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**THE EFFECT OF ENTREPRENEURIAL ORIENTATION AND INNOVATION  
CAPABILITY TOWARDS FIRM PERFORMANCE IN SMALL AND MEDIUM  
ENTERPRISES****(Case Study: Grilled Restaurants in Manado)**

*PENGARUH ORIENTASI KEWIRAUSAHAAN DAN KEMAMPUAN INOVASI TERHADAP KINERJA  
PERUSAHAAN DI USAHA KECIL DAN MENENGAH  
(Studi Pada: Rumah Makan Panggang di Manado)*

By

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**Abstract:** Entrepreneurial orientation and innovation capability plays an important role in improving business performance and becomes an acceptable meaning to explain the firm performance. Most of the SMEs in Manado, they have a strong entrepreneurial orientation in their business. This research aims to identify the influence of entrepreneurial orientation and innovation capability towards firm performance. This research aims to focus on SMEs of grilled restaurant in Manado. This research using quantitative method. The examined population in this research are the owners of SMEs in Manado. The result of this research which is from questionnaire with 50 respondent shows that entrepreneurial orientation and innovation capability has a positive and significantly influence the firm performance simultaneously and partially. Researcher recommend For the owners to improve the performance of SMEs things that need to be considered and improved are the need for achievement, internal locus of control, self-reliance, and extroversion. Furthermore, Innovation is one of the important things towards firm performance, which is also has a positive impact on the process of innovation and performance. So that owners need to invest more in innovative capabilities and support efforts to introduce new types of innovation.

**Keyword :** *entrepreneurial orientation, innovation, and firm performance*

**Abstrak:** *Orientasi wirausaha dan kemampuan inovasi memainkan peran penting dalam meningkatkan kinerja bisnis dan menjadi makna yang dapat diterima untuk menjelaskan kinerja perusahaan. Sebagian besar UKM di Manado, mereka memiliki orientasi wirausaha yang kuat dalam bisnis mereka. Penelitian ini bertujuan untuk mengidentifikasi pengaruh orientasi wirausaha dan kemampuan inovasi terhadap kinerja perusahaan. Penelitian ini berfokus pada UKM restoran panggang di Manado. Penelitian ini menggunakan metode kuantitatif. Populasi yang diteliti dalam penelitian ini adalah pemilik UKM di Manado. Hasil dari penelitian ini yaitu dari kuesioner dengan 50 responden menunjukkan bahwa orientasi wirausaha dan kemampuan inovasi memiliki pengaruh positif dan signifikan terhadap kinerja perusahaan secara simultan dan parsial. Peneliti merekomendasikan untuk pemilik usaha untuk meningkatkan kinerja UKM hal-hal yang perlu dipertimbangkan dan ditingkatkan adalah kebutuhan untuk pencapaian, locus of control internal, kemandirian, dan ekstroversi. Selain itu, Inovasi adalah salah satu hal penting terhadap kinerja perusahaan, yang juga memiliki dampak positif pada proses inovasi dan kinerja. sehingga pemilik perlu berinvestasi lebih banyak dalam kemampuan inovatif dan mendukung upaya untuk memperkenalkan jenis inovasi baru.*

**Kata Kunci:** *orientasi wirausaha, inovasi, dan kinerja perusahaan*

## INTRODUCTION

### Research Background

At any developed countries one of the main priorities in implementing activities of the country is national development, this is also the case for Indonesia country. One of the things that be given attention to national development in Indonesia is in the economics. One of the potential in each region is the presence of Small and Medium Enterprises (SMEs). SMEs are considered to be significantly important to contributors to economic development, particularly in regards to providing jobs and employment opportunities; and generating income for many households (Kongolo, 2010, Saerang *et al*, 2018).

According to the data from the Ministry of Cooperatives and Small and Medium Enterprises in 2014, there are about 57.8 million actors of MSMEs in Indonesia. In 2017 and the next few years it is estimated that the number of MSME perpetrators will continue to grow. MSMEs have an important and strategic role in national economic development, besides having a role in economic growth and employment, MSMEs also have a role in distributing development results. In all this time, MSMEs have contributed to the Gross Domestic Product (GDP) amounting to 57-60% and the absorption rate of labor is around 97% of all labor national work (Business Profile MSMEs by LPPI dan BI, 2015).

SMEs have a tendency to use entrepreneurship principles to focus on exploitation of opportunities and adopt innovative approaches to attract customers and increase profitability. Additionally, entrepreneurship is argued to be associated with innovative behaviour and strategic orientation in pursuit of profitability and growth (Carland, et al 1984). Generally, many challenges exist that inhibit the performance of SMEs, such as the absence of innovation; low-level marketing and managerial skills; financial support; and competencies (Dyer and Ross, 2008).

Firms with high levels of entrepreneurial orientation tend to constantly scan and monitor the activities of entrepreneurship in order to find new opportunities and strengthen their competitive positions (Covin and Miles, 1999). today, SMEs are viewed as an important force that can foster growth in the national economy through the application of entrepreneurship principles and innovation to support progress (Rauch, et al 2005).

Business competition forces the business owners to have competitive advantage and strategy in order to survive and hold on in their business. Those who are able to present superior products through entrepreneurial orientation and innovation capabilities have greater opportunities to attract consumers.

Manado has so many places or spots to go, first is the island like Bunaken, Nain, and the others. The second is Business Culinary, Manado has so many food places, wherever you go you will find a place for eating or just hang out. One of the most popular business in Manado is a business food, one of them is a Grilled Restaurant. Based on the background and the phenomenon above, the researcher is interested in researching "*The Effect of Entrepreneurial Orientation and Innovation Capability towards Firm Performance in small and medium-sized Enterprises of Grilled Restaurants in Manado*".

### Research Objectives

1. To identify the influence of entrepreneurial orientation and innovation capabilities towards firm performance of Grilled Restaurants in Manado Simultaneously.
2. To identify entrepreneurial orientation influence the firm performance of Grilled Restaurants in Manado Partially.
3. To identify innovation capabilities influence the firm performance of Grilled Restaurants in Manado Partially.

## THEORETICAL FRAMEWORK

### Entrepreneurship

Entrepreneurship is the process of identifying, developing, and bringing a vision to life. The vision may be an innovative idea, an opportunity, or simply a better way to do something. Entrepreneurship takes a variety in both small and large firms, in new firms and established ones, in the formal and informal economy, in legal and illegal activities, in innovative and more conventional business ventures. Entrepreneurship is one of the most powerful drivers of growth and prosperity in the modern global economy, this is important to understand the concept of entrepreneurship. Entrepreneurship is the process of creating or seizing an opportunity and pursuing it regardless of the resources currently controlled" (Timmons, 1994, Tulung *et al*, 2018).

**Firm Performance**

Jauch and Glueck (1998) explained that performance is the level of achievement or attainment of a company within a certain period. A company's performance is very influential on the development of the company. The company objectives, including: to remain standing or exist (survive), to gain profit (benefit), and to be able to develop or grow (growth), can be achieved if the company has a good performance.

**Entrepreneurial Performance**

According to Van Vuuren (1996) entrepreneurial performance is the achieving of set entrepreneurial goals. entrepreneurial performance utilizes the available opportunities to grow the business idea. The entrepreneurial performance model will ensure that enterprise's set objectives are attainable and actions taken in future to improve or enhance performance.

**Entrepreneurial Orientation**

Firms with entrepreneurial orientation have the capabilities to find and exploit untapped market opportunities; the capability to respond to challenges; and the willingness to take risks under uncertain circumstances (Wiklund and Shepherd, 2005). Entrepreneurship orientation as a benefit strategy companies to be able to compete more effectively inside the same marketplace. To measure entrepreneurial orientation is used which indicators developed from (Lee and Tsang, 2001) research consist of: need for achievement, internal locus of control, self-reliance, extroversion.

**Innovation Capability**

Innovation capability can be described as the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the firm and its stakeholders. Innovation capability not only refers to the ability to be successful in managing a business new stream but is also concerned with the ability to synthesize operating paradigms (Lawson and Samson, 2001). Romijn and Albaladejo (2002) refer to innovation capability as the skills and knowledge needed to effectively absorb, master and improve existing technologies and to create new ones. Meanwhile, the innovative capability is also described as the capacity to gain access to developing and implement innovative technologies for designing and manufacturing (Xu, Lin, and Lin, 2008).

**Previous Research**

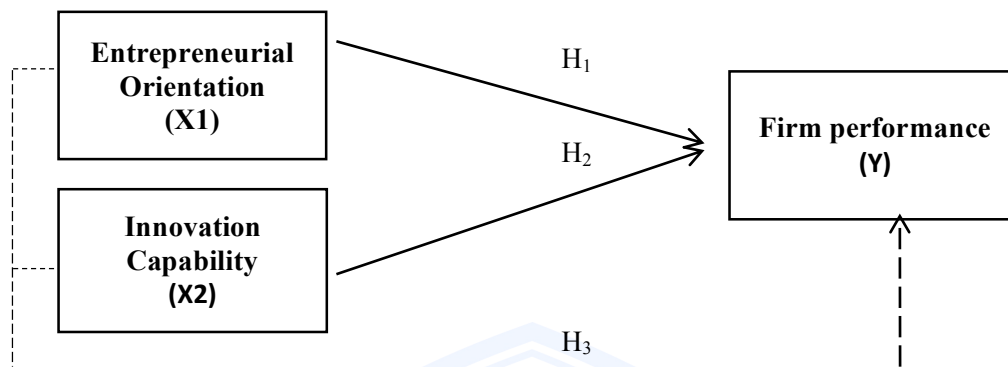
Omar, Aris, and Nazri (2016) are studied about The Effect of Entrepreneurial Orientation, Innovation Capability, and Knowledge Creation on Firm Performance: A Perspective on Small Scale Entrepreneurs. This research To examine the predictive effects of entrepreneurial orientation, innovation capability and knowledge creation on firm performance. The findings suggest that innovation capability is positively related to knowledge creation, but entrepreneurial orientation does not have a significant impact on knowledge creation. The study implies that the developers of online job sites need to provide additional useful functionalities or tools in the sites to help users for job search. . This study makes a considerable contribution to the existing literature on entrepreneurial orientation, innovation capability and knowledge creation of SMEs, particularly in regards to explaining the performance of Malaysian SMEs.

Sulistyo and Siyamtinah (2016) studied about Innovation capability of SMEs through entrepreneurship, marketing capability, relational capital and empowerment. The purpose of the paper is to examine the influence of entrepreneurship, marketing capabilities, relational capital and empowerment toward the innovation capability and performance. The problem of the study is how to improve innovation capabilities and performance of SMEs woven in Troso Jepara. The results of the data analysis using PLS demonstrate that there is a significant and positive influence of entrepreneurship, marketing capabilities, relational capital and empowerment toward innovation capability and performance. Performance significantly and positively influences the competitive advantage

Ashour, Abbas, and Allam (2011) studied about The effect of Entrepreneurial Orientation on Business Performance: Evidence from small medium size enterprise. The purpose of this study to have a model to combine the individual level variables and firm level variables for explaining the performance of entrepreneurial led- small medium sized enterprise. Results showed that The entrepreneurial expertise did not make such difference in relation to entrepreneurial success but we still use the firm size as it should be taken in consideration when dealing with the small medium sized enterprises.

## Research Framework

Conceptual framework is arrangement of logical construction that regulated in order to explain the variable in this research. With the conceptual framework the research will be more focused.



**Figure 1. Conceptual Framework**

Source: *Data Analysis Method, 2018*

Figure 1 explains about the conceptual framework of this research, The disconnected dash is the simultaneous influence Entrepreneurial Orientation (X1) and Innovation Capability (X2) on Firm Performance (Y) of SMEs in Manado, while the connected dashes are the partial influence on Entrepreneurial Orientation (X1) and Innovation Capability (X2) on Firm Performance (Y) of SMEs in Manado.

## RESEARCH METHOD

### Research Approach

This research is a type of causal-comparative study since the purpose is to determine if one or more variables cause another variable to occur or change. This research is a quantitative method with questionnaire as a tool to gather data and analysis. Burns and Bush (2006:202) stated Quantitative Research is defined as research involving the use of structured questions in which the response options have been predetermined and a large number of respondents is involved. Quantitative data are the strongest form of measurement and result from counting a number of objects or responses (Dewhurst, 2006:88).

### Population, Sample and Sampling Technique

The population in this research are all the small and medium-sized enterprises of Grilled Restaurants in Manado. Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate (Sekaran and Bougie, 2009:262)

A sample is a subset of the population. It comprises some members selected from it. In other words, some, but not at all, elements of the population from the sample (Sekaran and Bougie, 2009:263). According to Malhotra (2009) sample is a sub-group of the elements of the population selected for participation in the study. The Sampling in this research is using saturation sampling. In this method, all the populations are sampled. The sample in this study was SMEs in Manado. The samples taken in this study were 50 respondents.

### Data Collection Method

The data used in this research consist of two types of data, which is primary and secondary data. Primary data is obtained by questionnaire results and secondary data are taken from several books, journals, and previous research.

### Operational Definition of Research Variables

Entrepreneurial orientation is a firm's tendency towards searching for new market opportunities, strengthening, and restoring its current market status (Hult and Ketchen, 2001:901), Innovation capability can be defined as the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the firm and its stakeholder (Omar, Aris, and Nazri, 2016)), and There are two types of approaches in measuring performance, namely objectively and subjectively. Objectively is the type of

approach uses data in the form of financial accounting data, while subjectively to approach measures the company's performance based on the perceptions of managers on company performance.

### Data analysis Method

#### Validity and Reliability Test

Validity test concerning of what is being measured in test and how well the test can be measured. The validity of a test can be seen from the ideas and the results of the experience. A reliability test is done to get the level of accuracy of the data collection tool (instrument used). Alpha Cronbach is reliable coefficients that can indicate how good items in asset have positive correlation one another.

#### Multiple Linear Regression Analysis Model

Multiple Regression Analysis is being used in attempt to answer the problem in this research. Multiple Regression Analysis can be defined as a linear relationship between two or more independent variables. The formula of multiple regression model in this research is shown as follow:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \varepsilon$$

Description :

Y = Firm Performance

$\alpha$  = intercept

$\beta_1, \beta_2$  = the regression coefficient of each variable

X1 = Entrepreneurial Orientation

X2 = Innovation Capability

$\varepsilon$  = error

## RESULT AND DISCUSSION

**Table 1. Validity Test of the research**

Variable	Item	r <sub>count</sub>	r <sub>table</sub>	Information
<b>Variable X<sub>1</sub></b>				
Need For Achievement	1	0,436	0,279	Valid
	2	0,390	0,279	Valid
	3	0,496	0,279	Valid
Self Reliance	1	0,436	0,279	Valid
	2	0,481	0,279	Valid
	3	0,474	0,279	Valid
Extroversion	1	0,279	0,279	Valid
	2	0,555	0,279	Valid
	3	0,390	0,279	Valid
Internal locus of control	1	0,555	0,279	Valid
	2	0,519	0,279	Valid
	3	0,496	0,279	Valid
<b>Variable X<sub>2</sub></b>				
Technology Developing Capability	1	0,419	0,279	Valid
	2	0,569	0,279	Valid
Operations Capability	1	0,467	0,279	Valid
	2	0,336	0,279	Valid
Management Capability	1	0,446	0,279	Valid
	2	0,301	0,279	Valid
Transaction Capability	1	0,359	0,279	Valid
	2	0,568	0,279	Valid
	3	0,506	0,279	Valid
<b>Variable Y</b>				
Financial Performance	1	0,678	0,279	Valid
	2	0,364	0,279	Valid

	3	0,280	0,279	Valid
Customer Performance	1	0,613	0,279	Valid
	2	0,364	0,279	Valid
Internal Business Performance	3	0,655	0,279	Valid
	1	0,586	0,279	Valid
	2	0,460	0,279	Valid
	3	0,476	0,279	Valid
Learning and Development Performance	1	0,714	0,279	Valid
	2	0,521	0,279	Valid
	3	0,678	0,279	Valid

Source: Data Processed, 2018

From the test result of validity instrument at significant level of 0,05 note that all values of  $r_{count}$  is much more than the value of  $r_{table}$ , it means also all the questionnaire items declared valid and can be used as a means of collecting the data in a conducted study.

**Table of Classical Assumption**

**Table 2. Multicollinearity**

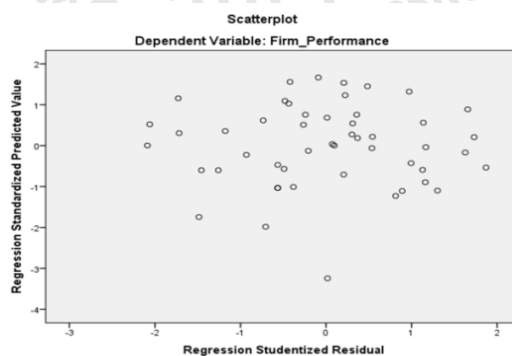
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Entrepreneurial Orientation	.270	3.810
	Innovation	.270	3.810

a. Dependent Variable: Firm Performance

Source: Data Processed, 2018

The multicollinearity test result in the table 2 shows that the tolerance and VIF. The tolerance value of Entrepreneurial Orientation is 0.270, meaning the tolerance value of each variable is more than 0.2. the VIF value of entrepreneurial orientation is 3.810 and innovation capability is 3.810, meaning the VIF of each variable is less than 10. Since all the tolerance value is more than 0.2 and the VIF value is less than 10, so this research is free from multicollinearity.

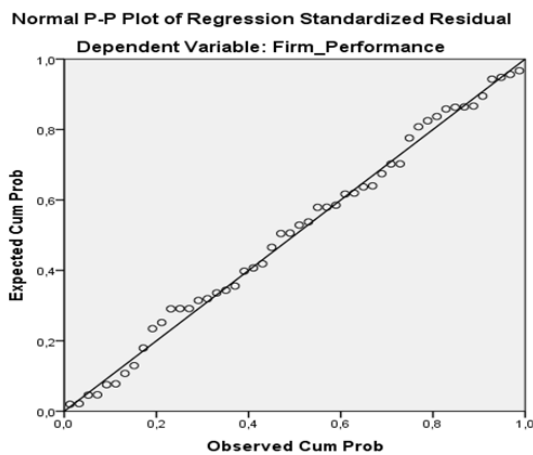
**Heteroscedasticity**



**Figure 2. Heteroscedasticity**  
Source: Data Processed, 2018

Based on figure 2 shows that the pattern points is spreading. Where the points are spreading above and below zero points inordinate. This is proved there is no heteroscedasticity in this regression.

**Normality**



**Figure 3. Normality**  
 Source: Data Processed, 2018

Based on the figure 3, it can be see that the dots are spreading near the diagonal line and follow the direction of the diagonal line it means that the data distribution is normal.

**Hypothesis Test**  
**Table 3. F-Test**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	623.693	2	311.846	11.899	.000 <sup>b</sup>
	Residual	1232.807	47	26.230		
	Total	1856.500	49			

- a. Dependent Variable: Firm Performance
  - b. Predictors: (Constant), Innovation Capability, Entrepreneurial Orientation
- Source: Data Processed, 2018

The value  $F_{count}$  is (11.889) >  $F_{table}$  (3.19) with a level of significance  $p\text{-value} = 0,000 < 0,05$ , since  $f_{count}$  is greater than  $F_{table}$ , so  $H_0$  is rejected and  $H_1$  has accepted meaning independent variables simultaneously influence the dependent variable.

**Table 4. T-Test**

Model		t	Sig.
1	(Constant)	.177	.540
	Entrepreneurial Orientation	.853	.003
	Innovation Capability	.925	.004

- a. Dependent Variable: Firm Performance
- Source: Data Processed, 2018

Based on the table 4 the result is  $T_{count}$  variable  $X_1$  less than  $T_{table}$  (0.853 < 2.011) with level of significance less than 0.05 (0.003 > 0.05) and  $T_{count}$  variable  $X_2$  less than  $T_{table}$  (0.925 < 2.011) with level of significance less than 0.05 (0.004 > 0.05). So, Based on the result in partial test can be concluded that variable

entrepreneurial orientation ( $X_1$ ) influence partially towards firm performance and innovation capability ( $X_2$ ) influence partially towards firm performance.

## Discussion

### Entrepreneurial Orientation and Innovation Capability on Firm Performance

The results of multiple regression analysis showed that the entrepreneurial orientation variable and innovation capability has a positive effect and significance on firm performance in SMEs in Manado. Most of the SMEs in Manado, they have a strong entrepreneurial orientation in their business and also have a strong creativity that's why they can survive until can reach their goals.

### Entrepreneurial Orientation on Firm Performance

The results of multiple regression analysis showed that the entrepreneurial orientation has a significant influence on firm performance in small and medium enterprises in Manado, This result means that the better entrepreneurial orientation which is owned by SMEs in Manado, such as the need for achievement, self-reliance, internal locus of control, and extroversion, then the achievement of company performance will also be better. With an entrepreneurial orientation that gets stronger, it will help the company to have skills in long-term planning, be able to face difficulties, be able to work under pressure and be able to socialize with anyone.

### Innovation Capability on Firm Performance

The results of multiple regression analysis showed that the innovation capability has a significant influence on firm performance in small and medium enterprises in Manado, with a higher innovation capability that the owners have, can help the companies to develop technology, have quality and company standards, can work in accordance with planning, and offer attractive promotions. Through this process, small and medium enterprises are proven to be able to develop technology as a tool to promote their business and have good quality and standards so they can survive in their businesses.

## CONCLUSION AND RECOMMENDATION

### Conclusion

Based on the data analysis and discussion, the conclusion of this research as follows:

1. Improving the performance of SMEs in Manado cannot be separated from the ability of entrepreneurs to understand entrepreneurial orientation and innovation capabilities. However, the understanding of SMEs in implementing entrepreneurial orientation still needs to be improved.
2. From the hypothesis test result showed that the entrepreneurial orientation has a significant and positive impact on firm performance.
3. From the hypothesis test results showed that the innovation capability has a significant and positive impact on firm performance.

### Recommendation

1. For the owners, the entrepreneurial orientation is a variable that can significantly improve firm performance. Therefore, owners should be in this indicator need for achievement, trust in their abilities or internal locus of control, self-reliance, and an open attitude towards the environment or extroversion. And do not forget to innovate because innovation is also a variable that can improve firm performance.
2. For further researchers, there are still a number of factors that are thought to influence company performance but cannot be included by researchers. therefore it is recommended for future researchers to add other variables which is also a number of determinants in improving company performance.

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