
Entrepreneurship Orientation And Business Innovation Towards Creative Economy Based SMEs Performance In Makassar City

Naidah ¹, Asdar ², Muhammad Rusydi ³
Syarifuddin Sulaeman ⁴

Abstract:

Problems regarding the performance of SMEs based on the creative economy have become a priority issue for both practitioners and academics. This research is important not only because it complies with the specifications of PTMA Basic Research (PD PTMA) but also because research related to the performance of SMEs based on creative economy tends to experience complex challenges and problems. The purpose of this study was to analyze the level of influence of entrepreneurial orientation on the performance of creative economy-based SMEs through the mediation of business innovation variables. This study uses a quantitative approach to examine the direct and indirect effects of structural equation modeling analysis techniques. The phasing method is carried out as follows: (1) identify the level of influence of entrepreneurial orientation on the performance of SMEs based on the creative economy; (2) analyze the level of influence of business innovation variables on the performance of creative economy-based SMEs; (3) examine the level of influence of business innovation variables in mediating entrepreneurial orientation variables on the performance of creative economy-based SMEs to generate practical and theoretical contributions. The results of this study indicate that entrepreneurial orientation has a positive relationship with business innovation, entrepreneurial orientation also has a positive influence on SME performance, business innovation is proven to have a positive influence on SME performance, business innovation can be a mediating variable between entrepreneurial orientation and SME performance

Keywords: *Business Inovation, Enterpreneurship Orientation, and SMeS Performance*

1. Introduction

Problems regarding the performance of SMEs based on the creative economy have become a priority issue for both practitioners and academics. The most prominent issue regarding creative economy-based SMEs is the low performance that stems from conceptual and practical problems (Lestariningsih et al., 2019, and Pratomo et al., 2021). The Ministry of Cooperatives and Small and Medium Enterprises outlines

¹ Departement of Economic Development, Universitas Muhammadiyah Makassar, Indonesia, naidah@unismuh.ac.id

² Departement of Economic Development, Universitas Muhammadiyah Makassar, Indonesia, asdar@unismuh.ac.id

³ Departement of Economic Development, Universitas Muhammadiyah Makassar, Indonesia, rusyidi@unismuh.ac.id

⁴ Departement of Management, Universitas Muhammadiyah Makassar, Indonesia, syarif_iman@unismuh.ac.id

several important issues related to the performance of SMEs based on the creative economy, namely business management that is still traditional, limited quality of managing human resources, limited management capabilities and the use of modern information technology, limited marketing capabilities and access to information, formal legality and protection inadequate business, and limited access to credit to financing institutions (Bank Indonesia, 2018). In general, the creative economy can be understood as a system of human activities related to the creation, production, distribution, exchange and consumption of goods and services that have cultural, artistic, aesthetic and emotional values for customers in the market. Creative economy-based industries can be said to be the main pillars in developing the creative economy sector, and have a positive impact on the life of the nation and state.

The government has mapped creative economy-based SMEs into 16 creative industry sectors, including: application and game development; architecture; product design; fashion; design interior; visual communication design; performing Arts; films, animations and videos; photography; crafts; culinary; music; publishing; advertising; art; and television and radio. Referring to information from the Creative Economy Agency that Indonesia's creative economy industry continues to grow every year, with a contribution to the Gross Domestic Product (GDP) of more than Rp. 1,000 trillion (Ministry of Cooperatives and Small and Medium Enterprises).

One solution to increase economic growth is to empower the people's economy. Policies regarding improving the performance of SMEs based on the creative economy generally aim to create jobs for all levels of society (Lestariningsih et al., 2019). The development of small and medium enterprises can provide positive changes to increase the value of exports, while the development of micro-scale enterprises is directed to contribute to increasing people's income through the development of innovative industries.

The population of creative economy-based SMEs is more dominant than large businesses. Various opportunities and advantages of the creative economy industry make this sector have great potential, but on the other hand creative economy-based SMEs have various weaknesses, the World Bank (in a Bank Indonesia report) released the results of a survey of obstacles faced by creative economy-based SMEs, namely (a) obstacles capital of 60%; (b) product marketing barriers of 49%; (c) low worker skill barrier of 26%; and (d) barriers to obtaining raw materials of 16%. All of these obstacles lead to the low performance of SMEs based on the creative economy (Susdiani 2020; and Sukriani 2022).

Performance constraints/challenges are also faced by creative economy-based SMEs in Makassar City. These obstacles are the business climate that is not yet conducive, low productivity, and low motivation and entrepreneurial spirit (Bahri et al. 2019). Referring to data from Bank Indonesia (2018) that the population of creative economy-based SMEs in Indonesia is 8.2 million businesses. The largest number of creative economy-based SMEs are in West Java, East Java, Sumatra and East Java.

The data explains that the competitiveness of South Sulawesi Province in general and Makassar City in particular is in the low category. The competitiveness of small and micro-scale creative industries is measured by LQ, which is an assessment of the superiority of labor productivity at one point in time of analysis. South Sulawesi Province occupies the highest LQ position after Bali. The DLQ value illustrates the potential for developing labor productivity in the craft industry sector. The highest DLQ score is East Java Province, while South Sulawesi is ranked fifth.

The gap phenomenon that occurs in creative economy-based SMEs reflects the ontology element in the idea of this research. The reality that occurs shows that this phenomenon is plural because SMEs based on the creative economy in other regions in Indonesia generally also experience the same problems. Epistemologically, it can be argued that there is a research gap put forward by the findings of Dewanta & Hamid (2019) who used log-linear regression to identify factors that trigger the low performance of SMEs based on creative economy in several big cities in Indonesia, these factors are local strengths, digital technology, and location strength factors, but the limitations in Dewanta & Hamid's (2019) research lie in the large dependence on government support.

Rahman et al.'s study. (2021) it is precisely business innovation and market orientation that are key factors in efforts to improve the performance of SMEs based on the creative economy, but there are weaknesses in Rahman et al.'s research. (2021), namely the results of statistical tests that innovation has no significant effect on the performance of SMEs based on the creative economy. Imron (2019) also highlighted the role of business innovation for creative economy-based SMEs to improve their performance, but Imron's findings (2019) are still limited to identifying business strategies so there is no statistical relationship test for these two variables. Rezaei & Ortt's (2018) study fills in gaps or gaps from various literature related to SME performance by contributing to entrepreneurial orientation as a construct that influences SME performance, although in Rezaei & Ortt's findings (2018) there is a weakness, namely risk taking as a dimension of entrepreneurial orientation negative effect on the performance of SMEs. The state of the art produces axiology in the form of the author's positioning which specifically addresses key factors (entrepreneurship orientation and business innovation) in improving the performance of SMEs based on the creative economy

Strengthening entrepreneurial orientation is an exogenous construct that has been empirically proven to affect the performance of SMEs based on the creative economy. Entrepreneurial orientation can utilize all available resources, with creative and innovative processes, making SMEs ready to face the challenges of the global crisis (Leimena 2016). Some of the roles of entrepreneurial orientation in overcoming challenges in SMEs are (1) having creative thinking which includes always thinking visionary, learning from the experiences of others; (2) act innovatively, namely always trying to improve efficiency, effectiveness, and productivity in every aspect of SME activities, increasing vigilance in facing business competition; (3) dare to take risks,

and adjust risk profiles and know the risks and benefits of a business. SMEs must have risk management in every business activity.

The role of business innovation in the performance of creative economy-based SMEs has been suggested by Farooq et al. (2021) that the construct of business innovation has a significant effect on SME performance. Matekenya & Moyo (2022) emphasized the importance of business innovation for the development and performance growth of SMEs in South Africa. SMEs in Malaysia pay less attention to business innovation so that, Hanifah et al. (2019) emphasized the importance of business innovation in SMEs in Malaysia which has been proven to contribute to performance. The purpose of this study was to analyze the level of influence of entrepreneurial orientation on the performance of creative economy-based SMEs through the mediation of business innovation variables

2. Theoretical Background

Entrepreneurial Orientation

Entrepreneurship as a manifestation of the ability and will of individuals towards their organizations both individually and in teams, inside and outside the organization, to perceive and create new economic opportunities (new products, new methods, new organizational schemes and product combinations). -new markets), and introduce their ideas in the market in the face of market constraints and uncertainties, by making decisions on the location, form and use of resources and organization (Caree and Thurik, 2014).

Entrepreneurship is often associated with the process, formation or growth of a new business that is oriented towards obtaining profits, creating value, and forming products for new services that are unique and innovative. Entrepreneurship is a creative and innovative ability that is used as a basis, tips and resources to seek opportunities for success, the essence of entrepreneurship is the ability to create something new and different (create new and different) through creative thinking and innovative action to create opportunities

Business innovation

Business innovation has become an obligation that must be implemented by business people because it has strategic value for MSME performance amid dynamic business competition (Matejun, 2017). One of the relevant innovations for MSMEs is value chain innovation to help performance and maintain the competitiveness of MSME businesses in Indonesia (Hamdani & Wirawan, 2014). Systematic efforts to implement innovation have become one of the key factors in achieving successful economic growth and improving the performance of MSMEs.

Innovation is one of the corporate choices in facing market competition and sustainable management. Freeman (2014) considers innovation as an effort by companies through the use of technology and information to develop, produce and

market products that are new to the industry. In other words, innovation is the modification or discovery of ideas for continuous improvement and development to meet customer needs.

SME performance

Sukma & Krisnadewi (2013) explain that performance is a description of the level of achievement of the implementation of a policy in realizing the goals, objectives, mission and business vision contained in a company's work plan. Performance is defined as the extent to which to be able to guarantee that a business is running well, the entrepreneur needs to conduct an evaluation. This evaluation can be done by measuring its performance, so that business activities can be monitored periodically. Performance measurement is an important factor in ensuring performance (Devani & Setiawarnan, 2015).

Performance is the result of cooperative activities among members or organizational components in order to realize company goals. Simply put, performance is a product of administrative activities, namely cooperative activities within an organization or group to achieve goals whose management is commonly referred to as management. As a result (output) of a certain process carried out by all components of the organization against certain sources used (input). As a result of a series of process activities carried out to achieve certain goals.

Support the latest research results

Rahman et al.'s study. (2021) places the constructs of business innovation and market orientation as key factors in efforts to improve the performance of SMEs based on the creative economy. Dewanta & Hamid (2019) used log-linear regression to identify factors that trigger the low performance of creative economy-based SMEs in several major cities in Indonesia, these factors are local strengths, digital technology, and location strength factors. Imron's study (2019) highlights the role of business innovation for creative economy-based SMEs to improve their performance. Rezaei & Ortt (2018) filled in gaps or gaps from various literature related to SME performance by contributing to entrepreneurial orientation as a construct that influences SME performance.

3. Methodology

Research design

Preparation for this study is described as follows: 1) Review of supporting literature, 2). Research permit, and 3). Observation and distribution of questionnaires to creative economy-based SMEs in order to obtain initial data in Makassar City in 14 Districts in Makassar City.

Population and Sample

The population of this study is presented in table 1 as follows :

Table 1. Distribution of Research Samples

Category	Population in each category (businessmen)	Overall Population (business actors)	Sample (N)
Advertising	34	1.141	9
Architecture	16	1.141	4
Antique art market	164	1.141	43
Craft	538	1.141	140
Design	161	1.141	42
Fashion	123	1.141	32
Videos / Movies	21	1.141	5
Music	10	1.141	3
Performing Arts	9	1.141	2
Publishing & printing	40	1.141	10
Computer service	25	1.141	6
Amount	1.141	Jumlah Sampel	296

Source: Dinas Koperasi & UKM Kota Makassar, Dinas Pariwisata dan Ekonomi Kreatif Kota Makassar, Dinas Perindustrian dan Perdagangan Kota Makassar

Research Implementation

- (1) Data collection at related agencies (in Makassar City)
- (2) Data collection on 296 creative economy-based SMEs
- (3) Data analysis, structural equation modeling, and mapping of creative economy-based UKM performance in Makassar City

4. Empirical Findings/Result

Analysis of Research Instruments

The validity test is used to determine the respondent's interpretation of each statement item contained in the research instrument. If the respondent's interpretation is the same, then it is said to be valid, but if it is not the same, the instrument can be said to be invalid, so it needs to be replaced. Reliability is a measure of the internal consistency of the indicators of a construct that shows the degree to which each of these indicators indicates a common latent construct. Based on the analysis of research instruments, the results are presented as follows.

Table 2. Research Instrument Testing

Variabel	Cronbach's Alpha	Kode	Cronbach's Alpha if Item Deleted	Ket
<i>Entrepreneurship Orientation (X1)</i>	0,001	X1.1	0,622	Reliabel
		X1.2	0,624	
		X1.3	0,636	
		X1.4	0,652	
		X1.5	0,626	

		X1.6	0,629	Reliabel
		X1.7	0,638	
		X1.8	0,648	
		X1.9	0,646	
		X1.10	0,647	
		X1.11	0,617	
		X1.12	0,661	
		M1.1	0,635	
		M1.2	0,652	
		M1.3	0,617	
		M1.4	0,633	
		M1.5	0,646	
Business Inovation (M1)	0,628	M1.6	0,570	Reliabel
		M1.7	0,579	
		M1.8	0,567	
		M1.9	0,576	
		M1.10	0,592	
		M1.11	0,601	
		M1.12	0,592	
		Y1.1	0,881	
		Y1.2	0,878	
		Y1.3	0,877	
		Y1.4	0,876	
		Y1.5	0,874	
SMeS Performance (Y1)	0,880	Y1.6	0,873	Reliabel
		Y1.7	0,871	
		Y1.8	0,869	
		Y1.9	0,869	
		Y1.10	0,873	
		Y1.11	0,874	
		Y1.12	0,873	

Inferential Analysis

Inferential analysis is used to test the empirical model and hypotheses proposed in this study. The inferential analysis method used in this research is structural model analysis (SEM).

Table 3. Direct and Indirect Effect Test

variabel	variabel	Nilai Estimasi	Critical Ratio	Sig. Level $\leq 0,05$	Keterangan
Enterpreneurship Orientation	Business Inovation	0,258	3,322	0,000	Significant
Enterpreneurship Orientation	SMeS Performance	0,222	2,991	0,003	Significant
Business Inovation	SMeS Performance	0,333	3,337	0,000	Significant

Variabel eksogen	Variabel Intervening	Variabel Endogen	Sobel test statistics	Sig. Level $\leq 0,05$	Keterangan
<i>Entrepreneurship Orientation</i>	<i>Business Innovation</i>	<i>SMEs Performance</i>	2,346	0,018	Significant
<i>ce</i>					

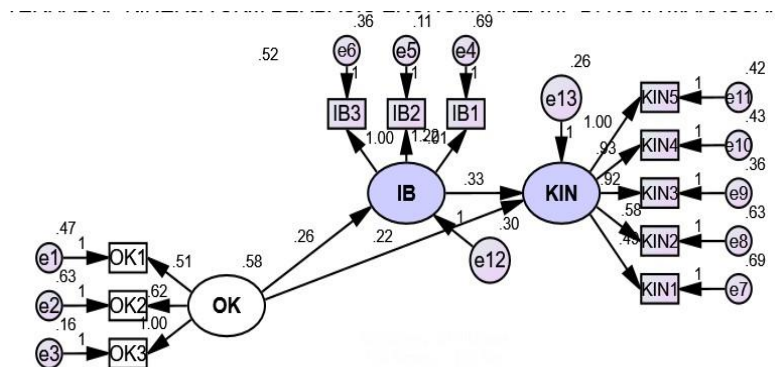


Figure 1. Structural Equation Model Testing

Evaluation of path analysis results on the SME performance model. The interpretation of the influence between variables is described as follows:

- An estimated value of $0.258 > 0$ indicates a positive entrepreneurial orientation towards business innovation. The critical value (critical ratio) is $3.322 > 1.960$, and the p-value is $0.000 < 0.050$ (significant effect at the 5% level). The coefficient (entrepreneurial orientation towards business innovation) shows that an increase in entrepreneurial orientation contributes to business innovation
- The estimated value of $0.222 > 0$ indicates an entrepreneurial orientation towards the performance of SMEs is positive. The critical value (critical ratio) is $2.991 > 1.960$, and the p-value is $0.003 < 0.050$ (significant effect at the 5% level). The coefficient (entrepreneurship orientation on SME performance) shows that an increase in entrepreneurial orientation contributes to SME performance.
- An estimated value of $0.333 > 0$ indicates that business innovation has a positive value on SME performance. The critical value (critical ratio) is $3.337 > 1.960$, and the p-value is $0.000 < 0.050$ (significant effect at the 5% level). The coefficient (business innovation on SME performance) shows that an increase in business innovation contributes to SME performance.

Hypothesis test

Based on the results of path analysis, the results of the research hypothesis test are explained as follows:

H-1: There is a significant influence between entrepreneurial orientation on business innovation. The first hypothesis is declared supported (supported).

H-2: There is a significant influence between entrepreneurial orientation on the performance of SMEs. The second hypothesis is declared supported (supported).

H-3: There is a significant influence between business innovation and SME performance. The third hypothesis is declared supported (supported).

H-4: There is a significant influence between entrepreneurial orientation on the performance of SMEs through the mediation of business innovation variables (supported).

5. Discussion

Entrepreneurial orientation towards business innovation

Entrepreneurial orientation includes attitudes, values, and behaviors that support new business development, risk taking, and added value creation. This involves a tendency to identify business opportunities, take proactive actions, and innovate in dealing with the challenges faced in the creative economy. Entrepreneurship theory emphasizes the importance of entrepreneurial orientation as the main driver of business innovation. According to this theory, individuals or organizations with a strong entrepreneurial orientation tend to have sensitivity to business opportunities, creativity in generating new ideas, and the ability to take risks associated with innovation. Entrepreneurial orientation enables individuals or organizations to develop and implement innovative ideas in a business environment.

Business innovation is the introduction of a new idea, product, process or business model that results in positive change in an organization. In the context of the creative economy, business innovation can include developing new products or services, implementing new technologies, optimizing production processes, or using unique business models to create added value. Innovation theory recognizes entrepreneurial orientation as an important factor in driving business innovation. According to this theory, business innovation occurs when individuals or organizations are able to combine existing knowledge and resources to produce something new and with added value. Entrepreneurial orientation plays a role in encouraging individuals or organizations to explore, seek new opportunities, and develop innovative ideas that can produce new and unique products, services, or business models.

A strong entrepreneurial orientation can be a key driver of business innovation in the creative economy. Entrepreneurs who have a high entrepreneurial orientation tend to have sensitivity to business opportunities, creativity in creating new solutions, and a willingness to take risks. This allows them to develop innovative ideas and implement different business strategies to create added value in the creative economy. A strong entrepreneurial orientation at the individual, team or organizational level can increase the possibility of business innovation in the creative economy.

Resource and capability theory emphasizes the importance of assets and capabilities possessed by individuals or organizations in creating business innovation. Entrepreneurial orientation is considered as a valuable resource that can provide a competitive advantage in generating innovation. With a strong entrepreneurial orientation, individuals or organizations can optimize the use of existing resources and develop capabilities to produce different and value-added business innovations. Entrepreneurial ecosystem theory describes the complex interactions between individuals, organizations, and the environment in creating business innovation. Entrepreneurial orientation is considered as an important characteristic in creating an ecosystem that supports innovation. Within the creative economy, entrepreneurial orientation enables individuals or organizations to engage in collaborative networks, share knowledge, and access the resources necessary for business innovation.

Several elements that explain this relationship include (a) identification of opportunities: Entrepreneurial orientation allows individuals or organizations to recognize new business opportunities that arise in the developing creative economy; (b) creativity: Entrepreneurial orientation promotes creativity and innovative thinking in generating new ideas that can be implemented in business innovations; (c) risk taking: Entrepreneurial orientation involves a willingness to take risks associated with business innovations. Without strong entrepreneurship, innovation tends to be stifled by an aversion to taking risks; and (d) networking and collaboration: Entrepreneurial orientation facilitates cooperation and collaboration with other parties in the creative economy ecosystem, such as business partners, industry players, or creative communities, which can strengthen business innovation capabilities (Engelen et al. 2015; and Jiang et al., 2018)

Entrepreneurial orientation towards the performance of SMEs

The significant influence of entrepreneurial orientation on SME performance is explained by several theories such as entrepreneurship theory which suggests that entrepreneurial orientation, which includes sensitivity to opportunities, initiative to take action, creativity, and the ability to take risks, plays an important role in creating and improving SME performance. Entrepreneurial orientation enables SMEs to identify opportunities, develop innovative ideas, and take the necessary steps to achieve competitive advantage.

The resource and capability theory emphasizes the importance of the resources and capabilities possessed by SMEs in achieving good performance. Entrepreneurial orientation is considered a valuable resource that can provide a competitive advantage. SMEs with a strong entrepreneurial orientation tend to have access to the necessary resources for innovation, product development, and market development, which in turn can improve performance. Innovation theory shows that entrepreneurial orientation is positively related to innovation, which in turn can improve the performance of SMEs. Entrepreneurial orientation encourages SMEs to seek and implement new ideas, adopt new technologies, and introduce innovative products and

services. These innovations can give SMEs a competitive advantage and help improve their performance.

The SME growth theory highlights the importance of an entrepreneurial orientation in driving the growth and development of SMEs. SMEs that have a strong entrepreneurial orientation tend to be better able to identify growth opportunities, develop growth strategies, and manage risks associated with growth. Entrepreneurial orientation allows SMEs to adapt to market changes, expand business networks, and achieve sustainable growth. Organizational performance theory states that entrepreneurial orientation can affect SME performance through its influence on variables such as productivity, innovation, efficiency, and adaptation. A strong entrepreneurial orientation can motivate SME owners to optimize the use of existing resources, improve product and service quality, and improve operational efficiency, which can ultimately contribute to the overall SME performance.

The performance of SMEs is often the focus of attention because of their important role in the economy. SME performance can be measured by various indicators such as revenue, sales growth, profits, market share, customer satisfaction levels, and job creation. The influence of entrepreneurial orientation on performance can be identified from several elements such as (a) identification and utilization of opportunities: Entrepreneurial orientation can assist SMEs in Indonesia in identifying new and developing market opportunities. By having a strong entrepreneurial orientation, SMEs can see the opportunities that surround them and take innovative steps to take advantage of them. This can improve SME performance by opening doors for business growth and expansion; (b) product and service innovation: Entrepreneurial orientation contributes to SME performance by encouraging product and service innovation. SMEs that have a high entrepreneurial orientation tend to be more creative and willing to take risks in developing products or services that are unique and attractive to customers. This innovation can help increase the competitiveness of SMEs in an increasingly competitive market.

The next element is (c) effective risk management: Entrepreneurial orientation also plays an important role in managing business risks. SMEs that have a good entrepreneurial orientation will be better able to identify, manage and reduce risks that may arise in their business operations. This can affect the performance of SMEs by minimizing losses and maximizing profit potential; (d) increased productivity and efficiency: Entrepreneurial orientation encourages SMEs to increase productivity and efficiency in their business operations. By having a proactive attitude, SMEs can find new ways to improve production processes, resource management, and use of technology. This can have a positive impact on SME performance by increasing output and reducing production costs; and (e) collaboration and networking: Entrepreneurial orientation also encourages SMEs to engage in collaboration and build strong networks. Through partnerships with other parties, SMEs can expand access to a wider range of resources, information and markets. This collaboration can make a significant contribution to improving SME performance.

The results of this study are in line with Surya, R. A. S., Afifah, U., Khoiriyah, M., & Oktari, V. (2022). namely, entrepreneurial orientation influences the dependent variable on SME performance, this explains that companies that apply entrepreneurial orientation to SMEs will improve the performance of SMEs.

These findings further support the research conducted (Buli, B. M. 2017), and (Sahoo, S., & Yadav, S., 2017). A company will get a high level of development if it can fight the dynamics of a successful environment and the company has a high entrepreneurial character. The ever-changing economy will affect the conditions of the company in the market. This change will have an impact on the performance of a company. This of course will be a challenge for companies to keep looking for something new and different from the others even though it is likely to pose risks.

Business innovation for SME performance

Entrepreneurial orientation, in the context of SMEs (Small and Medium Enterprises), can have a significant effect on their performance. Entrepreneurial orientation includes attitudes, behaviors and tendencies of entrepreneurs or SME owners in taking risks, seeking opportunities, innovating and managing their businesses proactively. The following is a detailed explanation of the relationship between entrepreneurial orientation and SME performance, accompanied by a supporting theoretical basis: Entrepreneurial theory states that entrepreneurial orientation has a positive effect on SME performance. This theory emphasizes the importance of entrepreneurial attitudes and behavior in creating competitive advantage and achieving better results. Entrepreneurial orientation includes several dimensions such as sensitivity to opportunities, initiative to take action, creativity, and ability to take risks (Lumpkin & Dess, 1996).

Resource and capability theory states that entrepreneurial orientation can be considered as a valuable resource for SMEs. Entrepreneurial orientation gives SMEs access to intangible resources such as knowledge, expertise, business networks and reputation that can enhance their performance. SMEs with a strong entrepreneurial orientation tend to have better capabilities in innovating, adapting to market changes, and taking advantage of business opportunities (Zahra & Covin, 1995).

The effect of business innovation on performance can be identified from several elements such as (a) increasing competitiveness: Business innovation helps SMEs improve their competitiveness in an increasingly competitive market. Through innovation, SMEs can develop products or services that are unique and meet different market needs, which can increase their market share and profits; (b) provision of competitive advantage: Business innovation enables SMEs to create sustainable competitive advantages. By developing products or services that are better, more efficient, or with more innovative features, SMEs can differentiate themselves from their competitors and attract customers; (c) market expansion and diversification: Business innovation can help SMEs expand their market by developing new products

or services targeting different market segments. Product diversification can also help SMEs reduce business risk and increase income stability.

The next element is (d) increasing operational efficiency: Business innovation can also contribute to increasing the operational efficiency of SMEs. Through the adoption of new technologies, process automation or improvements in supply chain management, SMEs can reduce production costs, increase productivity and improve overall operational efficiency; and (e) response to market changes: Business innovation enables SMEs to adapt to rapid market changes. By continuously innovating, SMEs can respond more effectively to market trends, customer needs, or changes in business regulations, which in turn can improve their performance.

The results of this study are in line with Surya, R. A. S., Afifah, U., Khoiriyah, M., & Oktari, V. (2022). namely innovation affects the performance of SMEs, so it means companies that innovate in their efforts can improve their performance.

The research results of Al-Dhaafri, H. S., & Al-Swidi, A. (2016) state the effect of entrepreneurial orientation and TQM on organizational performance. Practical implications. Further details and valuable implications of this study are discussed throughout the study. The results of this study have many practical implications. The results will help managers to take the right decisions when deciding to implement TQM in their organizations. TQM can help managers with strong EO to achieve maximum performance in the organization and stay competitive in the market. Originality/Value This study is considered as one of the few empirical studies that examined the effect of EO and TQM on organizational performance

These findings further support research conducted by (Makanyeza, C., & Dzvuke, G., 2015) and (Oly Ndubisi, N., & Iftikhar, K. 2012)). Innovation is something that needs to be done in a company, considering that the economy continues to experience dynamic movements. Innovation is needed to improve the performance of each party involved in a company, so that competitive efforts are needed to make it happen. In today's global competition, it is hoped that the company's survival will continue, and so that the company's products become superior, innovation has a very important role. In essence innovation is very important in improving performance, because through innovation we can know that a company has increased performance, namely through the new products it creates. Innovation is a company mechanism to adapt to a dynamic environment. With innovation, companies must be able to improve their performance to face today's competition.

6. Conclusions

Based on the results of the research and discussion, it can be concluded that:

- 1) Entrepreneurial orientation has a positive relationship with business innovation. Entrepreneurs with a strong entrepreneurial orientation tend to have a proactive attitude in facing business challenges and opportunities, which encourages them

to create new innovations.

- 2) Entrepreneurial orientation also has a positive influence on the performance of SMEs. Entrepreneurs with a high entrepreneurial orientation have the ability to manage available resources effectively and make the right decisions, which in turn improve their business performance.
- 3) Business innovation is proven to have a positive influence on SME performance. Through the development and application of innovation, SMEs can create competitive advantages, improve operational efficiency, improve product or service quality, and expand market share. Business innovation also enables SMEs to capture new opportunities and adapt to changes in the business environment.
- 4) This study shows that business innovation can be a mediating variable between entrepreneurial orientation and SME performance. Business innovation mediates between entrepreneurial attitudes and behaviors that encourage the creation of innovations, and their positive impact on SME performance. In other words, a high entrepreneurial orientation will encourage SMEs to produce business innovations which then improve their performance through innovation mediation mechanisms

References:

- Al-Dhaafri, H. S., & Al-Swidi, A. (2016). The impact of total quality management and entrepreneurial orientation on organizational performance. *International Journal of Quality & Reliability Management*, 33(5).
- Bahri, A., Mulbar, U., & Suliana, A. (2019). Kajian Pemberdayaan UMKM Kota Makassar Sebagai Upaya Peningkatan Kesejahteraan Pelaku Usaha. *Jurnal Inovasi dan Pelayanan Publik Makassar*, 1(1).
- Bank Indonesia. (2015). *Peningkatan Akses Pembiayaan Bagi Industri Kreatif di Indonesia*, Sektor Industri Kerajinan. Jakarta. Bank Indonesia.
- Buli, B. M. (2017). Entrepreneurial orientation, market orientation and performance of SMEs in the manufacturing industry: Evidence from Ethiopian enterprises. *Management Research Review*, 40(3), 292-309.
- Caree, M.A. & Thurik, A.R. (2014). *The Impact of Entrepreneurship on Economic Growth*, International Handbook of Entrepreneurship Research.
- Devani, V., & A. Setiawarnan. (2015). Pengukuran Kinerja Perusahaan dengan Menggunakan Metoda *Balanced Scorecard*. *Jurnal Sains, Teknologi dan Industri*, Vol. 13, No.1, pp.83-90.
- Dewanta, A.S., & Hamid, E.S. (2019). Business Performance of the Creative Economy: Its Driving Factors and Challenges. *Journal of International Business and Economics*, 7(2). DOI: 10.15640/jibe.v7n2a17
- Engelen, A., Gupta, V., Strenger, L., & Brettel, M. (2015). Entrepreneurial Orientation, Firm Performance, and the Moderating Role of Transformational Leadership Behaviors. *Journal of Management*, 41(4), 1069–1097. doi:10.1177/0149206312455244

- Farooq, R., Vij, S., & Kaur, J. (2021). Innovation orientation and its relationship with business performance: Moderating role of firm size. *Measuring Business Excellence*.25 (3). <https://doi.org/10.1108/MBE-08-2020-0117>
- Freeman, R.E. (2014). A Stakeholder Theory of Modern Corporations. *Ethical Theory and Business*, 7th ed.
- Hamdani, J., & Wirawan, C. (2014). Open Innovation Implementation to Sustain Indonesia SMEs. *Prosedia Economics and Finance* 4 223-233.
- Hanifah, H., Abdul Halim, H., Ahmad, N. H., & Vafaei-Zadeh, A. (2019). Emanating the key factors of innovation performance: leveraging on the innovation culture among SMEs in Malaysia. *Journal of Asia Business Studies*, 13(4), 559-587. <https://doi.org/10.1108/JABS-04-2018-0130>
- Imron, A. (2019). Strategy for Creative Economic Development of Micro, Small And Medium Enterprises (MSMES) in Pemalang District. *International Conference on Rural Development and Entrepreneurship 2019: Enhancing Small Business and Rural Development Toward Industrial Revolution 4.0*. Vol. 5(1).
- Jiang, W., Chai, H., Shao, J., & Feng, T (2018). Green entrepreneurial orientation for enhancing firm performance: A dynamic capability perspective. *Journal of Cleaner Production*, S0959652618320778–. doi:10.1016/j.jclepro.2018.07.104
- Leimena, V. (2016). *Model of Human Resource Development on the Creative Industry in Ambon (study on center industry of pearl shell craft)*. Disertasi. Program Pascasarjana. Universitas Negeri Makassar.
- Lestariningsih, E., Maharani, K., & Lestari, T.K. (2019). Measuring creative economy in Indonesia: Issues and challenges in data collection. *Asia-Pacific Sustainable Development Journal*, 25(2). <http://dx.doi.org/10.18356/16fa938f-en>
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21(1), 135-172.
- Makanyeza, C., & Dzvukeye, G. (2015). The influence of innovation on the performance of small and medium enterprises in Zimbabwe. *Journal of African Business*, 16(1-2), 198-214
- Matejun, M. (2017). The effect of innovative potential on small business performance. *PEOPLE: International Journal of Social Sciences*, Vol. 3, No. 1.
- Matekenya, W., & Moyo, C. (2022). Innovation as a driver of SMME performance in South Africa: a quantile regression approach. *African Journal of Economic and Management Studies*, 13 (3). 452-467.<https://doi.org/10.1108/AJEMS-06-2021-0306>
- Pratomo, S., Ashar, K., & Satria, D. (2021). Role of Creative Economy on Local Economic Development. *Journal of Indonesian Applied Economics*, 9(2). <https://doi.org/10.21776/ub.JIAE.009.02.4>

- Rahman, S., Budiyanto, & Suwitho (2021). Kinerja pasar UKM dalam ekonomi kreatif dan peran mediasi praktik inovasi. *Sejarah Ekonomi-XXI*, 193(9-10), 78-84. doi: <https://doi.org/10.21003/ea.V193-09>
- Rezaei, Jafar., & Ortt, Roland. (2018). Entrepreneurial orientation and firm performance: the mediating role of functional performances. *Management Research Review*, 41(7), MRR-03-2017-0092-. doi:10.1108/MRR-03-2017-0092
- Sahoo, S., & Yadav, S. (2017). Entrepreneurial orientation of SMEs, total quality management and firm performance. *Journal of Manufacturing Technology Management*.
- Sukma, N.P., & K. A. Krisnadewi (2013). Penilaian Kinerja Berbasis Balanced Scorecard pada Bank Utama. *E- Jurnal Akuntansi Universitas Udayana*. Vol. 5 No.2, pp. 497-515.
- Sukriani, N. (2022). Pengaruh Inovasi dan Kreatifitas Terhadap Kinerja Usaha Pelaku UMKM Kuliner di Kota Pekanbaru. *Jurnal Bisnis Kompetitif*, 1(2). <https://doi.org/10.35446/bisniskompetitif.v1i2.998>
- Surya, R. A. S., Afifah, U., Khoiriyah, M., & Oktari, V. (2022). Impact of Entrepreneurship Orientation, Innovation, Market Orientation and Total Quality Management on SME Performance. *International Journal of Organizational Behaviour and Policy*, 1(1), 37-50
- Susdiani, L. (2020). Analisis Pengaruh Inovasi Terhadap Kinerja UMKM Pada Industri Kreatif Di Kota Padang. *Procuratio – Jurnal Ilmiah Manajemen*, 8(4). <https://doi.org/10.35145/procuratio.v8i4.758>
- Oly Ndubisi, N., & Iftikhar, K. (2012). Relationship between entrepreneurship, innovation and performance: Comparing small and medium-size enterprises. *Journal of Research in Marketing and entrepreneurship*, 14(2), 214-236.
- Zahra, S. A., & Covin, J. G. (1995). Contextual influences on the corporate entrepreneurship-performance relationship: A longitudinal analysis. *Journal of Business Venturing*, 10(1), 43-58.