

Innovation Performance as Mediator: Does Entrepreneurial Orientation Predict Business Sustainability?

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Abstract

There has been a steady decline in sales of small and medium enterprises caused by the recent global occurrence. Viewing these current changes, it is clear that the sustainability of local businesses and their ecology are under threat, and that an entrepreneurial viewpoint would yield a deeper understanding and solution to this emerging problem. The purpose of this study is to find out and analyze the entrepreneurial orientation impact on business sustainability during COVID-19 pandemic. Structural equation modeling and the partial least squares model were used to present path modeling and multigroup analysis. Data have been collected during November–December 2020 when the pandemic was still at large. Using a sample of 101 young online business owners in Jakarta area, our results reveal that entrepreneurial orientation has a positive and significant impact directly on business sustainability and indirectly mediated by innovation performance. This study suggests that online small and medium entrepreneurs need to implement entrepreneurial orientation strategy and make an innovation for their products/services to make their business sustain.

Keywords

Entrepreneurial Orientation, Innovation Performance, Business Sustainability.

1. Introduction

The COVID-19 pandemic forces most of the governments all over the world to respond by refocusing their development programs on economic recovery and reorienting policies related to sustainability issues. The impact also reverberates through the Indonesian regional economies as the decline in sales of its small and medium enterprises presents a sizable effect on the business sustainability (Anggraeni 2020).

The organizational phenomenon of entrepreneurial orientation has become one of the crucial considerations in fulfilling its promise as a driver of firm performance outcomes (Wales et al. 2011). Defined as a business process of a company that generates entrepreneurial decisions to create competitive advantage, entrepreneurial orientation was

thought of that organizations could be like individuals (Covin and Wales 2019; Wales et al. 2021). Scholars have highlighted many factors that generate entrepreneurial orientation. For instance, according to Jambulingam et al. (2018), entrepreneurial orientation comprises reactivity, innovativeness, aggressive competition, risk-taking, autonomy, and motivation. Rezaei and Ortt (2018) asserted that entrepreneurial orientation consists of three dimensions (innovativeness; proactiveness; risk-taking). However, the results of these studies indicated inconsistent findings regarding its effect on firm performance. On the other hand, the role of innovation performance, which is important for the success of organizations, has been understudied in previous studies (Parida et al. 2017). Similarly, we know very little about the factors of entrepreneurial orientation and business sustainability, and few studies examined the positive relationship between the two (Hooi et al. 2016; Sung and Park 2018; Diabate et al. 2019). Thus, it is not clearly understood whether the process through which entrepreneurial orientation may influence business sustainability (Sung and Park 2018). We suggest that innovation performance may be an important mediating factor that explains how entrepreneurial orientation can be more encouraged to demonstrate business sustainability.

This study intended to examine the effect of entrepreneurship orientation on the business sustainability and investigate the mediating effects of innovation performance. If such relationships exist, what conclusions can be drawn and how they can be used to understand and gain insights into the reorienting policies related to sustainability issues. By studying the business owners' entrepreneurial orientation and their business sustainability, a deeper understanding can be gained about what relationship exists between them. Such information would benefit micro, small, and medium enterprises (MSMEs) in Indonesia, which are part of its emerging markets. The remainder of this paper is organized as follows. In the next section, we briefly define entrepreneurship orientation, innovation performance, business sustainability, and highlight some of their specific characteristics.

2. Literature Review

2.1. Entrepreneurial Orientation

A highly entrepreneurial-oriented organization is the most adept at creating new organizational forms and industrial configurations, by means of which they can shape market arrangements to their advantage (Baker and Sinkula 2009). This entrepreneurial orientation can be used for companies to create business strategies and innovate to have a competitive advantage.

Entrepreneurial orientation is considered as an important thing to gain an advantage in competing with competitors which of course can increase profits for a company itself. Lomberg et al. (2017) also explained entrepreneurial orientation as a strategy-making process for a company by providing the basis for entrepreneurial decisions and actions that aim to create a competitive advantage with competitors. While Anderson et al. (2014) defined entrepreneurial orientation as a combination of studying innovative and proactive entrepreneurial behavior with managerial willingness to seize strategic opportunities even with uncertain results.

Entrepreneurial orientation is a process where the company will create a business process that can generate a competitive advantage. Entrepreneurial orientation based on Lumpkin and Dess's (1996) theory is divided into innovativeness, risk-taking, proactiveness, competitive aggressiveness and autonomy, and these five indicators are combined to calculate entrepreneurial orientation (Sok et al. 2017).

2.2. Innovation Performance

Rauter et al. (2019) posit that sustainable innovation performance is the result of company innovation that prioritizes product design that can last such as using environmentally friendly materials, efficient production processes, paying attention to environmental conditions such as proper waste disposal, and social responsibility such as paying attention to work safety, and work ethics. This is in line with the thoughts of Albort-Morant et al. (2018) which define green innovation performance as an innovation that has the main goal of minimizing or avoiding damage to the surrounding environment by processing waste, using environmentally friendly raw materials, can be carried out properly, namely meeting market demand, creating good corporate value, and increasing yields. Benitez et al. (2018) define innovation performance in the form of a change process from an existing product or business process and/or the development of a new product or business process both obtained from the company's internal and external knowledge.

2.3. Business Sustainability

During the COVID-19 pandemic, many business sectors were hit and even had to go out of business, due to declining demand and because there were calls to stay at home. Dyllick and Muff (2016) define business sustainability as a process by which a company can manage risks, liabilities and profitability, and social and environmental opportunities. Gross-Gołacka et al. (2020) describe business sustainability as a business strategy that is integrated with social, economic, and environmental factors into the business model. This is in line with the thinking of Svensson et al. (2016) regarding business sustainability is a company's effort not to be fixated on profitability, but also the impact on the surrounding environment, social, as well as the wider economy and society.

2.4. Hypotheses Development

This paper builds on selected aspects of Mohamad and Chin's (2019) framework, which illustrates the effects of the entrepreneurial orientation as a mediator and its consequences towards business sustainability. Another aspect was taken from Zhai et al.'s (2018) study, which demonstrates innovation performance as a dependent variable preceded by entrepreneurial orientation. In this paper, we examined the effects of entrepreneurial orientation as a precursor to business sustainability mediated by innovation performance. We hypothesize that entrepreneurial orientation will have a positive effect on both innovation performance and business sustainability, while innovation performance will have a positive effect on business sustainability. The hypothesized model is shown in Figure 1.

After achieving a company's success in opening a new business and of course being able to compete with the existing market, the businessman will carry out various business strategies to survive. The strategy is designed to make the company have a competitive advantage that will affect business sustainability in the long term. With good resource management and being able to feel customer desires, a company can move forward, develop and be sustainable. Researchers assess entrepreneurial orientation is something that companies need to be able to achieve business sustainability and the two variables have a relationship. In previous studies, it was found that entrepreneurial orientation has a positive influence on business sustainability (Mohamad and Chin 2019; Ueasangkomsate 2019; Susanti and Wibisono 2018).

Hypothesis 1 (H1): There is a positive and significant effect of Entrepreneurial Orientation towards Business Sustainability.

For a company to create an innovation, it cannot be arbitrary, for it takes a lot of consideration so that the innovations carried out can have a positive impact on the business they run. One of these considerations is taken from the perspective of entrepreneurial orientation as a reference for companies to make business strategies and innovate to have a competitive advantage compared to competitors. Therefore, we can consider that entrepreneurial orientation has a relationship with innovation performance as in previous research, the study found that the entrepreneurial orientation variable has a positive influence on innovation performance (Zhai et al. 2018). A previous study states that there is a positive influence between entrepreneurial orientation and innovation performance (Kollmann et al. 2021). However, preceding studies have found capricious effects of entrepreneurial orientation on firm performance (Iqbal et al. 2021). Entrepreneurial orientation does not have a significant direct effect on business performance, but through a business strategy (Giriati 2019).

Hypothesis 2 (H2): There is a positive and significant effect of Entrepreneurial Orientation towards Innovation Performance.

Innovation is the main key that companies need to be able to move forward and of course attract customers to be loyal to the company. The company will continue to create a product innovation even in the form of promotion, the company also makes new changes and follows the current era to be able to generate competitive advantage. Businesses must look for something new and unique for customers, and companies also need to know the resources they currently have. Resources have an important role in the company to be able to continue to innovate and with good dynamic capability within the company it can encourage the achievement of business sustainability. The innovation performance variable in the company is very much needed in achieving business sustainability. In a previous study, it was found that there is an influence between innovation on business sustainability, which significantly affects financial performance, social performance, and environmental performance (Li et al. 2020). Subsequent research shows that management innovation and technological innovation significantly and positively contribute to sustainability (Zhang et al. 2019).

Hypothesis 3 (H3): There is a positive and significant effect of Innovation Performance towards Business Sustainability.

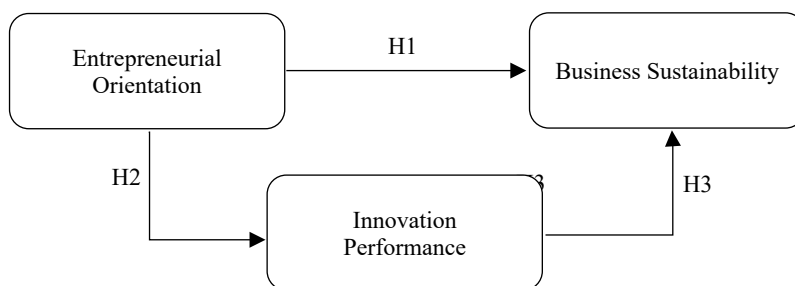


Figure 1. Research Model

3. Methods

In this study, the analysis was using a quantitative research method and conducted with online questionnaires. Questionnaires were created via Google Form and then distributed online to all research respondents. The questionnaires were only collected once in a certain period, also known as cross-sectional research. These questionnaires used a six-point Likert scale with a close-ended question, which the respondent can only choose to answer based on the choices that have been provided by the researchers. The unit analysis of this study is the online small and medium enterprises (those having a turnover of IDR 300,000,000 to 50,000,000,000 per year) in Jakarta owned and run by the youths (16- to 30-year-olds). Specifically, the samples are those businesses that operate online. The period of the survey was from November 2020 to December 2020. The target population of interest was defined as the young population of 2,405,406 (BPS Jakarta 2019).

Table 1. Number of Employees

Number of Employees	Frequency	Percentage
0-3	88	87%
4-6	7	7%
7-9	4	4%
10 or more	2	2%

The study used purposive sampling, which is a sampling technique with consideration of certain limits determined by the researchers judging according to the characteristics of the population. The minimum sample was 97, significance level of 5%, and minimum R^2 of 0.50. Therefore, the 101 samples are sufficient for this study. (Table 1)

4. Data Collection

Based on Table 1, most of the respondents (87%) have 0-3 employees, 7% of respondents have 4-6 employees, 4% with 7-9, and 2% with 2 employees. This data shows that SMEs in Jakarta most likely do not need many employees to run their businesses.

Table 2. Period of Establishments

Period of Establishments	Frequency	Percentage
<1 year	63	62%
1-3 years	28	28%
4-6 years	6	6%
7-9 years	2	2%
10 years or more	2	2%

Most of the respondents (62%) had their businesses established for less than one year. This data shows that the SMEs in Jakarta most likely open their businesses in less than one year. The pandemic COVID-19 could cause the new business opening. (Table 2)

Table 3. Business Industry

Business Products	Frequency	Percentage
Food & Beverage	41	40%
Clothing and Accessories	25	25%
Beauty and Cosmetics	6	6%
Electronics	4	4%
Health Care	2	2%
Automotive	2	2%
Others	20	20%

Table 3 shows that 40% of the respondents are food and beverage business owners, followed by 25% clothing and accessories, beauty product business owners at 6%, 4% respondents in electronics, 2% in health care, the other 2% in automotive business. In addition, there are other types of businesses, each with only 1 respondent, such as agribusiness, photography, tour & travel, home supplies, selling exotic pets, religious, poultry shop, household furniture, services, building materials, recording studios, communication rental services & clothing printing services, homecare, tote bags, homeware, cellular phone accessories, advertising agency, games/toys, sneakers, florists, and sports.

Table 4. Business Platform

Online Platform	Frequency
Messenger (WhatsApp, Line, Telegram)	59
Social Media (Instagram, Facebook, Twitter, TikTok, YouTube)	88
E-Market Place (Tokopedia, Shopee, Lazada)	53

According to Table 4, most respondents (88) prefer to promote their products on social media, followed by 59 using messenger platforms, and 53 on e-market places. The category of business scale is based on Indonesian Micro, Small, and Medium Enterprise Regulation No.20, where micro-business revenue is less than 300 million IDR and small business revenue is set on >300 million-2.5 billion IDR (Maksum et al. 2020).

5. Results and Discussion

This study analyses data using partial least squares structural equation modeling, also known as the PLS-SEM method. PLS-SEM is a variance-based method to estimate SEM. It is mainly used to develop theory in exploratory research. It focuses on maximizing in explaining the variance of endogenous latent variables. In the following tables, we can see the result of processed data.

Table 5. Validity and Reliability Tests Result

Variables	Items	Loading	Alpha	CR	AVE
EO	EO1	0.814	0.879	0.907	0.582
	EO2	0.848			
	EO3	0.732			
	EO4	0.715			
	EO5	0.755			
	EO6	0.740			
	EO10	0.726			
IP	IP1	0.756	0.899	0.921	0.596
	IP3	0.783			
	IP4	0.804			
	IP6	0.729			
	IP7	0.765			
	IP8	0.764			
	IP9	0.737			
	IP10	0.798			

	IP11	0.806			
BS	BS3	0.745	0.825	0.884	0.597
	BS4	0.795			
	BS5	0.784			
	BS6	0.757			
	BS7	0.798			
	BS8	0.756			

The first step is convergent validity, each latent variable's Average Variance Extracted (AVE) is evaluated. It can be seen in Table 5 that all AVE values are greater than the acceptable threshold of 0.5, thus confirming the convergent validity. The second step is to check the data's Cronbach's alpha which measures internal consistency reliability in social science research. From Table 5, such values are shown to be larger than 0.7, thus confirming the demonstration of high levels of internal consistency reliability among all reflective latent variables.

As presented in Table 6, the square root of AVE is manually calculated on the diagonal of the table. The square root of AVE in each latent variable can be used to establish discriminant validity, if this value is larger than other correlation values among the latent variables. The Fornell-Larcker Criterion result shows that all three variables are valid.

Table 6. Fornell-Larcker Criterion

	Entrepreneurial Orientation	Innovation Performance	Business Sustainability
Entrepreneurial Orientation	0.763		
Innovation Performance	0.732	0.790	
Business Sustainability	0.746	0.779	0.811

Besides Fornell-Larcker Criterion, discriminant validity can also be identified by cross-loadings. Those that have high loadings on the same construct and those that load highly on multiple constructs. Thus, to establish discriminant validity at the item level means there is a high correlation between items of the same construct and a weak correlation between items of a different construct. The bolded items in Table 7 represent the factor loadings for each construct and the cross-loading are those printed in non-bold typeface. The cross-loading for each construct is relatively high indicating good discriminant validity.

Table 7. Cross-Loadings

	Entrepreneurial Orientation	Innovation Performance	Business Sustainability
EO1	0.814	0.579	0.535
EO2	0.847	0.578	0.593
EO3	0.731	0.513	0.588
EO4	0.715	0.452	0.554
EO5	0.754	0.586	0.486
EO6	0.741	0.588	0.625
EO10	0.726	0.595	0.587
IP1	0.592	0.768	0.548
IP3	0.524	0.790	0.519
IP4	0.512	0.803	0.618
IP8	0.683	0.775	0.720
IP9	0.557	0.761	0.562
IP10	0.564	0.815	0.652
IP11	0.591	0.813	0.653
BS4	0.623	0.725	0.825
BS5	0.619	0.609	0.850
BS6	0.572	0.533	0.821
BS7	0.596	0.636	0.742

R-Square is used to determine the effect of exogenous variables on the endogenous variable. This study used R-Square Adjusted to determine the effect because it corrected on the standard error value and gives a more robust picture than R-Square. As presented in Table 8, Business Sustainability (BS) obtained 0.674 of R-Square and 0.664 of R-Square Adjusted. The result means that 66.4% of business sustainability is affected by innovation performance and entrepreneurial orientation. Other than that, Innovation Performance obtained 0.646 of R-Square and 0.638 of R-Square Adjusted. Therefore, 63.8% of innovation performance is affected by entrepreneurial orientation.

Table 8. Model Summary

	R²	R² Adjusted
Business Sustainability	0.674	0.664
Innovation Performance	0.646	0.638

After running the validity and reliability tests, the next step is to calculate the path coefficients to see how strong the effect of one variable is on another. Once the bootstrapping procedure with 5,000 subsamples is completed, we can get the T-statistics numbers to see if the path coefficients of the model are significant or not. Using a two-tailed test with a significance level of 5%, the path coefficient will be significant if the T-statistics is larger than 1.96. As presented in Table 9, all T-statistics are larger than 1.96, so we can say that the loadings are highly significant.

Table 9. Path Coefficients

	Original Sample	T-Statistic	P-Value	Remark
EO -> BS	0.377	2.607	0.012	Positive, Significant
EO -> IP	0.426	3.638	0.000	Positive, Significant
IP -> BS	0.416	4.345	0.000	Positive, Significant

The direct effect of entrepreneurial orientation towards business sustainability appears to be positive and significant ($\beta = 0.377/t = 2.607$). Thus, *H1* is supported, as business strategy that the young online entrepreneurs possess is the greatest drive in the generation of profit to sustain their enterprises in this uncertain environment. The results are also supported by previous studies, e.g., Mohamad and Chin 2019, Ueasangkomsate 2019, Susanti and Wibisono 2018.

As proposed in *H2*, entrepreneurial orientation is positively associated with innovation performance ($\beta = 0.426/t = 3.638$). Young entrepreneurs' entrepreneurial perspective in formulating an innovation strategy is by being proactive in seeing market desires to offer solutions even in unstable conditions. Therefore, *H2* is accepted. Similar findings have been reported by Zhai et al. 2018, Kollmann et al. 2021, and Adam et al. 2017. However, the results do not match previous study and the reason is that where the entrepreneurial level is not in accordance with the environmental turbulence and risk (e.g., the current pandemic situation), online businesses will tend to drop their performance (Giriati 2019).

As proposed in *H3*, innovation performance is positively associated with business sustainability ($\beta = 0.416/t = 4.345$). It can be concluded that young business owners in Jakarta needs to continuously innovate to survive and be sustainable amidst the rapid change in technology and the recent global occurrence, thus confirming *H3*. These findings are in line with the findings reported in past studies (see Li et al. 2020, Zhang et al. 2019).

6. Conclusion

This study aims to examine the effect of entrepreneurship orientation on the business sustainability and investigate the mediating effects of innovation performance. In this study, it is demonstrated that entrepreneurial orientation has a positive and significant influence on business sustainability. It can be concluded that the application of an optimal entrepreneurial orientation can result in a sustainable business. During this pandemic, more and more MSMEs are going online, this has an impact on the number of competitors. Young businessmen are encouraged to have an entrepreneurial spirit to dare to take risks and be proactive in determining business strategies. The application of the right entrepreneurial orientation is necessary to compete and create competitive advantages so as to produce a sustainable business, by utilizing the existing e-business platform.

In addition, this study found that innovation performance has a positive and significant influence on business sustainability. It can be concluded that improving innovation performance can make a business survive. Currently, there are more and more competitors in e-business, which prompts young businesses to innovate in developing products or services and to be able to produce a sustainable business during this pandemic.

Finally, increasing entrepreneurial orientation during this pandemic can encourage innovation performance in a company or business. During this pandemic, many small businesses have emerged, which means there are more players. Therefore, a good entrepreneurial orientation can be used as a reference in determining the innovations that must be carried out so that they can become a competitive advantage for these small and medium enterprises.

The limitation of this study is restricted to only the dimensions of the variables. Future studies may focus on other factors that are likely to affect the sustainability of SMEs. Secondly, since the primary objective of the study was achieved through commonly known methods, future researchers may wish to employ advanced methods and techniques in assessing different dimensions of each of the variables.

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