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Diki Febrianto Marbun^{1*}, Ngatno², Andi Wijayanto³

Universitas Diponegoro, Indonesia,
dikimarboen@gmail.com

Universitas Diponegoro, Indonesia,
dikimarboen@gmail.com

Universitas Diponegoro, Indonesia,
andi@undip.ac.id

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Diki Febrianto Marbun^{1*}, Ngatno², Andi Wijayanto³

Universitas Diponegoro, Indonesia, dikimarboen@gmail.com

Universitas Diponegoro, Indonesia, dikimarboen@gmail.com

Universitas Diponegoro, Indonesia, andi@undip.ac.id

*Corresponding Author: dikimarboen@gmail.com

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Abstract

This study examined the effect of entrepreneur orientation on business performance and Innovation. This research was carried out in the Lake Toba area. The sample in this study amounted to 75 ulos craftsmen. The data collection method used a questionnaire. The analytical method used in this study is SEM with Smart PLS 3.3.3. The results of this study indicate that entrepreneur orientation does not have a significant influence on business performance. Innovation can mediate the effect of Entrepreneur Orientation on Business Performance.

Keywords: Entrepreneur Orientation, Innovation, Business Performance

1. Introduction

The Covid-19 pandemic has hurt the creative industry sector, especially in Indonesia. 98% of creative industry entrepreneurs are affected by the Covid-19 pandemic (Annur, 2020). In addition, the Covid-19 Pandemic has also increased the number of unemployed, economic disparities, and the bankruptcy of various types of businesses (Lath et al., 2020; Practice, 2021). The handicraft industry is one of the sub-sectors of the creative industry sector, where this sub-sector displays a variety of authentic and unique creations; one of the centers of the handicraft industry is the tourism area. Based on data, the number of local or foreign tourists to Indonesia's tourism areas decreased significantly, reaching 78% (BPS, 2021). This situation directly impacts the decline in the income of handicraft entrepreneurs in the tourism area.

The Lake Toba area is one of the leading tourist areas in Indonesia and the world, as evidenced by the fact that the Lake Toba area has become a Global Geopark at the UNESCO session in France (Hanum, 2020). The determination confirms the Lake Toba area has a wealth of cultural traditions, geological beauty, and high biodiversity. Since 2011, the Lake Toba area has been included as a National Tourism Strategic Area (According to Government Regulation of the Republic of Indonesia Number 50 of 2011 concerning the Master Plan for Tourism Development in 2010 - 2025), which in 2019 was re-entered into five super-priority tourist destinations together with Likupang, Borobudur, Mandalika, and Labuhan Bajo. To accelerate the further development of the Lake Toba Area through Presidential Regulation Number 49 of 2019, a unique agency was formed that supervises and creates a plan for the development of the Lake Toba Area (Lake Toba Tourism Authority Agency).

Besides the natural beauty of Lake Toba, it also has a unique culture that attracts tourists. Lake Toba is also known as the area of origin of the Batak people and the supporting elements of Batak traditional activities. Ulos is the result of handicrafts in the form of woven cloth, which is the identity of the Batak people. Ulos are usually used for various traditional events and become souvenirs for tourists. The center of Ulos craft on Lake Toba is located in Meat Village. Meat Village has been known for hundreds of years as a center for ulos craftsmen, with the number of ulos craftsmen in Meat Village reaching 110 people. However, the craftsmen still face problems developing their products and businesses based on the data that the income earned is insufficient to meet the needs of life, especially during the pandemic. Based on

observations, it was found that one of the factors that caused the ulos craft industry to remain stagnant was the lack of product innovation.

Kamuri (2021) conducted a test of the role of entrepreneurial orientation on business performance, which, based on the test results, resulted in an influence of entrepreneurial orientation on business performance. Entrepreneurial orientation is also an essential factor determining the success of local SMEs who want to become international SMEs. However, another study found that the high level of entrepreneurial and market orientation did not significantly affect company performance (Hernández-Perlines et al., 2021). Innovation can improve performance, solve problems, add value, and create a competitive advantage. For companies that are small in size and have limited resources, Innovation is one of the steps that must be implemented to be able to continue to survive in the competition in the market (Chang et al., 2019; Ciabuschi et al., 2020; Dabić et al., 2021; Singh et al., 2021). Meanwhile, other studies show that the influence of Innovation on business performance is not significant (De Jong & Vermeulen, 2006).

Entrepreneur Orientation – Business Performance

Ensari & Karabay (2014) categorizes the factors that can make SME business performance successful are as follows: (1) entrepreneurial characteristics, (2) SME characteristics, (3) management, (4) goods and services, (5) customers and markets, (6) business and enterprise management, (7) resources and finance, (8) strategy, (9) external environment, and (10) internet. Several studies have stated that entrepreneurship-oriented companies have better performance than those that are not entrepreneurship-oriented (Calic & Shevchenko, 2020; Ferreras-Méndez et al., 2021; Kusa et al., 2021). Entrepreneurial orientation is a method and practice that combines creative ideas and actions by using management skills to create innovations to improve business performance. A high level of entrepreneurial orientation requires increased Innovation and the creation of new markets.

H₁: Entrepreneurial orientation has a positive effect on business performance

Entrepreneur Orientation - Innovation – Business Performance

Entrepreneurial orientation is a method and practice that combines creative ideas and actions by using management skills to create innovations to improve business performance. A high level of entrepreneurial orientation requires increased Innovation and the creation of new markets (Boso et al., 2013). Innovation is a requirement that companies must meet to generate a competitive advantage and survive in market competition. Innovation also has a very vital role for small and medium enterprises that have limited resources. The introduction of product innovations, services, processes, and business models following the market will allow companies to win the competition in the market. Creating product innovation will help businesses or businesses avoid price competition in the market, create new demand, increase business or business growth, and create a comfortable position for businesses or businesses in competition. Several studies also show the same thing, namely that Innovation has a positive effect on business performance (Ferreira et al., 2020; Kusa et al., 2021).

H₂: Entrepreneurial orientation has a positive effect on Innovation

H₃: Innovation has a positive effect on business performance

H₄: Entrepreneurial orientation affects business performance through Innovation

2. Research Method

This study uses a technical data analysis Structural Equational Model (SEM). The sample in this study amounted to 75 ulos craftsmen in Meat Village. The data collection technique used in this study used a questionnaire given to the research sample on 23rd September 2021 – 27th September 2021. Entrepreneurial orientation indicators: dare to take risks, be proactive, competitively aggressive, and autonomous (Calic & Shevchenko, 2020; Rauch et al., 2009). Innovation indicators: new products and new distribution systems (Fariborz, 1991). Business

performance indicators: increased sales and increased market share (Rauch et al., 2009; Wiklund & Shepherd, 2005).

3. Result and Discussion

In Table 1, the results of Factor Loading (FL) of all indicators (0.729 – 0.835) are greater than 0.70 and significant ($p < 0.001$) (Hair, Black, Babin, & Anderson, 2010). The value of Cronbach Alpha (CR) (0.862 – 0.867) is greater than 0.70. Next, the value of Average Variance Extracted (AVE) (0.613 – 0.721) > 0.50 (Hair, Black, Babin, & Anderson, 2010). So based on all the test results, it can be concluded that all indicators have met the assumptions of validity and reliability.

Table 1

Measure of Indicators Validity and Reliability

Instruments	FL	α	AVE	VIF's	Weights
Entrepreneur Orientation (EO)					
EO1	0.729				0.368***
EO2	0.817				0.320***
EO3	0.835				0.319***
EO4	0.723	0.867	0.613	2.231	0.328***
Innovation (IO)					
IO1	0.771				0.341***
IO2	0.784				0.366***
IO3	0.767	0.866	0.721	2.271	0.397***
Business Performance (BP)					
BP1	0.731				0.339***
BP2	0.784				0.353***
BP3	0.796	0.862	0.633	2.287	0.365***

Notes: FL = Factors Loading; AVE = Average Variance Extracted; α = Cronbach's alpha; *** = $p < 0.001$

In Table 1, it is known that Entrepreneur Orientation has a positive and significant influence on Innovation ($\beta = 0.608$; $p < 0.05$), so H1 is Supported. However, in testing the influence of Entrepreneur Orientation on Business Performance, the results were not significant ($\beta = 0.090$; $p > 0.05$), so H2 was not supported. Innovation has a positive and significant effect on Business Performance ($\beta = 0.747$; $p < 0.05$), H3 Supported. The results of the Coefficient of Determination (R2) test show that Entrepreneur Orientation influences Innovation by 37% (0.370), while the influence of Entrepreneur Orientation and Innovation on Business Performance is 64.8% (0.648). In Table 3, the indirect effect test found that Innovation could significantly mediate Entrepreneur Orientation Business Performance ($\beta = 0.454$; $p > 0.05$).

Figure 1

Outer Model Result

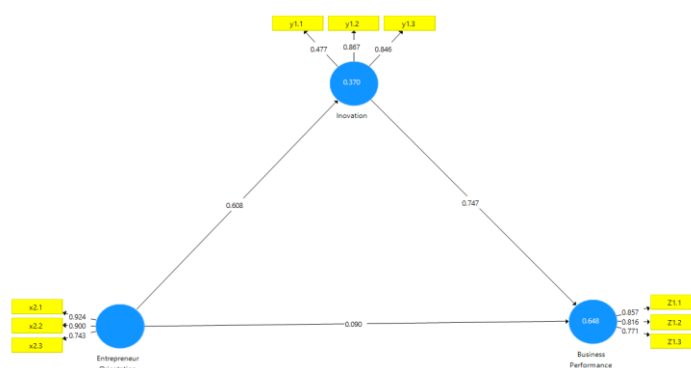


Table 2
Result of Partial Hypotheses Testing

Hypotheses	β	T Statistics (O/STDEV)	P Values	Supported?
EO \rightarrow IO	0.608	5.240	0.000	Supported
EO \rightarrow BP	0.090	0.863	0.388	Not-Supported
IO \rightarrow BP	0.747	8.164	0.000	Supported

Note: β = Path Coefficient; f^2 = Effect Size, Sig. Level = 0.05.

Table 3
Result of Mediation Hypotheses Result Testing

Hypotheses	β	T Statistics (O/STDEV)	P Values	Supported?
EO \rightarrow IO \rightarrow BP	0.454	5.188	0.000	Supported

Note: β = Path Coefficient, Sig. Level = 0.05.

4. Conclusion

The results of the Entrepreneur Orientation test, which have a positive and significant influence on Innovation, are in line with research from Boso et al. (2013). While the results of Entrepreneur Orientation which do not have a significant effect on Business Performance, are in line with research from Hernández-Perlines et al. (2021). Finally, the influence of Innovation on business performance is significant and positive (Ferreira et al., 2020; Kusa et al., 2021). This research is a development of several previous studies on Entrepreneur Orientation (Calic & Shevchenko, 2020; Ciabuschi et al., 2020; Kusa et al., 2021). This research also tries to show the role of Innovation as a variable that can improve business performance (Ferreira et al., 2020). Based on the study results, it was found that to enhance Ulos craftsmen performance in Meat Village, it was necessary to increase the entrepreneurial abilities of Ulos craftsmen and increase the ability of Innovation (product and distribution). The ability to be entrepreneurial and innovate will help ulos craftsmen to earn more income. To improve the entrepreneurship and innovation skills of ulos craftsmen, the government's participation is urgently needed to provide training and incentives. The provision of training and incentives will help ulos craftsmen to find out market demand and the most optimal distribution methods.

This study has limitations, where the research was carried out in a short time, and the number of research samples was relatively small. So for future research, it is recommended to research with a longer time and with a relatively large number of samples so that the research results are more comprehensive. Furthermore, this research is only carried out in one sub-sector of the creative industry, so that for future research, it is recommended to carry out testing of more than one sub-sector so that the results of the study can show a comparison of the phenomena of Entrepreneur Orientation, Innovation and Business Performance in various sub-sectors of the creative industry. For Future Research, it is also recommended to add other variables such as Learning Orientation and Marketing Orientation.

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