

# The impact of market orientation, entrepreneurial orientation, and innovativeness on MSMEs' business performance in Indonesia

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**ABSTRACT**

The aim of this article is to investigate the market orientation, entrepreneurial orientation, innovativeness model as a mediator of the business performance of MSMEs in Indonesia. This research uses a quantitative approach, with a sample of 164 MSMEs owners in Indonesia who filled out an online questionnaire. The analysis technique uses Structural Equation Model (SEM) with SmartPLS 3.0 software. The research results show that entrepreneurial orientation and innovativeness have a direct influence on business performance in a positive way, and market orientation and entrepreneurial orientation have an indirect influence on business performance through innovativeness. The implications of this research show that entrepreneurial orientation has the most important role in influencing the business performance of MSMEs in Indonesia compared to other variables, so that MSME owners in Indonesia need to increase their entrepreneurial orientation capacity in running their business.

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**1. Introduction**

The role of Micro, Small and Medium Enterprises (MSMEs) owners in Indonesia is very important in national economic development. Based on data from the Ministry of Cooperatives and MSMEs of the Republic of Indonesia, the contribution of MSMEs to the National Gross Domestic Product (GDP) is 60.5 percent, and to the absorption of labor is 96.9 percent of the total absorption of national labor (Novrizaldi, 2023). Even though MSMEs in Indonesia are growing rapidly, many of them cannot survive for long (Lussak et al., 2020). Based on the results of a survey by Bank Rakyat Indonesia for the period March-September 2021, it was noted that only 20 percent of MSMEs stated that their businesses had closed (Tira Santia, 2022). To run a successful and sustainable MSMEs business, MSMEs owners need to know the factors that influence business performance.

Business performance is the main benchmark for business success and sustainability, which includes financial, operational and strategic aspects. According to Bernard J. Jaworski (1993) business performance is the result of various operations carried out by a business and involves achieving internal and external company goals, such as sales growth, profitability, and market share. Business performance is the ultimate goal of an MSMEs owner. With high business performance, it will make it possible for a business to compete with competitors, steal competitors' markets, and grow further. To achieve good business performance, supporting factors are needed that can affect business performance. To improve business performance, market orientation is one of the factors, according to Chen & Quester. (2006) Market orientation can increase customer satisfaction which has an impact on improving business performance.

In addition to market orientation, entrepreneurial orientation is one of the factors that can improve business performance. Entrepreneurial orientation is a mindset that focuses on innovation, creativity,

adaptation, and implementation of entrepreneurial activities (Rauch et al., 2009). Then, entrepreneurial orientation refers to the strategic way a company is oriented, entrepreneurial characteristics in decision-making style, methods, and certain practices (Wiklund & Shepherd, 2005). A business owner who has an entrepreneurial orientation tends to be involved in creating product innovations, is ready to take risks in business, and is proactive in introducing innovations to overcome competitors (Putniņš & Sauka, 2020). Therefore, we can see that businesses that implement entrepreneurial orientation will be seen from the factors of innovation, activeness, and risk taking.

Apart from market orientation and entrepreneurial orientation, innovativeness is one of the factors that influences business performance. According to Kajalo et al., (2016) *Innovativeness is the ability to implement and develop new ideas synergistically, and improve business operations and services to meet established goals. Innovativeness can be viewed as the orientation of a company/organization's culture (values and beliefs) towards innovation* (Tajeddini et al., 2006), When an MSMEs has good innovativeness, it means that the owner is willing to learn and accept new ideas, both from input sources and in producing products or services. (Verhees & Meulenberg, 2004).

This study focuses on discussing market orientation, entrepreneurial orientation, and innovativeness that influence the success of business performance in MSMEs in Indonesia. This study is not only to complement previous studies, but also because of the researcher's interest in understanding things that impact business performance.

## 2. Research Method

The type of research used in this study is a quantitative approach. This study uses a survey/questionnaire method distributed to respondents online using the Google Form tool with a non-probability sampling technique, with a Structural Equation Modeling (SEM) analysis technique using the SmartPLS 3.0 statistical application. The sample in this study was 164 MSMEs owners in Indonesia.

This study is to explore the influence of two exogenous variables market orientation and entrepreneurial orientation, one intervening variable innovativeness, and one endogenous variable business performance. So with this research model obtained 7 hypotheses to be tested, which are described below:

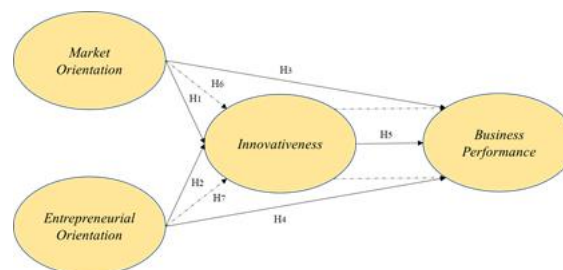


Figure 1. Research model

In the picture there are seven hypotheses, namely market orientation influences innovativeness (H1), entrepreneurial orientation influences innovativeness (H2), market orientation influences business performance (H3), entrepreneurial orientation influences business performance (H4), innovativeness influences business performance (H5), market orientation influences business performance through innovativeness (H6), and entrepreneurial orientation influences business performance through innovativeness (H7). To measure the variables of this study can be seen in the table below:

Table 1. Operational variabel

Variabel	Indicator	Source
Market Orientation	Your business actively monitors competitor actions	(Kajalo & Lindblom, 2015); (Kara et al., 2005); (Lee & Tsai, 2005)
	Your business is able to respond quickly to competitor actions	
	Your business regularly assesses customer satisfaction	
	Your business is able to obtain industry information through (informal) social activities, such as lunches with industry friends and business partners.	
	Your business holds meetings between departments/divisions (at least once every 3 months) to discuss market trends and developments	
	When customers request modifications to products or services, your business team will try to fulfill the request	
	If a competitor is aggressively attracting your customers, your business will take action immediately	

Variabel	Indicator	Source
<i>Entrepreneurial Orientation</i>	Your business always tries to develop products according to customer desires	(Soininen et al., 2012); (McGee & Peterson, 2019); (Altinay & Wang, 2011)
	Your business often acts before competitors do	
	Your business is willing to take big risks even when the outcome is uncertain	
	Your business is willing to invest a lot in developing new products, services, and businesses	
	Bisnis Anda memiliki banyak produk dan jasa baru	
	Changes in products are usually quite drastic	
	Your business usually initiates action and your competitors respond	
	Your business is always looking for new businesses or markets to enter	
	Your business is constantly introducing new products or services to serve new customers or markets	
	Your business is quick to respond to customers	
<i>Innovativeness</i>	Your business is quick to introduce innovative products or services	(Yu et al., 2013); (Tajeddini et al., 2006); (Kajalo et al., 2016)
	Your business supports progress and innovation	
	Your business is known for being innovative in the industry sector you are in	
	Your business is often looking for innovative ideas	
	You and your employees are receptive to innovations that occur in your business	
	Your business has a more innovative way of achieving your goals than your competitors	
	In your business, people will face consequences if the new ideas they propose don't work out.	
<i>Business Performance</i>	The percentage of sales generated by your new product is higher than that of your major competitors	(Matsuno & Mentzer, 2000); (Morgan & Strong, 2003); (Wu et al., 2003); (Choon Tan et al., 2002)
	Your business performance in terms of customer satisfaction is better than that of your major competitors	
	Your business provides secure employment to your employees	
	The number of existing (old) customers you have been able to retain has increased	
	Your business has been able to strengthen existing business relationships with partners and suppliers	
	Your business market share is greater than that of your major competitors	
	Your business profit percentage on capital is higher than that of your major competitors	
Your business sales growth is better than that of your major competitors		

### 3. Results And Discussions

The results of the study were processed using two measurement models, namely the measurement model and the structural model. At the PLS-SEM testing stage of this study, a measurement model test will be carried out. The measurement model in this study will show the existence of a first model and a final model. The final model occurs if there is a loading factor that has a value below 0.6. several variables have loading factor values below 0.6. In the business performance variable, the loading factor value below 0.6 is BP3 with a value of 0.528 and BP5 with a value of 0.595 and the entrepreneurial orientation variable, the loading factor value below 0.6 is EO1 with a value of 0.575.

Based on these results, it is necessary to modify the research model until all instruments have a loading factor value above 0.6. In the reliability test, the research will be tested based on Cronbach's alpha and composite reliability. The Cronbach's alpha and composite reliability values must be above 0.6. business performance has a Cronbach's alpha value of 0.861 and a composite reliability of 0.891. The Cronbach's alpha and composite reliability values of the business performance variable are greater than  $\geq 0.6$ , which means they are declared reliable. entrepreneurial orientation has a Cronbach's alpha value of 0.846 and a composite reliability of 0.884. The Cronbach's alpha and composite reliability values entrepreneurial orientation variable is greater  $\geq 0.6$ , which means it is declared reliable. Innovativeness has a cronbach's alpha value of 0.840 and a composite reliability of 0.877. The cronbach's alpha and composite reliability values of the Innovativeness variable are greater  $\geq 0.6$ , which means it is declared reliable. Market Orientation has a cronbach's alpha value of 0.804 and a composite reliability of 0.853. The cronbach's alpha and composite reliability values of the market orientation variable are greater  $\geq 0.6$ , which means it is declared reliable.

Average Variance Extracted (AVE) must be above 0.5, then the convergent validity test on AVE is declared valid. The AVE value with business performance is 0.597, entrepreneurial is 0.521, innovativeness is 0.574, market orientation is 0.520. So that the value is greater than the cut off value or above 0.5. The following is a summary of the measurement model table for this study:

**Table 2.** Measurement models

Items	First iteration				Final iteration			
	Outer Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)	Outer Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
BP1	0.817				0.832			
BP2	0.615				0.638			
BP3	0.528				-			
BP4	0.643	0.858	0.890	0,51	0.614	0.861	0.897	0.597
BP5	0.595				-			
BP6	0.810				0.848			
BP7	0.843				0.854			
BP8	0.776				0.812			
EO1	0.575				-			
EO2	0.661				0.654			
EO3	0.676				0.665			
EO4	0.756	0.850	0.884	0.490	0.771	0.846	0.884	0.521
EO5	0.748				0.752			
EO6	0.747				0.759			
EO7	0.758				0.761			
EO8	0.657				0.682			
IN1	0.618				0.616			
IN2	0.766				0.765			
IN3	0.658				0.645			
IN4	0.648	0.840	0.877	0.574	0.650	0.840	0.877	0.574
IN5	0.676				0.670			
IN6	0.696				0.693			
IN7	0.808				0.812			
IN8	0.615				0.622			
MO1	0.660				0.663			
MO2	0.709				0.714			
MO3	0.647				0.642			
MO4	0.630	0.804	0.853	0.520	0.633	0.804	0.853	0.520
MO5	0.637				0.637			
MO6	0.636				0.630			
MO7	0.625				0.623			
MO8	0.639				0.639			

In the evaluation of discriminant validity, a cross loading test will be conducted. The cross loading value in measuring its variables must be greater than other variables. The following is the cross loading test of this study:

**Table 3.** Cross loading

Code	BO	EO	I	MO
BP1	0.832	0.655	0.59	0.597
BP2	0.638	0.434	0.455	0.384
BP4	0.614	0.375	0.387	0.37
BP6	0.848	0.598	0.57	0.465
BP7	0.854	0.629	0.638	0.574
BP8	0.812	0.594	0.565	0.545
EO2	0.46	0.654	0.407	0.465
EO3	0.453	0.665	0.522	0.539
EO4	0.605	0.771	0.578	0.49
EO5	0.468	0.752	0.497	0.486
EO6	0.622	0.759	0.566	0.621
EO7	0.542	0.761	0.648	0.605
EO8	0.467	0.682	0.607	0.442
IN1	0.403	0.451	0.616	0.495
IN2	0.575	0.581	0.765	0.576
IN3	0.363	0.403	0.654	0.447
IN4	0.414	0.566	0.65	0.516
IN5	0.426	0.489	0.67	0.569
IN6	0.443	0.491	0.693	0.511
IN7	0.631	0.655	0.812	0.57
IN8	0.533	0.522	0.622	0.558
MO1	0.431	0.506	0.512	0.663
MO2	0.57	0.596	0.584	0.714

Code	BO	EO	I	MO
MO3	0.368	0.36	0.503	0.642
MO4	0.442	0.521	0.525	0.633
MO5	0.399	0.418	0.499	0.637
MO6	0.347	0.458	0.41	0.63
MO7	0.377	0.447	0.435	0.623
MO8	0.351	0.419	0.513	0.639

The cross loading value shows that the correlation value of each indicator exceeds the other indicators so that it is considered valid. Based on Table 3, all manifest variables have measured their latent variables larger than other variables (given a bold mark to make it easier).

After conducting the outer model test, this study will test the inner model or structural model. In the structural model test, it can be seen in Table 4 and Figure 2. In the hypothesis test used, the p-value must be below 5% or 0.05, then the hypothesis is declared accepted and  $t\text{-count} > t\text{-table}$  (1.654).

The results of this study indicate that the first hypothesis (H1) is accepted because the T Statistics value is 7.335 which is greater than the T Table of 1.96 and is supported by a P Value of 0.000 which is smaller than the alpha of 0.05. Then, the original sample value is 0.462 and is positive. So, it can be concluded that market orientation positively influences innovativeness. The results of this study further strengthen and add to the fact that market orientation positively influences innovativeness which has been proven by several previous studies (Hult et al., 2004; Tajeddini et al., 2006). Market orientation plays a very important role in innovativeness because the more a business owner focuses on the market, the higher his ability to innovate his business products or services.

The second hypothesis (H2) is accepted because the T Statistics value is 6.176 which is greater than the T Table of 1.96 and is supported by a P Value of 0.000 which is smaller than the alpha of 0.05. Then, the original sample value is 0.430 and has a positive value. So, it can be concluded that entrepreneurial orientation positively influences innovativeness. The results of this study further strengthen and add to the fact that entrepreneurial orientation positively influences innovativeness (Avlonitis & Salavou, 2007; Tajeddini, 2010). The third hypothesis (H3) is rejected because the T Statistics value is 1.133 which is smaller than the T Table of 1.96 and is supported by a P Value of 0.258 which is greater than the alpha of 0.05 so that it is considered that there is no significant influence. Therefore, it can be concluded that market orientation does not affect business performance positively. The results of this study are in line with the results of previous studies which state that market orientation does not affect business performance directly (direct) (Singh, 2009). This is because market orientation does not directly increase business performance, but will stimulate a business owner to take other actions that have a direct influence on business performance.

The fourth hypothesis (H4) is accepted because the T Statistics value is 4.237 which is greater than the T Table of 1.96 and is supported by a P Value of 0.000 which is smaller than the alpha of 0.05. Then, the Original Sample value is 0.411 and is positive. So, it can be concluded that entrepreneurial orientation positively influences business performance. The results of this study are in accordance with the results of previous studies which prove that entrepreneurial orientation positively influences business performance (Elly, 2012; Li et al., 2009; Soininen et al., 2012). The fifth hypothesis (H5) is accepted because the T Statistics value is 2.874 which is greater than the T Table of 1.96 and is supported by a P Value of 0.004 which is smaller than the alpha of 0.05. Then, the Original Sample value is 0.298 and is positive. So, it can be concluded that innovativeness positively affects business performance. The results of this study strengthen the results of previous studies which found that innovativeness positively affects business performance (Octasylya et al., 2022; Tsai & Yang, 2013).

The sixth hypothesis (H6) is accepted because the T Statistics value is 2.680 which is greater than the T Table of 1.96 and is supported by a P Value of 0.008 which is smaller than the alpha of 0.05. Then, the Original Sample value is 0.138 and is positive. So, it can be concluded that market orientation affects business performance through innovativeness. This result is reinforced by the same facts from previous studies (Suliyanto & Rahab, 2012). The seventh hypothesis (H7) is accepted because the T Statistics value is 2.483 which is greater than the T Table of 1.96 and is supported by a P Value of 0.013 which is smaller than the alpha of 0.05. Then, the Original Sample value is 0.128 and has a positive value. So, it is concluded that entrepreneurial orientation affects business performance through innovativeness. This result is reinforced by the fact proven by previous researchers that innovativeness plays an important role in mediating the influence between entrepreneurial orientation and business performance. (Ng et al., 2020).

The following is a structural model obtained from the tests that have been carried out:

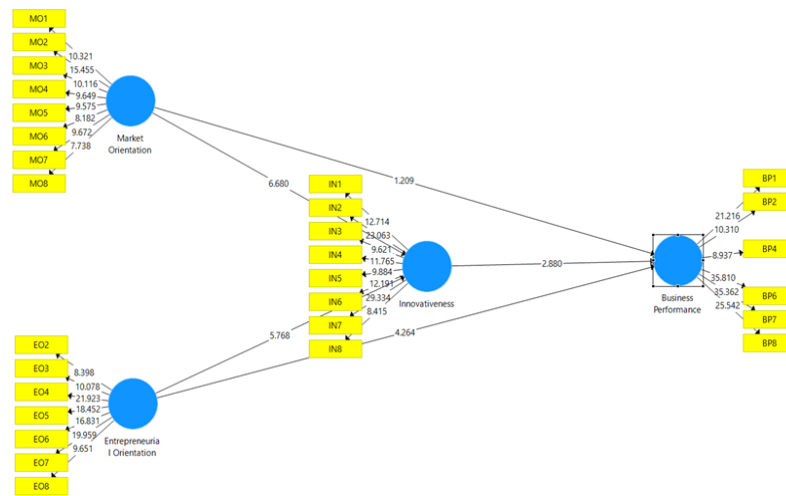


Figure 2. Research results on smartPLS

After conducting all the necessary condition tests, the hypothesis will be proven through hypothesis testing, both direct and indirect. The hypothesis is tested based on the results of the Partial Least Square (PLS) analysis using the bootstrapping method by looking at the T Statistics and P Values. The criteria are T Statistics > T Table and P Values < Error Level ( $\alpha$ ) to determine whether the independent variable has a significant effect on the dependent variable. The T Table and Alpha that will be used are 1.96 and 0.05 (5%). There is also an assessment of the Original Sample (O) to determine the extent to which the independent variable affects the dependent variable and the direction of its influence (positive or negative). Then, a Total Effect assessment is needed on Business Performance because the variable is directly and indirectly influenced by other variables. Innovativeness does not require a Total Effect assessment because it will produce the same results as the direct effect assessment.

Table 4. Path analysis & P Values

Hipotesis	Path Analysis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
H1	Entrepreneurial Orientation > Business Performance	0.411	0.416	0.097	4.237	0.000
H2	Entrepreneurial Orientation > Innovativeness	0.430	0.422	0.070	6.176	0.000
H3	Innovativeness > Business Performance	0.298	0.286	0.104	2.874	0.004
H4	Market Orientation > Business Performance	0.115	0.129	0.101	1.133	0.258
H5	Market Orientation > Innovativeness	0.462	0.472	0.063	7.335	0.000
H6	Entrepreneurial Orientation > Innovativeness > Business Performance	0.128	0.122	0.052	2.483	0.013
H7	Market Orientation > Innovativeness > Business Performance	0.138	0.134	0.051	2.680	0.008

#### 4. Conclusion

Based on the results of the tests that have been conducted, it can be concluded that entrepreneurial orientation and innovativeness have an effect on business performance, while market orientation does not have an effect on the business performance of MSMEs in Indonesia. Entrepreneurial orientation and market orientation have an effect on innovativeness. Market orientation indirectly affects business performance through innovativeness and entrepreneurial orientation indirectly affects business performance through innovativeness.

Entrepreneurial orientation has a significant direct and indirect influence, and has the greatest influence on the business performance of MSMEs in Indonesia, so that MSMEs owners in Indonesia are advised to focus more on improving entrepreneurial orientation in order to improve business performance. Meanwhile, market orientation has been proven to have no direct influence on the business performance of MSMEs in Indonesia, although market orientation does not have a direct influence on business performance, market orientation has an indirect influence on business performance through innovativeness, so it still has a role in determining the business performance of MSMEs in Indonesia. market orientation and entrepreneurial orientation also have a direct influence on the innovativeness of MSMEs in Indonesia positively, where market orientation plays a bigger role than entrepreneurial orientation.

When business objectives focus on good innovativeness, researchers suggest that MSMEs owners in Indonesia focus on market orientation in their business. Such as focusing on customer satisfaction and competitor actions. However, when business objectives focus on business performance, researchers suggest that MSMEs owners in Indonesia hold training for all company members in order to have innovativeness. Such as being proactive and daring to take risks to appear superior to competitors. By having good business performance, it is likely that MSMEs in Indonesia can survive.

This study has several limitations that need to be considered. First, the sample size and sampling method may limit the accurate representation of the MSMEs population throughout Indonesia because more than half of the respondents in this study came from the food & beverage industry, which means it is not evenly distributed. Second, subjective responses from respondents to statements in the questionnaire can cause bias and affect the validity of the indicators. From these limitations, the researcher suggests that further researchers expand the geographical scope to get a more accurate picture of the variables in this study on MSMEs in Indonesia. To get more in-depth results, further researchers can also divide these variables into several more detailed aspects, involve external factors that may affect MSMEs in Indonesia, and group MSMEs based on their scales.

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