Entrepreneurial Orientation on Food and Beverage SMEs’ Performance: The Role of Competitive Advantage and Innovation

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Abstract

This study aims to see the effect of entrepreneurial orientation, innovation, and competitive advantage on the performance of the culinary sector SMEs in Bogor, West Java. The research was conducted in the culinary industry sector in the city of Bogor. 270 questionnaires were distributed, but 161 were returned so that the sample in this study was 161 respondents. The research was conducted by using quantitative methods. The data analysis used was path analysis with Amos version 23 software. The results showed that there was a positive and significant influence between entrepreneurial orientation, innovation, and competitive advantage on performance. Entrepreneurial orientation has an influence on innovation and competitive advantage. Then, innovation has an effect on competitive advantage. The results also show that innovation and competitive advantage can mediate the effect of entrepreneurial orientation on performance. The recommendation of this research is to increase the competitiveness of the culinary industry by increasing the ability of innovation and entrepreneurial orientation.

I. Introduction

SMEs have a great contribution to the Indonesian economy (Curatman et al., 2016). Nur & Salim, (2014) also stated that Small and medium enterprises (SMEs) have a strategic role in national economic development, economic growth, and employment. The culinary industry is one of the creative industry sub-sectors. The success of the culinary industry cannot be separated from entrepreneurial orientation, innovation, and competitive advantage. Data in 2017, 41.69% of the total Creative Economy GDP in Indonesia was occupied by the culinary industry in the first place (S. D. Lestari et al., 2020)

Many factors influence the performance of SMEs in running their business. Human resources who understand and have entrepreneurial abilities will have an advantage in dealing with internal and external factors of the firm so that they are better able to manage these factors into a useful strategy for the company so that there are changes that provide differentiation compared to competitors (Nur & Salim, 2014). In this study, researchers will focus on examining the effect of entrepreneurial orientation, innovation, and competitive advantage as exogenous variables. According to Hatta, (2015) the internal problems of the culinary business, such as a lack of innovation and the skills that are lacking from employees and limited capital, also slow down the increase in competitiveness. Hatta, (2015) said that the optimal performance can be achieved by typical regional restaurants by developing their marketing capabilities based on entrepreneurial orientation. Quantananda & Haryadi, (2015) also added that entrepreneurial orientation was one of the important factors that can determine the success

Keywords

SMEs; entrepreneurial orientation; innovation; competitive advantage

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of a business. In addition, without innovation it will also make it difficult for the Food and Beverage Industry to improve business performance (Salleh & Ismail, 2019).

The competitive advantage needs to be improved by the culinary industry in Bogor City. Innovation and entrepreneurial orientation are some of the factors that can increase competitive advantage. For a sustainable competitive advantage, a firm must create innovations (Bambang et al., 2021). The high or low competitiveness of SMEs is influenced by the ability to innovate (Ismanu, 2019).

The firm’s competitive advantage is the key to business success (Teguh et al., 2021). Previous research by Lestari et al.,(2019) shows that entrepreneurial orientation and innovation have a positive influence on competitive advantage. The results of research conducted by Lestari et al., (2019) was different from the findings made by Nizam et al., (2020) which underline that there was no influence between entrepreneurial orientation on competitive advantage.

Therefore, this present study aims to examine:

- the effect of entrepreneurial orientation on innovation
- the effect of entrepreneurial orientation on competitive advantage
- the effect of innovation on competitive advantage
- the effect of entrepreneurial orientation on performance
- the effect of innovation on performance
- the effect of competitive advantage on performance

II. Review of Literature

2.1 SMEs’ Performance

The organizational performance will be achieved if the firm has an employee with high performance (Syamsuri & Siregar, 2018). Every company must set a goal to be achieved by organizational members (Niati et al., 2021). Firm performance is a description of the financial condition of a company that is analyzed with the tools of financial analysis, so it can be known about the good bad financial condition of a company that reflects the performance of work within a certain period (Ismanu, 2019). Performance is the level of effectiveness and efficiency of the efforts made by the organization in achieving organizational goals (Wulaningtyas & Widiartanto, 2018).

According to Ferdinand,2002 (in Nizam et al., 2020) states that good marketing performance is expressed in three main quantities, namely sales value indicated by the value of money or unit profits, sales growth indicated by an increase in product sales, and the market share shown with the product’s contribution in dominating the product market compared to competitors which in the end will lead to company profits.

2.2 Competitive Advantage

Standard operating procedures are guidelines that are used to ensure that the operational activities of an organization or company run consistently, effectively, efficiently, systematically, and well managed (Airini T Soemohadiwidjojo: 2004). Standard operating procedure or commonly abbreviated as SOP is a guide for workers in carrying out their duties in an organization or company. With the existence of an employee performance SOP that will be in accordance with what the company wants, this SOP makes the activities of a job fast, efficient, effective, and precise with the steps listed in the SOP for complete an organization or company activity. Managing competitiveness is an effort to improve company performance (Syamsuri et al., 2019). Tasman et al., (2021) cited that human resource skills as a key to competitiveness.
2.3 Entrepreneurial Orientation

An entrepreneur is someone who dares to take risks, coordinates managing investment or production facilities, someone who introduces the function of new production factors, or someone who has a creative and innovative response (Wulaningtyas & Widiartanto, 2018). Entrepreneurial-oriented companies are companies that try to be the first in-market product innovation, dare to take risks, and take proactive actions to beat competitors (Wulaningtyas & Widiartanto, 2018).

Entrepreneurship is a combination of creativity, innovation, and courage to face the risk that is done by working hard to establish and maintain new business (Kraus et al., 2012). Various Entrepreneurs should also have attitude, motivation, and commitment to their job (Soares, 2014). A firm deploying an EO would be expected to develop a suite of skills (e.g., ability to manage uncertainty; ability to innovate to meet emerging opportunities and threats; ability to anticipate direction and nature of market change; ability to tolerate risk) that shape a firm entrepreneurship capability to further improve business performance (Kraus et al., 2012).

2.4 Innovation

Innovation comes from creativity which is a collection of ideas, knowledge, skills, and human experience (Murni et al., 2014). Siregar et al., (2019) cited the innovative implementation of new knowledge to produce new products, services, and processes. The innovative person will try to look for positive and new ideas to achieve the organizational goals (Siregar et al., 2019; Siregar et al., 2021; Nasution et al., 2021). A business that is capable of making innovation can lead to this business and reduce the possibility of competitors to innovate earlier. Therefore, a businessman must prepare an innovation strategy for his business to create an advantage over competitors (I. Lestari et al., 2019). When a firm introducing a technological innovation (focused on product, materials, or processes) or a business model (focused on management aspects or market openings) the firm will also be creating a competitive advantage, therefore contributing to greater financial incomes (De Conto et al., 2016).

There are many types of innovation such as product innovation, Process innovation, Marketing innovation, Organizational innovation, Paradigm innovation…etc. All these types and others allow companies to realize a competitive advantage and economic benefits (Reguia, 2014). In an SME context towards the food and beverages industry, the innovative concept of this study is adapted from the study (Ivkov et al., 2016) which measures innovation through five main dimensions, namely design and atmosphere, food and beverages, technology applications, responsible business, and human resources.

2.5 Hypotheses Development

Entrepreneurial orientation is an important factor in sustainable innovation. To achieve sustainable innovation companies need managerial capabilities to use resources effectively (Murni et al., 2014). Research conducted by Alqershi et al., (2020) shows that innovation influences competitive advantage. Innovation is one of the supporting factors for competitive advantage and business success (Reguia, 2014). The market dynamics are affected by many factors from consumers’ socioeconomic conditions to a firm’s capacity to show an innovative product for consumption. Thus, innovation is becoming the companies’ main competitive factor to increase and keep their operating area (De Conto et al., 2016).

Entrepreneurship is one of the key elements that will lead to a successful business performance under highly uncertain business conditions (Cho & Lee, 2018).
Entrepreneurial orientation plays an important role in improving business performance (Wulaningtyas & Widiartanto, 2018). The results of previous research by Nur & Salim, (2014) show that there is an influence between entrepreneurship on company performance.

The findings of the research showed that innovation was a strategy to improve firm performance (Ismanu, 2019) and (F. M. Siregar et al., 2021). The research conducted by S. D. Lestari et al., (2020) also showed that there was an influence between innovation on SMEs' performance that partner with go-food in Makassar City. Companies that have a competitive advantage will improve firm performance (Ismanu, 2019). The study conducted by S. D. Lestari et al.,( 2020) found that there was an influence between competitiveness on SMEs' performance that partners with go-food in Makassar City.

III. Research Methods

This study uses a quantitative method. The research was conducted on small and medium business owners in the culinary industry in the city of Bogor. Questionnaires were distributed as many as 270 questionnaires and which returned as many as 161 respondents so that the number of samples in this study was 161 respondents. The data analysis technique used was the path analysis technique. In this study, there are four variables, namely entrepreneurial orientation, innovation, competitive advantage, and performance.

IV. Results and Discussion

4.1 Normality Testing

Normality test is one of the requirements in path analysis. The skewness, kurtosis, and cr of multivariate value must be -2.58 to 2.58 (Schumacker & Lomax, 2010). The results of the normality test of research data can be seen in the following table.

<table>
<thead>
<tr>
<th>Variable</th>
<th>min</th>
<th>max</th>
<th>skew</th>
<th>c.r.</th>
<th>kurtosis</th>
<th>c.r.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrep_Orientation</td>
<td>10.000</td>
<td>25.000</td>
<td>-0.092</td>
<td>-0.475</td>
<td>-0.278</td>
<td>-0.721</td>
</tr>
<tr>
<td>Innovation</td>
<td>8.000</td>
<td>20.000</td>
<td>0.191</td>
<td>0.990</td>
<td>-0.013</td>
<td>-0.033</td>
</tr>
<tr>
<td>Comp_Advantage</td>
<td>10.000</td>
<td>25.000</td>
<td>0.133</td>
<td>0.689</td>
<td>-0.510</td>
<td>-1.320</td>
</tr>
<tr>
<td>Performance</td>
<td>10.000</td>
<td>25.000</td>
<td>0.118</td>
<td>0.611</td>
<td>-0.262</td>
<td>-0.678</td>
</tr>
<tr>
<td>Multivariate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.559</td>
<td>1.428</td>
</tr>
</tbody>
</table>

The table above shows that the value of cr is between -2.58 to 2.58, thus it can be concluded that the data in this study are normally distributed.

4.2 Hypothesis Testing

Hypothesis testing was conducted to determine the effect of each form of relationship between research variables. The criteria for testing the hypothesis are by looking at the value of the critical ratio needs to be > 1.96 and a probability level of .05 (Byrne, 2010). Hypothesis Test Results can be seen in Table 2.
### Table 2. Hypotheses Testing

<table>
<thead>
<tr>
<th></th>
<th>Stand. Regression</th>
<th>C.R.</th>
<th>P</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation &lt;-&gt; Entrep_Orientation</td>
<td>.356</td>
<td>4.826</td>
<td>.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Comp_Advantage &lt;-&gt; Entrep_Orientation</td>
<td>.132</td>
<td>2.177</td>
<td>.029</td>
<td>Accepted</td>
</tr>
<tr>
<td>Comp_Advantage &lt;-&gt; Innovation</td>
<td>.643</td>
<td>10.637</td>
<td>.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Performance &lt;-&gt; Innovation</td>
<td>.313</td>
<td>4.440</td>
<td>.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Performance &lt;-&gt; Comp_Advantage</td>
<td>.451</td>
<td>6.392</td>
<td>.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>Performance &lt;-&gt; Entrep_Orientation</td>
<td>.141</td>
<td>2.568</td>
<td>.010</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Based on Table 2 above, it shows that all hypotheses in this study are accepted. All forms of relationships between variables have a CR value > 1.96 and a probability value < 0.05.

### 4.3 Discussion

This study examines the performance of SMEs in the culinary sector in Bogor, by using entrepreneurial orientation variables, innovation, and competitive advantage as predictors. This research will also examine the mediating role of innovation variables and competitive advantage in performing the relationship between entrepreneurial orientation and performance. Overall, it shows that the hypotheses proposed in this study are all accepted. This means that entrepreneurial orientation, innovation, and competitive advantage affect the performance of the culinary sector SMEs in Bogor City. We begin to discuss the first hypothesis. The first hypothesis in this study examines the relationship between entrepreneurial orientation and innovation. Entrepreneurship orientation has a positive and significant impact on innovation. This can be seen with the C.R value of 4.826 (4.826 > 1.96) and a probability value of 0.000 (0.000 < 0.05). Thus, the higher the entrepreneurial orientation value, the higher the innovation made by the culinary SMEs in Bogor City. Conversely, if the entrepreneurial orientation is low, it will lead to low innovation. This finding was supported by the results of a previous study performed by Shaher & Mohd Ali, (2020) concluded that innovation can be predicted by entrepreneurial orientation. The same finding was performed by Sasha et al.,(2020) found that the food and beverage (F&B) industry was driven by entrepreneurial orientation.

The second hypothesis in this study examines the effect of entrepreneurial orientation on competitive advantage. The results of hypothesis testing show that entrepreneurship orientation has a positive and significant effect on competitive advantage. This can be seen with a C.R value of 2.177 (2.177 > 1.96) and a probability value of 0.029 (0.029 < 0.05). Thus, if the entrepreneurial orientation is high, then the competitive advantage will also increase. Conversely, the low entrepreneurial orientation will cause a low competitive advantage. The results of the study were contrary to the finding by Kempa & Setiawan, 2019), in their study found that entrepreneurial orientation did not positively affect competitive advantage.

The third hypothesis is that there is a positive and significant influence between innovation on competitive advantage. The test results show that the third hypothesis in this study is accepted. This means that innovation has a positive and significant impact on competitive advantage. This can be seen with the C.R value of 10.637 (10.637 > 1.96) and a probability value of 0.000 (0.000 < 0.05). Thus, it can be explained that the higher the innovation carried out by the company, the more competitive advantages it will have. Conversely, low innovation will result in low competitiveness. This finding was supported
by research findings by Aziz & Samad, (2016) who conducted research on foods manufacturing SMEs in Malaysia, and found the innovation as competitive advantage predictor.

Furthermore, the fourth hypothesis, is there an influence between entrepreneurial orientation on performance? The results of hypothesis testing show that the C.R value is 2.568 (2.568 > 1.96) and the probability value is 0.010 (0.010 < 0.05). Thus it can be informed that entrepreneurial orientation has a positive and significant effect on performance. This means that the higher the entrepreneurial orientation, the performance of SMEs will increase. Conversely, if the entrepreneurial orientation is low, it will lead to the low performance of SMEs. The findings of this study are relevant to previous research by Soares, (2014) found that entrepreneurial orientation effect business performance. It means better entrepreneurial orientation can improve the performance of small and medium enterprises.

We continue to discuss the fifth hypothesis. We hypothesize that there is an influence between innovation on performance. The results of hypothesis testing show that there is a positive and significant influence between innovation on the performance of the culinary industry in Bogor City. This can be seen with the C.R value of 4,440 (4,440 > 1.96) and a probability value of 0,000 (0,000 < 0.05). These findings are relevant to research conducted by Azimah Mat Salleh, (2019) which examines the effect of innovation on the performance of the food industry in Brunei, the results showed that innovation can improve the performance of the food industry in Brunei Darussalam. Sasha et al.,(2020) in their research in the food and beverage (F&B) industry in southern Thailand found that innovation can improve the food and beverage’s performance. This finding also was supported by the study by Siregar et al., (2020) and Pranowo et al., (2020) found that innovation as predictor of performance or business success.

The sixth hypothesis examines the effect of competitive advantage on the performance of SMEs in the culinary sector in Bogor. We found that the C.R value of 6.392 (6.392 > 1.96) and a probability value of 0.000 (0.000 < 0.05). Thus it can be informed that there is a positive and significant influence between competitive advantage on performance. The higher the business competitiveness, the better the company's performance. Ong & Ismail, (2012) in their research examined the competitive advantage on SMEs’ performance. Their finding showed that differentiation has a positive impact on firm performance, but the lower cost is found to have a negative effect on customer retention but the effect was not significant.

Based on the results of the analysis of the direct and indirect effects, it is known that the direct effect of entrepreneurial orientation on performance is 0.141 (14.1%). The indirect effect of entrepreneurial orientation through innovation and competitive advantage is 0.274 (27.4%). Thus it can be informed that the indirect effect of entrepreneurial orientation through innovation and competitive advantage has a greater influence than the direct effect of entrepreneurial orientation. Therefore, innovation and competitive advantage can mediate the influence of entrepreneurial orientation on performance.
V. Conclusion

The results show that all hypotheses proposed in this study have a positive and significant influence on the performance of Culinary Business in Bogor City. Entrepreneurial orientation has a very important contribution to improving company performance. Likewise, innovation and competitiveness can improve the performance of the culinary industry. In addition, entrepreneurial orientation also has a positive influence on innovation and competitiveness. Innovation affects competitiveness positively and significantly. Innovation and competitive advantage can mediate the influence of entrepreneurial orientation on performance.

The researcher gives recommendations to improve the competitiveness of the culinary industry in the city of Bogor because competitiveness has the greatest influence on improving performance. Increasing competitiveness can be done by increasing innovation and entrepreneurial orientation.

References


