager of Batik craftsmen has an average of undergraduate (S1) graduates as much as 44%, and most of them are male (64%).

**Table 1 Demographic Data of Respondents**

Characteristics	Frequency	Percentage (%)
<b>Established (Year)</b>		
Before 2000	10	20.00
2000-2005	12	24.00
2006-2010	9	18.00
2011-2015	15	30.00
After 2015	4	8.00
<b>Firm age</b>		

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3 years	4	8.00
>3 – 8 years	13	26.00
>8 – 13 years	10	20.00
>13 – 18 years	14	28.00
>18 years	9	18.00
<b>Have Legal Entity</b>		
Yes	23	46.00
No	27	54.00
<b>owner/manager's education</b>		
SMA	21	42.00
D3	6	12.00
S1	22	44.00
S2	1	2.00
<b>Sex /gender</b>		
Male	32	64.00
Female	18	36.00
<b>Amount of Employee</b>		
≤ 10	10	2.00
11 -20	15	45.00
21 - 30	12	17.00
31 - 40	8	5.00
≥ 40	5	7.00

## RESULT

Based on the results of regression analysis, in table 1 it is known that the Innovativeness variable has a positive effect on innovation with a count value of 3.355 > t table of 1.6526 with a significance value of 0.001 < 0.05, smaller than the 5% level. These results indicate that the Innovativeness variable has a positive and significant effect on innovation. Thus, the hypothesis which states that Innovativeness has a significant effect on innovation is acceptable.

**Table 1. Innovativeness on Innovation**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,474	,178		13,927	,000
	Innovativeness	,159	,047	,233	3,355	,001

a. Dependent Variable: Innovation

**Source:** primary data, processed (2020)

The results of regression analysis, in table 2 show that the risk-taking variable has a positive effect on innovation with a t-count of 3.352 > t-table of 1.6526 with a significance value of 0.001 < 0.05, smaller than the 5% level. These results indicate that the risk-taking variable has a positive and significant effect on innovation. Thus, the hypothesis which states that risk-taking has a significant effect on innovation is acceptable.

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**Table 2. Risk Taking on Innovation**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,597	,142		18,334	,000
	Risk_Taking	,136	,041	,233	3,352	,001

a. Dependent Variable: Innovation

Source: primary data, processed (2020)

The results of regression analysis, in table 3 show that the Proactive variable has a positive effect on innovation with a t-count of 1.757 > t-table of 1.6526. However, the significance value of 0.80 > 0.05 is greater than the 5% level which means it is not significant. These results indicate that the Proactive variable has a positive and insignificant on innovation. Thus, the hypothesis which states that Proactive has a significant effect on innovation cannot be accepted or rejected.

**Table 3. Proactive on Innovation**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,775	,166		16,687	,000
	Proactive	,072	,041	,125	1,757	,080

a. Dependent Variable: Innovation

Source: primary data, processed (2020)

The results of the regression analysis in table 4 show that the variable Competitive Aggressiveness has a positive effect on innovation with a value of t count of 4.247 > t table of 1.6526 with a significance value of 0.000 < 0.05, smaller than the level of 5%. These results indicate that the variable Comp. Aggressiveness has a positive and significant effect on innovation. Thus, the hypothesis which states that Competitive Aggressiveness has a significant effect on innovation can be accepted.

**Table 4. Competitive Aggressiveness on Innovation**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,515	,132		19,081	,000
	Comp_Agresiveness	,156	,037	,290	4,247	,000

a. Dependent Variable: Innovation

Source: primary data, processed (2020)

The results of regression analysis, in Table 5, it is found that the Autonomy variable has a negative effect on innovation with a t-count of 1.611 < t-table of 1.6526 and not significant with a significance value of 1.611 > 0.05, greater than the 5% level. These results indicate that the autonomy variable has no positive and insignificant effect on innovation. Thus, the hypothesis that autonomy has a significant effect on innovation cannot be accepted or rejected

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**Table 5. Autonomy on Innovation**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,834	,145		19,556	,000
	Autonomy	,061	,038	,114	1,611	,109

a. Dependent Variable: Innovation

Source: primary data, processed (2020)

The following are the results of a simple linear regression test for each dimension of entrepreneurial orientation towards innovation:

**Table 8. Simple Linear Regression Test Results**

Variabel	t <sub>hitung</sub>	t <sub>tabel</sub>	Significance	Information
Innovativeness	3,355	1,6526	0,001	Positive and Significant
Risk-taking	3,352		0,001	Positive and Significant
Proactive	1,757		0,80	Positive and insignificant
Competitive Agresiveness	4,247		0,000	Positive and Significant
Autonomy	1,611		0,109	Negative and insignificant

Source: primary data, processed (2020)

## DISCUSSION

The results of the regression analysis show that Innovativeness has a positive and significant effect on innovation. Schumpeter (1942) describes the economic process as "creative destruction", in which wealth is created when the existing market structure is entered by new products or services that shift the resources of existing firms and cause the new firms to grow. The key to this cycle of activity is entrepreneurship: the introduction of competitive innovative "new combinations" promotes the dynamic evolution of the economy (Schumpeter, 1934). Thus "innovative nature" becomes an important factor used to characterize entrepreneurship. Innovation reflects a company's tendency to engage and support new ideas as well as novelty, experimentation, and creative processes that can produce new products, services, or technological processes. Although classifying innovations may vary in different levels of method (Hage, 1980), innovation represents a basic willingness to differ from existing technologies or practices and seek to transcend the current state of the art (Kimberly, 1981).

Risk-Taking has a positive and significant effect on innovation. Cantillon (1734), who was the first to formally use the term entrepreneurship, argued that the main factors separating employers from hired employees were entrepreneurial uncertainty and risk. Therefore, the concept of risk-taking is a term often used to describe entrepreneurship. Based on Miller's (1984) approach to Entrepreneurial Orientation, which measures risk-taking at the firm level by asking managers about the company's propensity to engage in risky projects and managers' preferences for bold, cautious action to achieve company goals. Venkatraman (1989) uses a similar approach, asking managers to what extent they follow a tried and true path or tend to only support projects where the expected results are certain. Thus, firms with entrepreneurial orientation are often characterized by risk-taking behavior, such as having large debts or making large resource commitments, to gain high returns by seizing opportunities in the market.

Competitive Aggressiveness has a positive and significant effect on innovation. Competitive aggressiveness refers to the tendency of a company to directly challenge its competitors to enter or increase its position by outperforming industrial competitors in the market. Competitive aggressiveness also reflects the desire to be modern and not rely on traditional methods to compete. Examples of modern competitive aggressiveness for newcomers are (Cooper et al., 1986), analyzing and targeting competitor weaknesses (Macmillan & Jones, 1984), and focusing on high value-added products coupled with monitoring unnecessary expenditure (Woo & Cooper, 1981). Similarly, Porter (1985) recommends three approaches for pursuing existing firms aggressively namely doing things differently (reconfiguring), changing the context (redefining a product or service and its channel or market scope), and spending more money than it does. industry leader. Thus, competitive aggressiveness which refers to the responsiveness of the company can

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be directed to achieve competitive advantage which is an important component of an Entrepreneurial Orientation.

Proactive (activeness) has no significant effect on innovation. Proactive refers to how a company deals with the process of entering new market opportunities. Firms act by taking the initiative and acting in a search for opportunities to "shape the environment" in the market, that is, to influence trends and create demand. Until recently proactive traits were used to describe the firms that innovate the fastest and the first to introduce new products or services. This was stated by Miller (1984) about entrepreneurial firms as firms that "produce proactive innovation for the first time". Although the idea of acting in anticipation of future demand is an important component of entrepreneurship, the idea of being the first to market is a little bit narrowly interpreted. Firms can be new, forward-thinking, and fast without always being the first. So, a proactive company is where the company chooses to be a leader rather than a follower because it has the willingness and foresight to seize new opportunities even though it is not always the first to do it.

Autonomy has no significant effect on innovation. The concept of autonomy is a key dimension of entrepreneurial orientation. Autonomy refers to the independent action of an individual or organization in generating an idea or vision and bringing it to completion. In general, this means the ability and willingness to direct oneself in pursuit of opportunities. Hart (1992) suggests an integrative framework including a generative model, in which strategy making occurs from the entrepreneurial activities of organizational members that produce ideas which are then passed on to higher levels of management. Hart's opinion is supported by Bourgeois and Brodwin (1984) who describe the Crescive model, which is a strategy initiated in organizations through individual entrepreneurship. This model suggests that the impetus for new ventures often occurs at a lower level within an organization (Bower, 1970) and reflects the autonomy to organizational members that may be found in internal corporate venture settings. In both cases, freedom to act independently is an important dimension of Entrepreneurial Orientation.

Evidence of autonomy in firms can vary as a function of size, management style, or ownership. For example, in a company where the main decision-maker is the owner/manager, autonomy is implied in ownership rights. However, the extent to which autonomy is exercised in this case may depend on the level of centralization or level of delegation and is related to the size of the organization. Miller (1984) found that most entrepreneurial firms have the most autonomous leaders. That is, in a modest small company, high-level entrepreneurial activity is associated with the chief executive who maintains a strong central authority and also acts as the company's knowledge leader aware of emerging technologies and markets.

## CONCLUSION

The conclusion that can be given from this research is that partially the Entrepreneurial Orientation variable through 5 dimensions, namely innovativeness, risk-taking, and Competitive Aggressiveness has a positive and significant effect on the innovation variable. Meanwhile, the Proactive dimension has a positive effect on the Innovation variable, but it is not significant. The Autonomy dimension has a negative and insignificant effect on the innovation variable.

Suggestions, based on the research findings above, some suggestions that can be recommended are that business actors, especially the batik industry, must continue to develop and improve innovative activities through new ideas, dare to take risks, and be confident so that they can maintain market share and survive. even in economic conditions even in Covid-19 conditions. The use of technology will be one of the solutions in maintaining the market in this global era.

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