

The Role of Entrepreneurial Orientation and Product Innovation in Improving the Performance of Furniture SMEs

¹ Risti Nur Khalifah, ² Didit Supriadi, ³ Galih Abdul Fatah Maulani

^{1,2,3} Faculty of Entrepreneurship, Universitas Garut
ristinurkhalifah@gmail.com, diditsupriadi@uniga.ac.id, galihafm@uniga.ac.id

Abstract- *This study is intended to examine the Influence of Entrepreneurial Orientation and Product Innovation on the Performance of Furniture SME Businesses in Garut Regency. The purpose of this study is to determine the description and Influence of Entrepreneurial Orientation and Product Innovation on the Performance of SME Businesses in Garut Regency. The research method used is a quantitative approach method with data collection through questionnaires distributed directly and online using Google Forms then processed using SPSS for Windows version 25. The sample of this study consisted of 93 respondents who were Furniture SME actors in Garut Regency. The results of the analysis show that Entrepreneurial Orientation has an effect on the Performance of Furniture SME Businesses in Garut Regency, Product Innovation does not have an effect on the performance of Furniture SME businesses in Garut Regency and Entrepreneurial Orientation and Product Innovation have a simultaneous effect on the performance of Furniture SME businesses in Garut Regency.*

Keywords: *Product Innovation, Business Performance, Entrepreneurial Orientation.*

I. INTRODUCTION

In Indonesia, related to the existence of various economic and social issues in the country, including high poverty rates, distribution gaps, unemployment, uneven processes and stages, and issues related to urbanization and all its negative impacts, Small and Medium Enterprises (SMEs) play a fairly important role. Innovation consists of the process of creating new ideas and knowledge to facilitate the development of new businesses. This can be interpreted that the development and existence of SMEs are expected to significantly improve current issues [1].

One of the problems and obstacles faced include low entrepreneurial ability, lack of product innovation, low skills in facing competition, shortage of workers, limited networks in accessing various information, and limited access to capital which will ultimately hinder the performance of SME businesses. Business performance is a thing or form of effort to measure how sales growth and also how much profit the company can obtain. If SME business performance continues to decline, it will have an impact on many things, starting from the workforce, even the SMEs themselves, and so on [2].

One of the factors that influence the direction of the Indonesian economy is Small and Medium Enterprises (SMEs). Indonesian SMEs come in various forms; some are engaged in fashion, food,

education and even creative products. One of the creative products is furniture. This furniture SME has been operating for quite a long time and continues to grow to this day [3].

There are characteristics that are the advantages of SMEs that are able to make their businesses have a strategic position in the economy in Indonesia. These advantages lie in the amount of capital that is not large, can operate in various places without having to require special infrastructure as a support, does not require certain formal education for its workforce and is proven to be able to have good performance. Business performance can be interpreted as a comparison between the achievement of work results and previously planned goals. Furniture SMEs can use performance management techniques to produce better results by trying to understand and manage the course of business operations according to previously designed goals and targets [4].

Entrepreneurial orientation is often referred to as a creative and innovative ability possessed by a person to then be used as capital in an effort to find and maximize opportunities for success [4]. The measurement of entrepreneurial orientation in this case is based on the idea that innovation, proactivity, and risk taking, the three subdimensions, all contribute equally to the overall level of



entrepreneurial orientation of the organization in all situations.

Product innovation is a combination of many variations or types of stages that influence each other [5]. Product innovation is the development of customer-centered products that begin and end with solving a customer problem [6]. Innovation can be done by adding innovation to new products, production processes, improving product quality to be better, providing the best service, and marketing techniques. According to [7], the product innovation variable has a positive and insignificant effect on SME performance. Thus, this study can analyze the mutually influencing relationship with business performance variables, where when the entrepreneurial orientation capabilities of furniture business owners increase, the business performance obtained can increase.

II. LITERATURE REVIEW

2.1 Business Performance

Performance is the result that has been obtained by a group or individual based on the requirements of his/her job [8]. In other words, performance is measured by comparing the actual work results of employees with the benchmarks set within the company. Performance can refer to the results that employees have produced for the company according to the tasks given, either in terms of quality or quantity [9]. Performance is real behavior shown by a group or an individual as the work achievements that have been produced [10].

Based on several definitions that have been put forward, performance can be interpreted as a real picture of the work results that have been obtained by a group or individual in carrying out work responsibilities with predetermined standards. Business performance is defined as the ability of a business to successfully enter new market shares with new products; sales growth and market share are two indicators of this ability [11].

Business performance is the achievement of the company's initial goal, which is to maximize profits to maintain sustainability. Sales, profits, turnover, return on capital, and market share achieved are indicators of business performance. Business goals that include generating profits (*benefits*), surviving and developing, and being able to develop (*growth*) can all be achieved if the company performs well [12].

Business performance in a business can be determined by the success of the business owner in

reading and utilizing an opportunity or business opportunity to market a service or product so that in the end it can generate sales and can provide profits [5].

2.2 Entrepreneurship Orientation

Entrepreneurship can be interpreted as a creative effort that is built to build value from something that previously did not exist so that it exists and can be enjoyed by many people [13]. Entrepreneurship is the utilization of resources owned by individuals or groups of individuals with the aim of increasing the value of resources in a sustainable manner [14]. Orientation is a person's behavior and attitude, namely an understanding that can create harmony in working so that it can increase a person's performance individually in a company [15].

Entrepreneurial orientation is a strategy, as well as a decision-making process that drives a business to be able to introduce innovations, services, products, markets or new business models that currently do not exist [16]. Entrepreneurial orientation is a company attribute that reveals a strategic posture based on the extent to which the company shows continuous innovation, proactive behavior and risk-taking patterns [17]. Entrepreneurial orientation has emerged as an important construct in the management and entrepreneurship literature, attracting great attention from researchers and academics.

Entrepreneurial orientation is defined as a distinct organizational capability and valuable intangible resource in recognizing, evaluating and implementing new opportunities in a manner that is not easily imitated [18]. Entrepreneurial orientation is a firm attribute that reflects what it means to "be entrepreneurial" in an operational or practical sense [19]. Firms are generally considered to have an entrepreneurial orientation when they exhibit behaviors that reflect risk taking, innovation and proactivity. Thus, it can be concluded that entrepreneurial orientation is a process of making decisions through developing new products, product innovation and facing market competitors with the aim of achieving the success of the business unit.

2.3 Product Innovation

Product innovation is the result of a combination of many processes. Innovation is a structure that connects cultural elements in a company based on the ability to innovate and increase the company's success through customer purchasing decisions. Therefore, the company's product innovation is expected to



generate more purchases [19] . Product innovation developed in a company has an impact on increasing the ability to produce quality products.

Companies that innovate will be better able to adapt to their environment and build capabilities that can give them a competitive advantage and affect overall business performance [20] . Creativity can set the process from the start, and the process of implementing innovation will take over later. Process innovation and product innovation are two categories of innovation in entrepreneurship that provide their own advantages for a business [21] .

The purpose behind this innovation is to make the best use of the prospects that exist at the present time and those that will come in the future to maintain the business. Business life and innovation are closely tied together because innovation is the soul or spirit of the company, can happen anywhere and can be done by anyone, and is not limited to large or small companies also need to innovate to maintain their business operations [22] . One of the elements that influence business performance is innovation. Innovation can be classified to assess the success of a business. Companies are involved in product innovation for the development of new products that can increase sales and meet customer desires. Innovation is the concept of updating products, including creating new and better products.

III. RESEARCH METHODS

This study adopts a quantitative approach, which involves the use of measurement, calculation and certainty of numerical data to formulate hypotheses, analyze data and draw conclusions [23] . This type of research uses non-experimental/survey. In order to obtain data from a certain real place, the researcher uses a survey method, in collecting data the researcher carries out treatments such as structured interviews, distributing questionnaires, tests and so on. The causality research design is used in this study where the research is seen from the causal relationship that occurs between variables in the object being studied [24] .

Participants in this study were Furniture SME actors in Garut district as respondents who provided responses and contributions in filling out the distributed questionnaires. High-quality samples have characteristics that are typical of the population. Regardless of the sample size, the sample cannot be generalized to the population if it does not represent or represent each member of the population [25] . The

Simple Random Sampling method was used for sampling in this study.

In quantitative research, the data collected can be used to support the validity of the hypothesis proposed by the researcher at the beginning of the research [23] . In this research, data processing and analysis used statistical techniques and SPSS (Statistical Product and Service Selection) software , with types of analysis including classical assumption tests and hypothesis tests using multiple linear regression.

IV. RESULTS AND DISCUSSION

The results of this study can be analyzed through the research instrument used in this study, namely a questionnaire. This data collection technique is carried out using an online questionnaire or in a network using *Google Form* to respondents and also by distributing the questionnaire directly.

The analysis was conducted to answer the problem, as well as to fulfill the objectives of the research itself. Data collection from the three variables was obtained using a questionnaire. This section will present and discuss the results of the analysis test data processing. In this test, the normality test was conducted using the *Kolmogorov Smirnov test* $\alpha = 0.05$.

Table 1. Results of Normality Test Measurement

		Unstandardized Residual
N		93
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	1.58182596
Most Extreme Differences	Absolute	.071
	Positive	.033
	Negative	-.071
Test Statistics		.071
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

Source: IBM SPSS Statistics 25, 2025

Based on the results of the normality test calculation using the *Kolmogorov Smirnov test* in table 1, it can be concluded that H_0 is accepted, because the data obtained with a sig. value of 0.200 and α of 0.05. Because $0.200 > 0.05$, it can be concluded that the data is normally distributed.



Table 3. Anova F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	22,789	2	11,395	4.455	.014 ^b
Residual	230,200	90	2,558		
Total	252,989	92			

a. Dependent Variable: Business Performance

b. Predictors: (Constant), Product Innovation, Entrepreneurial Orientation

Source: IBM SPSS Statistics 25, 2025

Based on the test, it can be seen that the f-count value is 4.455 with a sig. level of 0.014. This significance value is smaller than the significance limit value of 0.05. The f value of 4.455 is greater than the f-table value of 3.10, so H_0 is rejected and H_a is accepted, namely the independent variables simultaneously affect the dependent variable. The sig. level of 0.014 or less than 0.05 means that simultaneously the entrepreneurial orientation and product innovation variables have a significant effect on the business performance variable.

Table 4. Determination Coefficient Test R^2
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.300 ^a	.090	.070	1.59931

a. Predictors: (Constant), Product Innovation, Entrepreneurial Orientation

Source: IBM SPSS Statistics 25, 2025

According to the calculation results of the determination coefficient test in table 4, the determination coefficient is 0.090, which means that the 9% business performance variance is also determined by the entrepreneurial orientation and product innovation variance. So it can be concluded that the influence of entrepreneurial orientation and product innovation on business performance is 9% and 91% is determined by other factors. With 91% determined by other factors, this explains that there are many more factors that can influence business performance apart from entrepreneurial orientation and product innovation and with this it can be said that entrepreneurial orientation and product innovation only provide a small variance in business performance, and there are still many more influential business performance influences.

The results of this test are supported by research conducted by [4] that the entrepreneurial orientation variable has a mutually influencing relationship with the business performance variable,

where when the entrepreneurial orientation ability of the furniture business owner increases, the business performance obtained will also increase. It is also strengthened based on research [26] that entrepreneurial orientation has a significant influence on business performance. This entrepreneurial orientation leads to practices, processes and decision-making that lead to new input and has three aspects of entrepreneurship, namely always acting proactively, innovatively and daring to take risks [27].

The results of this study are supported by research conducted by [28]. If evaluated simultaneously, entrepreneurial orientation and product innovation have an impact on business performance. Other studies also show that the better the entrepreneurial orientation and product innovation are, the better the level of business performance is [29]. According to [21], the results of the analysis conducted state that the variables of product innovation and entrepreneurial orientation together have a substantial impact on business performance.

So these results show that the skills of SME Furniture actors in Garut district in implementing entrepreneurial orientation variables can optimize business performance, while the application of product innovation variables expands business opportunities and adaptability in an increasingly developing business environment [31]. This combination has an important influence in forming strong business performance, this means that the dimensions used such as increasing income, increasing sales volume and expanding marketing areas have a significant contribution to business performance [30].

The results of this test are inversely proportional to the results of the test conducted by [19] that product innovation affects business performance, which is related to business performance indirectly owned by the business owner.. Also inversely proportional to research [20] that in order for products that have been produced and sold on the market to be able to increase market share, business actors must be able to develop or develop their products to suit customer desires while still paying attention to customer tastes or desires, this is proven by the contribution of product innovation factors.

V. CONCLUSION AND SUGGESTIONS

Based on the results of the research that has been conducted on Furniture SMEs in Garut Regency regarding the Influence of Entrepreneurial Orientation



and Product Innovation on the Performance of Furniture SME Businesses in Garut Regency. The results of the study obtained confirmed that Entrepreneurial Orientation has a positive and significant effect on the Performance of Furniture SME Businesses in Garut Regency. These results indicate that the more Furniture SMEs understand the concept of entrepreneurial orientation, the more they will be able to improve the performance of their businesses. These results indicate that there is a lack of understanding and application of the concept of product innovation in Furniture SMEs that can improve the performance of their businesses.

The skills of Furniture SMEs in implementing entrepreneurial orientation can optimize business performance, while the application of product innovation expands business opportunities and adaptability in an increasingly developing business environment. For further researchers, namely to optimize and further explore the relationship between Entrepreneurial Orientation and product innovation that can affect business performance.

VI. REFERENCE

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