

# THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION AND INNOVATION CAPABILITY ON THE COMPETITIVENESS OF MSMEs AND ITS IMPACT ON MARKETING PERFORMANCE OF MSMEs IN LHOKSEUMAWE CITY

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## Abstract

*This research examines the influence of entrepreneurial orientation and innovation capability on the competitiveness of MSMEs and their impact on the marketing performance of MSMEs in Lhokseumawe City. The sample in this study was 133 active MSMEs and business owners. Data collected through questionnaires were analyzed using a data analysis method using Structural Equation Modeling (SEM) which was operationalized with the Analysis of Moment Structure (AMOS) tool. The research results show that entrepreneurial orientation and innovation capability have a significant effect on competitiveness and marketing performance. And competitiveness has a direct effect on marketing performance. Then, in testing the indirect effect of competitiveness, it was found to act as a partial mediating variable in the relationship between entrepreneurial orientation and innovation capability on marketing performance. It is hoped that the results of this research will be important information for the government and MSME managers in Lhokseumawe City in order to create policies for the development of micro, small and medium enterprises.*

**Keywords :** *Entrepreneurial Orientation, Innovation Capability, Competitiveness, Marketing Performance.*

## 1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one of the sectors that make a significant contribution to the development of Indonesia's economic structure and play an important role in the country's economy. The government must strive to support and strengthen MSMEs with various ideas and methods, such as marketing orientation strategies and entrepreneurial orientation concepts and strategies, in order to increase economic capacity. This will have a significant impact on the expansion of the community's economy, considering the current very rapid pace of corporate digitalization. Many factors influence the development of micro, small and medium enterprises in Indonesia and especially in Lhokseumawe City, such as entrepreneurial orientation and innovation capabilities, which have an impact on increasing business competitiveness and improving MSME marketing performance (Devara & Sulistyawati, 2019; Harini et al., 2022; Nizam et al., 2020). The study of marketing performance has long been the focus of research in various countries and different industries, especially to increase the profits of small and medium enterprises (Hansen, 2019).

Then the Innovative ability is referred to as the ability to transform information and ideas into new products, procedures and structures for business benefits (Elgarhy & Abou-Shouk, 2023b). Innovative Capability is the ability and knowledge required to efficiently control and improve current technology in addition to adding innovative technologies (Lee & Yoo, 2021). Innovative Ability is nominated as a driver to create, develop and implement innovative designs and production technologies (Elgarhy & Abou-Shouk, 2023b). However, the study Larios-Francia & Ferasso, (2023) found that innovation capability does not affect the increase in SME marketing performance. However, some empirical studies state that increasing innovation can improve

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product quality. The domestic (national) market is becoming increasingly competitive in the era of globalization. To succeed in this market, a company (SME) must create a positive impression of its products regarding the relationship between price and product, product quality, benefits, features, design, and products offered (Abubakar et al., 2024). Apart from the innovation capability factor, there are SME competitiveness variables that can improve their marketing performance (Barbosa Ferreira et al., 2019). Although some academics argue that building innovation capabilities is the most important way to execute a business strategy (Lee & Yoo, 2021), but not many business managers focus on this method to achieve increasing the competitiveness of a company. This study also focuses on the ability of MSMEs to increase innovation as an effort to increase the competitiveness and marketing performance of MSMEs. Even so, empirically there are study results that reject this hypothesis, such as (Erni Susana & Mardiana Andarwati, 2021), which states that innovation does not affect competitive advantage. The level of one's competitive advantage can be directly correlated with how well one performs. Maintaining a competitive advantage is thought to result in increased productivity (Mugoni et al., 2023).

Although resource investment plays an important role in developing valuable capabilities and sustainable comparative advantage, the relationship between resources and innovation capabilities has received much attention in research (Elgarhy & Abou-Shouk, 2023b). Empirical research on how business competitiveness affects the relationship between innovation capability and marketing performance of SME products is still limited (M. Adam et al., 2020). The relationship between entrepreneurial orientation (marketing and technical capabilities) and innovation capability (marketing and innovation) is also presented as a "black box" when RBV theory and innovation capability are included in the study area by experts in the field of marketing. Considering the description of the literature and the differences in the conclusions of the empirical studies above, the author would like to conduct further studies related to the influence of entrepreneurial orientation and market orientation on the performance of micro, small and medium enterprises (MSMEs) from an Indonesian perspective, especially in Aceh Province.

## **2. IMPLEMENTATION METHOD**

### **2.1 Sampling Method**

The sample in this study were MSME actors who were active in the North Aceh Regency area. The sampling technique used the Purposive Sampling Technique. While the data collection technique used a questionnaire. The types of data used in this study are primary data and secondary data. Primary data, namely data collected from respondents who were sampled in this study using a questionnaire. The questionnaire in this study contains information related to the variables of entrepreneurial orientation, innovation capabilities, competitiveness and marketing performance of MSMEs. And the number of samples in this study was 333 people.

The data analysis method used in this study is by using Structural Equation Modeling (SEM) with the AMOS (Analysis of Moment Structure) program version 22.0. Structural Equation Modeling (SEM) is a multivariate analysis technique which is a combination of factor analysis and regression analysis (correlation) which aims to test the relationships between variables in a model, both between indicators and their constructs, or the relationship between constructs (Ghozali, 2014). Structural equation modeling (SEM) is a set of statistical techniques that allow testing a series of relatively pure "complex" relationships simultaneously (Ferdinand, 2014). To facilitate the preparation of research questionnaires, variable measurement indicators are used which are sourced from expert opinion data arranged in the framework of operational definition of variables, as explained in the following table 1:

**Table 1 Questionnaire Items**

Variables	Indicators	Measuring Scale
Entrepreneurship Orientation	<ol style="list-style-type: none"> <li>1) <i>Pro-activeness</i>,</li> <li>2) <i>Risk taking</i>,</li> <li>3) <i>Competitive aggressiveness</i>,</li> <li>4) <i>Autonomy</i></li> <li>5) <i>Innovativeness</i>.</li> </ol> (BAMBANG et al., 2021; Kiyabo & Isaga, 2020)	Likert
Innovation Capability	<ol style="list-style-type: none"> <li>1) Improvements related to products/services.</li> <li>2) Improvements related to product/service pricing strategies.</li> <li>3) Improvements related to product/service placement strategies.</li> <li>4) Improvements related to product/service promotion activities.</li> </ol> Source: Adam et al., (2017)	Likert
Competitiveness of MSMEs	<ol style="list-style-type: none"> <li>1) Research and development.</li> <li>2) Have good managerial skills.</li> <li>3) Quality Products and Services</li> <li>4) Good business profitability</li> <li>5) Good corporate image.</li> <li>6) Products are difficult to replace by competitors.</li> </ol> Source: I. Hussain et al., (2020)	
MSME Marketing Performance	<ol style="list-style-type: none"> <li>1) Fastest products and services</li> <li>2) Product and service quality as expected.</li> <li>3) Product and service recommendations to colleagues.</li> <li>4) Pushing products and services to colleagues.</li> </ol> Source: I. Hussain et al., (2020)	Likert

Source: Research Results (2024)

### 3. RESULTS AND DISCUSSION

#### 3.1 Respondent Characteristics

This section will explain in depth the various characteristics of respondents, such as gender, age, education level, marital status and business sector, as explained in table 2 below:

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**Table 2 Respondent Characteristics**

Gender		Amount	%
Valid	Male	81	60,9
	Female	52	39,1
	Total	133	100,0
Age		Amount	%
Valid	30-40 Years	39	29,3
	40-50 Years	71	53,4
	> 50 Years	23	17,3
	Total	133	100,0
Educational level		Amount	%
Valid	High School/Equivalent	21	15,8
	Diploma 3	46	34,6
	Undergraduate	66	49,6
	Total	133	100,0
Marital status		Amount	%
Valid	Married	124	93,2
	Not Married	6	4,5
	Widower/Widow	3	2,3
	Total	133	100,0
Business fields		Amount	%
Valid	Fashion Products	29	21,8
	Culinary Products	52	39,1
	Agribusiness Products	8	6,0
	Automotive Products	10	7,5
	Service Products	24	18,0
	Health/Beauty Products	10	7,5
	Total	133	100,0

Source: Research Results (2024)

The data in table 2 shows that in general the respondents in this study were dominated by MSME actors who were male, and aged 40-50 years. While in terms of education level, respondents generally had a bachelor's degree. Then in terms of marital characteristics, it was found that respondents were generally married. Furthermore, in terms of business, the respondents in this study were culinary entrepreneurs (food and beverages).

**3.2 Descriptive Statistics**

Descriptive statistics of respondents' answers for the variables of entrepreneurial orientation, innovation capability, competitiveness and marketing performance are descriptions of respondents' answers to the statement items in the variables. For more details, see Table 3 below:

**Table 3 Descriptive Statistics**

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Entrepreneurship Orientation	333	1	5	4,096	0,816
Innovation Capability	333	1	5	3,903	0,859
Competitiveness of MSMEs	333	1	5	3,705	,7352
MSME Marketing Performance	333	1	5	3,6692	,7927

Source: Research Results (2024)

Based on the data in Table 3, it can be explained that the number of respondents in the study was 333 MSME actors in Lhokseumawe City. The minimum value of the respondent's answer was 1 and the maximum value of the respondent's answer was 5. The average value (mean) of the Entrepreneurial Orientation variable was 4.0962, innovation capability was 3.903, competitiveness was 3.705 and marketing performance was 3.6692. The average value if connected with the Likert scale, then the respondents' answers to the statement items in the questionnaire are in the "agree" category. This can be concluded that on average the respondents or MSME actors who were the samples in this study answered agree to all statements in the questionnaire.

### 3.3 Parameter Value Estimation Results

To find out the results of the estimation of the influence and direction of influence and the significance of the influence of exogenous variables on endogenous variables, an analysis of the parameter value estimation is carried out. The coefficient value used is the estimate standardized regression weights value as shown in Table 4 below:

**Table 4 The Influence of Exogenous Variables on Endogenous Variables**

			Stand. Estimate	Estimate	S.E.	C.R.	P
Competitiveness of MSMEs	<---	Entrepreneurship Orientation	0,505	0,415	0,094	4,403	***
Competitiveness of MSMEs	<---	Innovation Capability	0,34	0,252	0,079	3,178	0,001
MSME Marketing Performance	<---	Entrepreneurship Orientation	0,314	0,288	0,101	2,858	0,004
MSME Marketing Performance	<---	Innovation Capability	0,226	0,187	0,081	2,321	0,02
MSME Marketing Performance	<---	Competitiveness of MSMEs	0,383	0,427	0,141	3,034	0,002

Source: Research Results (2024)

The results of this study shown in table 4 explain that there is an influence between entrepreneurial orientation and competitiveness. This influence is proven by the value of the standardized estimate coefficient or regression weight or gamma coefficient of 0.505 or 50.5%, with a CR critical ratio value (identical to t-count) which is much greater than the minimum CR required of 1.96, namely ( $4.403 \geq 1.96$ ) and a probability that is smaller than the error rate (alpha)  $\alpha 0.05$  of ( $0.000 \leq 0.05$ ), thus it can be stated as a significant influence and therefore it can be concluded that the statement of hypothesis 1 which states that entrepreneurial orientation has a significant effect on the competitiveness of MSMEs is accepted (accept H1).

The results of this study are in line with research conducted by Ferreira et al., (2020), who found that entrepreneurial orientation is an important factor in increasing the competitiveness of MSME businesses, and they stated that the entrepreneurial orientation of MSME actors reflects the company's tendency to engage in "pursuing new market opportunities and renewing existing operational areas". Then the research results Elgarhy & Abou-Shouk, (2023), found that entrepreneurial orientation variables have a significant influence on the competitiveness of travel agents in Egypt. Research findings Muniroh et al., (2023), specifically shows that entrepreneurial attitudes significantly and positively influence the competitive advantage of MSMEs engaged in food processing, which answers the problems and objectives of this research. The results of this study also show that there is an influence between innovation capability and competitiveness, with a standardized estimate coefficient value or regression weight or gamma coefficient of 0.34 or 34%, with a CR critical ratio value (identical to t-count) which is much greater than the minimum

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CR required of 1.96, namely ( $3.178 \geq 1.96$ ) and a probability that is smaller than the error rate (alpha)  $\alpha$  0.05 of ( $0.001 \leq 0.05$ ), thus it can be stated as a significant influence and therefore it can be concluded that the statement of hypothesis 2 which states that innovation capability has a significant effect on the competitiveness of MSMEs is accepted (accept H2). The results of this study have strengthened previous research, such as research Ndubisi et al., (2015), product service innovation, process innovation, and administrative innovation will produce high quality marketing performance. Next, the study was conducted Julyanthry et al., (2021), found a strong influence between innovation capabilities and business competitiveness. The same thing was also conveyed by Ferreira et al., (2020), which states that innovation factors can significantly increase the competitiveness of a business. In a study of travel agents in Egypt, Elgarhy & Abou-Shouk, (2023) reported findings that innovation capabilities significantly affect firm competitiveness.

Then entrepreneurial orientation was found to have an effect on marketing performance, with a standardized estimate coefficient value or regression weight or gamma coefficient of 0.314 or 31.4%, with a CR critical ratio value (identical to t-count) which is much larger than the minimum CR required of 1.96, namely ( $2.858 \geq 1.96$ ) and a probability that is smaller than the error rate (alpha)  $\alpha$  0.05 of ( $0.004 \leq 0.05$ ), thus it can be stated as a significant influence and therefore it can be concluded that the statement of hypothesis 3 which states that entrepreneurial orientation has a significant effect on the marketing performance of MSMEs is accepted (accept H3). The results of this study are in line with research studies Urde et al., (2013) found that entrepreneurial orientation and market orientation were also found to significantly influence marketing performance. The research results are also in line with several studies from a developing country perspective, such as (Astuti et al., 2021; Fatikha et al., 2021; Manali et al., 2022), They found various small and medium scale companies or businesses whose business actors have entrepreneurial behavior and talents that positively and significantly influence their marketing performance, and are included in the study in the culinary business sector in Indonesia (Kuncoro et al., 2021; Nursal et al., 2022). Furthermore, from the perspective of MSMEs in Pakistan, the research results show that the entrepreneurial orientation dimension is positively and significantly related to MSME business performance (J. Hussain et al., 2021; Javed et al., 2021). The same thing was found by Elgarhy & Abou-Shouk, (2023) found a direct and significant influence between entrepreneurial orientation and marketing performance of travel businesses in Egypt. This finding is also in line with research Yaskun et al., (2023), shows that market orientation, entrepreneurial orientation, and competitive advantage have a major impact on how well a business performs.

The results of the study also found a significant influence between innovation capability on marketing performance, the value of the standardized estimate coefficient or regression weight or gamma coefficient of 0.226 or 22.6%, with a CR critical ratio value (identical to t-count) which is much greater than the minimum CR required of 1.96, namely ( $2.321 \geq 1.96$ ) and a probability that is smaller than the error rate (alpha)  $\alpha$  0.05 of ( $0.02 \leq 0.05$ ), thus it can be stated as a significant influence, and therefore it can be concluded that the statement of hypothesis 4 which states that innovation capability has a significant effect on MSME marketing performance is accepted (accept H4). The results of this study are in line with research Elgarhy & Abou-Shouk, (2023), who found that innovation capability significantly affects the marketing performance of travel businesses in Egypt. Furthermore, in the results of social research conducted by Putra et al., (2021) conclude that low human resource innovation has a significant impact on the low marketing performance of small and medium enterprises in Bener Meriah Regency, Indonesia. In another study Taleb et al., (2023), conveyed that innovation capabilities significantly affect the performance of micro, small and medium enterprises. The results of this study also show that there is an influence between competitiveness and marketing performance, with a standardized estimate coefficient or regression weight or gamma coefficient of 0.383 or 38.3%, with a CR critical ratio value (identical to t-count) that is much greater than the minimum CR required of 1.96, namely ( $3.034 \geq 1.96$ ) and a probability that is smaller than the error rate (alpha)  $\alpha$  0.05 of ( $0.002 \leq 0.05$ ), thus it can be stated

as a significant influence, and therefore it can be concluded that the statement of hypothesis 5 which states that competitiveness has a significant influence on the marketing performance of MSMEs is accepted (accept H5). In testing the direct influence of competitiveness on marketing performance, it was validated in the research Elgarhy & Abou-Shouk, (2023), which found a significant influence. In the context of small and medium business, competitive strategies can significantly improve the marketing performance of MSMEs (Sulastini & Darmawi, 2022). Then in research in the batik industry, Rokhman et al., (2023), stated that competitive advantage is an important strategy to improve the performance of MSMEs in East Java. Sustainable competitiveness significantly influences market performance (Hidayati & Muslikh, 2023). Another study found that entrepreneurial orientation through the dimensions of innovation and proactivity has a significant influence on SME performance (Isichei et al., 2020; Ogundare & van der Merwe, 2023). From the results of the study Karnowati & Handayani, (2022), It can be concluded that entrepreneurial orientation requires business performance and market orientation to influence the competitive advantage of MSMEs.

Furthermore, in the mediation effect test, it was found that competitiveness plays a role as a partial mediation variable in the influence between entrepreneurial orientation and innovation capability on the marketing performance of MSMEs in Lhokseumawe City. These findings are in line with studies conducted by Rokhman et al., (2023), which states that competitiveness is a mediating factor in the indirect relationship with MSME marketing performance. Sustainable competitive advantage is a mediating factor in the relationship between entrepreneurial orientation and marketing performance (Hidayati & Muslikh, 2023). The competitive advantage of MSMEs in the food sector can encourage managers to improve their entrepreneurial skills and orientation towards MSME marketing performance (Muniroh et al., 2023). Research result from Aditi et al., (2023), This shows that entrepreneurial orientation does not affect competitiveness, and competitiveness does not mediate the direct relationship between entrepreneurial orientation and the marketing performance of small and medium enterprises. Next research results Prajogo, (2020), found that high entrepreneurial orientation can improve MSME performance through competitive advantage.

#### 4. CONCLUSION

Based on the research results as described in the discussion section, several conclusions can be formulated as follows:

1. Entrepreneurial orientation was found to have a significant influence on the competitiveness of MSMEs in Lhokseumawe City.
2. Innovation capability was found to have a significant influence on the competitiveness of MSMEs in Lhokseumawe City.
3. Entrepreneurial orientation was found to have a significant influence on the marketing performance of MSMEs in Lhokseumawe City.
4. Innovation capability was found to have a significant influence on the marketing performance of MSMEs in Lhokseumawe City.
5. Competitiveness was found to have a significant influence on the marketing performance of MSMEs in Lhokseumawe City.
6. Competitiveness was found to play a role as a mediating variable in the indirect relationship between entrepreneurial orientation and the marketing performance of MSMEs in Lhokseumawe City.
7. Competitiveness was found to play a role as a mediating variable in the indirect relationship between innovation capability and marketing performance of MSMEs in Lhokseumawe City.

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**THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION AND INNOVATION CAPABILITY ON THE COMPETITIVENESS OF MSMEs AND ITS IMPACT ON MARKETING PERFORMANCE OF MSMEs IN LHOKSEUMAWE CITY**

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