

THE EFFECT OF ENTREPRENEURIAL ORIENTATION ON SMALL AND MEDIUM BUSINESS PERFORMANCE IN MEDAN CITY

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Abstract: Innovation, being proactive, and risk-taking are dimensions of entrepreneurial orientation. The useful application of entrepreneurial orientation aims to improve business performance. This is due to the increasing level of business competition, which requires owners to implement strategies that encourage business excellence. This study aims to examine the impact of innovation, be proactive, and take risks on small and medium enterprises' performance. The research sample, 55 small and medium entrepreneurs who eat fried rice and Padang satay in Medan City. Data analysis, using SPSS 22.00 to test factor analysis (EFA) between variables. A regression test was carried out in the analysis of the proposed hypothesis. The results showed that the innovation variable had a positive and significant effect on performance with a value of β . 640 and significant $.000 \leq 0.05$. The proactive variable has a positive and significant effect on performance with a value of β . 483 and a significant $.003 \leq .05$. However, hypothesis testing results show that the variable taking risks has no effect on performance with a value of β -.249 and is significant $.200 > .05$.

Keyword: *Innovation, Proactive, Risk-Taking, Performance, Small and Medium Enterprises*

1. Introduction

Discusses business competence, relating to aspects of business owners in carrying out business activities according to expected standards (Woodruffe, 1990). The intended competence is how business owners can maximize their function in running their business. Business actors' competence is related to providing response opportunities and maintaining business continuity in producing superior products. Producing products that match buyers' needs, accompanied by attractive services, impacts business profits (Kotler, 2003).

This study aims to examine and analyze the impact dimensions of entrepreneurial orientation on the performance of small and medium enterprises in Medan City. The problem to be addressed in this study is to know which orientation dimension has a role in improving business performance. Researchers' phenomenon is that small and medium enterprises eat fried rice and Padang satay, although they have various advantages, the other side has weaknesses. The weaknesses that arise are the consistency of the food products produced, the changing selling prices, and the lack of available parking space.

However, the fried rice and Padang satay food stalls in Medan still have a chance. The opportunities that exist include food as a basic necessity, digital marketing technologies such as Gofood and Grab food, and have become special foods that the general public enjoys. This opportunity is essential for business actors to be able to capture and utilize it. Papulová and Mokroš (2007) explain that small and medium enterprises are actors and executors of management who run their businesses.

2. Literature Review and Hypotheses

2.1. Innovation

Schumpeter and Nichol (1934) say that businesses' success in entering the market is created because of introducing new products that are different from competitors. Rogers (1983) defines innovation as an idea, a new practice produced by a person (Hurley & Hult, 1998). Edquist, Eriksson, and Sjögren (2002) innovation is a new creation with others' economic value. Rosenfeld (2002) states that innovation is a form of successful exploitation of knowledge, experience, and skills in producing a new product/service. Robbins and O'Gorman (2015) define innovation as applying a new idea by making it real that encourages improvements from existing products (Ahmed & Shepherd, 2010).

Keller, Korkmaz, Robbins, and Shipp (2018) say that innovation arises from processing individual thoughts from observing the circumstances. This thinking eventually resulted in the emergence of new findings, carried out to produce these findings. Daellenbach, McCarthy, and Schoenecker (1999) say innovation leads to creating competitive advantage by using existing resources (Barney, 1991; Thong, 1999). Ahmed and Shepherd (2010) say that innovation is related to producing a new product and includes attitudes, behaviors, and actions that lead to change. Innovation in explaining this research consists of three indicators: product innovation, market innovation, and process innovation (Dougherty, 2004).

2.2. Proactive

Bateman and Crant (1993) define proactive as a form of behavior that a person has, characterized by an initiative to change circumstances. Seibert, Crant, and Kraimer (1999) say that proactive is a form of behavior to recognize and take advantage of opportunities that arise supported by initiative and persistence. Robbins Jr (2001) said that proactivity is marked by initiatives to improve the situation by creating new methods and methods. Ng and Feldman (2013) say that being proactive is a form of personality that encourages persistence in improving the desired performance.

In business development, business owners/actors need to be proactive. Proactive, carried out as an act of preparation in facing competition in the business environment. This action leads to creating new techniques and strategies that can support the achievement of high business performance. Ashford and Cummings (1985) state that business actors must form a paradigm that predicts an event's behavior. This research's proactive form is described in three indicators: strategy implementation, market determination initiatives, and promotion ability (Morris, Schindehutte, & LaForge, 2002).

2.3. Risks-Taking

Morris and Kuratko (2002) define risk-taking as the desire that appears to seize opportunities, even though the possibility of getting a failure. Risk-taking is an essential part that a business actor must do. This shows the willingness of business actors to seize and take advantage of opportunities that arise. However, business actors need to anticipate the risks that will be acquired.

Miller (1983) defines risk-taking as a business actor's courageous attitude in a new market by investing their resources. Steinberg (2008) defines risk-taking as a form of behavior to achieve high results characterized by identification. This identification relates to the alternative options, the consequences of the choices to be accepted, the evaluation of the possibilities that arise from the choices, examining all forms of consequences obtained and combining

information to make decisions. Stone, Yates, and Parker (1994) define risk-taking as a form of behavior shown from readiness to get the possibility of failure. Therefore, in this study, indicators are used to take risks, readiness to take risks, and dare to try (Heflin, 2011).

2.4. Business Performance

Business performance is the result obtained from management activities carried out by business owners/actors. In analyzing business performance, measures are used in financial aspects (Rhoades & Eisenberger, 2002; Slovin & Sushka, 1993). This financial measure is used, aims to see and analyze the effectiveness of business operations carried out. On another aspect, (Healy, 1996) uses market performance measures in analyzing the effectiveness of business activities. In this aspect, the analysis is carried out on how much strength the market/consumer accepts the product.

Helfert (1996) defines business performance as a form that results from the influence of activities carried out by business actors in utilizing their resources (Daft, 2010). Hamel and Prahalad (1994) state that performance results from the behavior displayed by business actors. Schroeder, Goldstein, and Rungtusanatham (1993) say that business performance is measured by acquiring business applications results to increase quality, decrease costs, ease, and emerge of innovation.

Business actors' measurement of business performance needs to be carried out to see the strategies and capabilities implemented. Hamel and Prahalad (1994) say that performance measurement shows how much management power has been applied to support business activities. Baird (1986) defines business performance as an action orientation to be achieved and not as an accident. LEBAS and EUSKE (2004) define performance as a form of process that encourages business actors to act appropriately to produce business performance.

Armstrong and Baron (2005) state that the performance produced by a business is influenced by several factors, including the individual owner's factor and the leadership factor. Individual factors, related to the knowledge, skills, and willingness shown by business actors in managing their business. The leadership factor relates to how business actors apply in determining the right strategy, managing employees, motivating employees, and establishing communication relationships with buyers (Armstrong & Baron, 1998; Cardy & Dobbins, 1994) to adapt to the business environment. Based on the description above, this study's business performance indicators include increasing profits, increasing consumers, and increasing employees (Dempsey, Gatti, Grinnell, & Cats-Baril, 1997).

2.5. Hypothesis

- H1: Innovation has a positive and significant effect on performance
- H2: Proactive has a positive and significant effect on performance
- H3: Taking risks has a positive and significant effect on performance

3. Research Methods

This research design uses a quantitative approach to answer research questions (Malhotra, 2015). This research is explanatory, aiming to test and analyze the causality between variables (Sekaran & Bougie, 2011). Data collection, carried out by survey to obtain data from respondents (Creswell, 2012). This study's population are small and medium business actors, food stalls, and satay Padang in Medan. As for the population, as many as 130 business stalls. The sample used in this study amounted to 55 business actors, determined by purposive sampling technique,

namely by several criteria. The criteria for determining the sample include businesses that have been running for at least one year. These business owners can be met, businesses with at least three employees, and business owners willing to be respondents. The score of respondents' answers, using five Likert scales, including a scale of 1 (Strongly Disagree) to a scale of 5 (Strongly Agree).

4. Results and Discussion

4.1. Results

Analysis of the research data, using SPSS 22.00. Testing the validity of the entrepreneurial orientation variable is carried out using Exploratory Factor Analysis (EFA). Malhotra (2015) said the validity test aims to measure the error of research indicators. Factor analysis test aims to test the feasibility of indicators against research variables (Field, 2009; Hair, Celsi, Ortinau, & Bush, 2010). EFA testing was conducted to obtain each factor's value through the Kaiser-Meyer-Olkin (KMO) test and Bartlett's Test of Sphericity. KMO and Bartlett's test aimed to determine to construct validity.

The KMO test was used to verify the sample's adequacy for analysis; the Bartlett test was used to determine whether there was a correlation between the study indicators. Bartlett's Test of Sphericity must reach a significance of ≤ 0.05 (Hair, Black, Babin, Anderson, & Tatham, 2006; Malhotra, 2010). Malhotra (2010) states that the KMO value \geq of 0.6 indicates a feasible factor analysis. To determine a valid indicator, if it has a loading factor value ≥ 0.50 in the component matrix table (Hair et al., 2010; Malhotra, 2010).

After the validity test is complete, then test the reliability of each variable indicator. The reliability test aims to test the consistency and stability of the effect of indicators on research variables (McMillan, 2003). As for the consistency requirements for reliable indicator values, Cronbach's alpha value is > 0.6 (Hair et al., 2006; Malhotra, 2010; Van Reijmersdal, Neijens, & Smit, 2005).

4.2. Respondent Description

Table 1. Respondents Tabulation

Sample			Innovation		Proactive		Risk-Taking		Performance	
	1 year	> 1 year	Scal e	Criteri a	Scal e	Criteri a	Scal e	Criteri a	Scal e	Criteri a
Gender										
Male	14	17	3.51	Moder ate	3.31	Moder ate	3.36	Moder ate	3.46	Moder ate
Female	17	7	3.50	Moder ate	3.30	Moder ate	3.35	Moder ate	3.44	Moder ate
TOTAL	24	31								
Business Period										
		1 Year	3.42	Moder ate	3.27	Moder ate	3.30	Moder ate	3.38	Moder ate
		>1 Year	3.54	Moder ate	3.31	Moder ate	3.37	Moder ate	3.48	Moder ate

Based on the respondent's statistics, it is found that the number of respondents who owned a business for one year was 14 men (25%) and 17 women (31%). Respondents have businesses for more than one year, 17 male business actors (31%), and seven female business actors (13%). The results of statistical tests obtained a scale of respondents' answers to the variables studied. The answer scale for male business actors is for the innovation variable, on a scale of 3.51, categorized as moderate, and for female entrepreneurs on a scale of 3.50, in the medium category. The scale of respondent's answer size for the proactive variable, male business owner on 3.31 scale with medium answer category, and female scale 3.30 with a medium type. The risk-taking variable's answer is male business actors on a scale of 3.36 with a moderate category. Simultaneously, for women entrepreneurs, it is a scale of 3.35 with a moderate category. Respondents' answers for the performance variable, male business actors on a scale of 3.46 with a moderate category, and women entrepreneurs on a scale of 3.44 with a moderate category.

The tabulation of the respondents' statistics obtained the answer scale based on the business's period. For the innovation variable, the business actor's answer scale stands for one year on a scale of 3.42 with the medium category, while for businesses more than one year on a scale of 3.54 with the medium category. The answer scale results for the proactive variable, businesses that have been established for one year have a scale of 3.27 in the medium category, while businesses that have been established for more than one year are on a scale of 3.31 in the medium category. The answer scale for the risk-taking variable, businesses that stand one year on a scale of 3.30 are in the medium category, and businesses that are more than one year on a scale of 3.37 are in the medium category. The answer scale for the performance variable, businesses that have been established for one year, have a scale of 3.38 in the medium category, and businesses that are more than one year old are on a scale of 3.48 in the medium category.

Based on Table 1 above, it can be concluded that the respondents of women entrepreneurs are more than men for businesses that have been established for one year (31%). However, businesses that have been established for more than one year are dominated by male entrepreneurs (31%). The crosstab tabulation results of each variable's answers, for male business actors, have a larger answer scale than women. Meanwhile, from the business period, it is found that the answer to businesses that have been established for more than one year has a higher answer than the business that has been established for one year.

4.3. Validity and Reliability Test

The validity test was carried out by looking at the value at $KMO \geq 0.6$ (Kaiser, 1974), the significant value of Bartlett's Test of Sphericity ≤ 0.05 (Hair et al., 2006; Malhotra, 2010) and the results of the loading factor test ≥ 0.50 (Hair et al., 2006; Malhotra, 2010). The reliability test looks at the alpha Cronbach's value of > 0.6 (Hair et al., 2006; Malhotra, 2010; Van Reijmersdal et al., 2005). Testing is done by looking for the value obtained from the indicators of each variable first. The following is described in Table 2, the results of each variable's validity and reliability tests.

Table 2. Results of Variable Validity and Reliability Tests

Variable	KMO	Bartlett's Test of Sphericity	Loading factor	Alpha cronbach
Innovation	.689	96.649, sig .000	.941	.881
Proactive	.706	137.947, sig .000	.955	.918
Risks-taking	.752	96.003, sig .000	.915	.895

Business Performance	.752	125.831, sig .000	.949	.927
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Source: data (2021)

Based on the results of the validity and reliability tests (Table 2), it was found that all indicators were valid and reliable to test hypotheses. This study aims to test and analyze innovation's effect, be proactive, and risk-taking on business performance. So to test the hypothesis, the regression test is used. The following will be explained in Table 3, the results of testing the variable hypothesis.

Table 3. Regression Test

Dependent Variable	Independent Variable	Constant	Coefficient	Beta	T _{count}	Sig	R Square
Business Performance	Innovation		.152	.640	4.532	.000	
Business Performance	Proactive	.819	.192	.483	3.138	.003	.672
Business Performance	Risks-taking		.243	-.249	-1.298	.200	

4.4. Discussion

Based on the results of the regression test (Table 3), it was found that the innovation variable had a positive and effect on performance with a value of β obtained .640 and significant $.000 \leq 0.05$. So, these results indicate that H1 is accepted. These results indicate that the innovations made by business actors improve the performance of small and medium enterprises in food stalls and satay Padang in Medan City (Adegbuyi et al., 2018; Fairuz, Hirobumi, & Tanaka, 2010; Shehu & Mahmood, 2014).

Based on the regression hypothesis test results, it was found that proactive variables positively and significantly affected performance with a value of β .483 and significant $.003 \leq .05$. Then these results show that H2 is accepted. These results indicate that proactive business actors using order technology from gofood and grab food impact improving the performance of small and medium business food stalls and satay Padang in Medan City (Shehu & Mahmood, 2014).

Based on the regression hypothesis test results, it was found that the risk-taking variable did not affect performance with a value of β -.249 and significant $.200 > .05$. So these results show that H3 is rejected. These results indicate that business actors do not dare to take risks in increasing their business. This is due to the unfavorable environmental conditions surrounding the business, where currently Covid-19 is hitting Indonesia.

5. Conclusion

The test results show that the application of entrepreneurial orientation by small and medium business owners in Medan City has an impact on improving business performance. The hypothesis test results show that the innovation and proactive factors significantly affect the performance of small and medium businesses food stalls and satay Padang in Medan City. The

results above show that sales product innovation is the dominant thing in improving business performance. This also shows that the proactivity of business actors using online sales innovations through Grabfood and Gofood impacts increasing business income.

The risk-taking does not affect the performance of small and medium enterprises, food stalls, and satay Padang in Medan because business actors do not dare to increase production. This is because the conditions of the Covid-19 pandemic that are still hitting Indonesia have caused fear of business people to increase their business investment.

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