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# ENTREPRENEURSHIP ORIENTATION, ORGANIZATIONAL LEARNING AND INNOVATION PERFORMANCE (STUDIES ON SMEs IN WEST JAVA)

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#### Abstract

Organizational learning is a learning activity in organizational processes through interaction with the environment that encourages organizations to better integrate knowledge. Through a series of strategies, the development of organizational learning needs to be done to provide a competitive advantage for the organization. This study offers the concept of organizational learning as mediating the relationship between entrepreneurial orientation and innovation performance in online businesses in West Java. In addition, this study aims to analyze the constructs used to build innovation. The sample of this research is 185 MSME owners in West Java. Quantitative studies were selected using the Structural Equational Modeling (SEM) analysis tool. The results of this study indicate that organizational learning is able to bridge the research gap between entrepreneurial orientation and innovation performance. The findings of this study prove empirically that entrepreneurial orientation through learning organizations can maximize the results of innovation performance in online businesses in West Java. This research is limited to online-based small and medium enterprises in West Java.

*Keywords:* e-business, e-commerce, entrepreneurial orientation, innovation performance, organizational learning

#### INTRODUCTION

Innovation has a strategic role for a business. Without innovation, a business will lose the power to compete with competitors who also innovate. The longer a business has been established, the products that have been launched need to be updated by adding new product lines or packaging old products into new products. Innovation is not only about making products, innovation can be in the form of shorter marketing networks, more efficient production systems, and better product quality. That is, everything that aims to increase the added value of a product is an innovation activity.

A business can be assessed the level of innovation through innovation performance. The higher the innovation performance, the more effective it is in creating added values for the products launched (Altinay et al., 2016; Gomes & Wojahn, 2017; Hendrawan et al., 2018; Indah, 2017; Pratiwi et al., 2020; Tian et al., 2020). High innovation performance is a hope for a business. Although innovation performance is highly expected, implementation in the field is very difficult. This is because the resources owned by a business are limited. For example, company funding, human resources to the role of leaders in deploying their employees (Gomes & Wojahn, 2017). If a company cannot be effective in deploying its resources, it will be increasingly difficult to have optimal innovation performance. One of the things that can increase innovation performance is to increase entrepreneurial orientation (Soomro et al., 2020).

Entrepreneurial orientation focuses on how a business leader is able to take risks, try new things in creating new markets, and adjust to market conditions by innovating (Hsu & Fang, 2009). Entrepreneurial orientation has been shown to increase innovation performance (Zhai, et al., 2018). Entrepreneurial orientation can trigger the level of creativity of an entrepreneur so that he is more apt to adapt to market conditions by innovating. This confirms that a leader is obliged to have a mindset that leads to an entrepreneurial orientation (Gomes & Wojahn, 2017). Fernández-Mesa & Alegre (2015).

Apart from being related to entrepreneurial orientation, organizational learning is also thought to influence innovation performance (Chienwattanasook & Jermsittiparsert, 2019). Organizational learning focuses on the ability of organizations to learn new knowledge after it is applied to new products (Lumpkin & Dess, 1996). As in today's digital era, various companies are trying to learn new sales channels through online sales (Hermawan, 2015). Of course, companies that are reluctant to learn will avoid this and maintain long sales.

This study was conducted on Micro, Small and Medium Enterprises that focus on online sales. Online sales from 2017 to 2020 have increased very rapidly, reaching 266.3 trillion (Katadata, co.id, 2020). The development of online store users has also increased in line with the increase in the number of online sales, namely of the 116,277 businesses analyzed, 71.18% use online sales (BPS, 2020).

In West Java, MSME actors have increased. According to data from the West Java Cooperatives and UMKM Service, it shows an increase from 189,543 in 2019 to 198,721 in 2020. This rate of development is a good economic improvement if accompanied by good innovation too. The Global Innovation Index shows that in 2020 there will be a decline in innovation for MSMEs in Indonesia. Even though the number of MSME players has increased,

this has not been accompanied by strong innovation. Therefore it is necessary to conduct research related to what factors can improve innovation performance.

The research gap in this study is that there is a research suggestion to link entrepreneurial orientation with innovation performance (Perera & Samarakoon, 2021; Tang et al., 2015). Tang et al. (2015) conducted research on entrepreneurial orientation on innovation performance, while Perera & Samarakoon, (2021) conducted research on learning organizations on innovation performance. These two studies suggest combining the two studies in order to obtain more comprehensive results.

This study conducts research on the relationship between entrepreneurial orientation and innovation performance with organizational learning as an intervening variable. This study uses *Structural Equation Modeling* (SEM). Based on the description above, the title of this research is " **Entrepreneurial orientation**, learning organizations and innovation performance (Studies on SMEs in West Java) ".

This study aims to (1) make organizational learning an intervening variable in becoming a connecting variable between entrepreneurial orientation and innovation performance. Then (2) answering problems related to innovation that still occur a lot for MSME actors. Finally (3) add knowledge related to innovation performance.

# LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT Innovation Performance

Sisca, et al. (2021) argues that Innovation is all activities regarding the process of developing ideas, technology, production processes, and product marketing, as well as manufacturing or new equipment. Innovation is also the process or result of developing and utilizing knowledge, skills, and experience to provide added value to the product or process being created (Widjaja & Winarso, 2019). Innovation performance (IP) is an illustration of the level of achievement of innovation implementation which is referred to as a process or result of the development and utilization of skills knowledge in order to provide more value to the products/processes created (Widjaja & Winarso, 2019). Indicators of innovation performance according to Baker et al. (2016) namely the percentage of how many new products or services there are, product development, and the adoption of new ideas from members of the organization.

# **Entrepreneurial Orientation**

Entrepreneurial orientation is one of the most consistent variables for researching the field of entrepreneurship (Shaher & Ali, 2020b). Entrepreneurial orientation becomes part of

the process, philosophy, and organizational decision-making activities towards entrepreneurship (Lumpkin & Dess, 2015). Organizations that are directed towards entrepreneurship tend to adapt to market conditions by innovating, dare to take risks to try new things, maximize services, and expand market share so as to create new market opportunities (Hermawan, 2015).

# **Organizational Learner**

Ishak & Mansor, (2020) define organizational learning as a series of interactions between adaptation at the individual or subgroup level and adaptation at the organizational level. In line with this, organizational learning is a learning activity in organizational processes through interaction with their environment (Ishak & Mansor, 2020). This study uses knowledge used, work experience sharing, target setting, and knowledge shared (Bello & Adeoye, 2018; Kim & Park, 2020) to measure organizational learning.

# Relationship between entrepreneurial orientation and innovation performance

Entrepreneurial orientation is defined as an organizational tendency to create new market opportunities and expand existing market areas (Lumpkin & Dess, 2015). Organizations that have a high level of entrepreneurial orientation tend to want to continue to develop new products, are more proactive in developing strategies and are willing to take risks that can increase profitability (Tang et al., 2015). Entrepreneurial orientation cannot directly influence innovation performance (Perera & Samarakoon, 2021; Tang et al., 2015), because other factors are needed to be able to describe the impact of entrepreneurial orientation on the organization as a whole. Nonetheless, entrepreneurial orientation can improve a company's innovation performance. Managers who are ready to take risks have a positive impact on the level of innovation in the organization when new products and services are implemented into the market. Therefore, the hypothesis proposed in this study is as follows:

H<sub>1</sub>: Entrepreneurial orientation has a significant effect on innovation performance.

# Relationship between Entrepreneurial Orientation and Organizational Learning

Organizations with a high level of entrepreneurial orientation tend to want to maximize new opportunities. This process requires high organizational capabilities to learn about new products and markets. Entrepreneurial organizations in proactively scanning the external environment require the ability to learn (Kang et al., 2010). The more oriented toward entrepreneurship, the more in need of learning, the more companies are likely to instill values that encourage commitment to learning, open-mindedness, vision, and achieving common

goals (Wang et al., 2015). This is in line with the results of several studies which conclude that entrepreneurial orientation has a significant effect on organizational learning (Altinay et al., 2016; Dada & Fogg, 2016). Therefore, the hypothesis proposed in this study is as follows:

H<sub>2</sub>: Entrepreneurial orientation has a significant effect on organizational learning.

## The relationship between organizational learning and employee performance

Organizations whose members are learning-oriented have a desire to develop ideas (Migdadi, 2019). Acquisition of data and knowledge, interpretation and dissemination of information about customers, competitors and new technologies are part of the process required for innovation (Beyene et al., 2016). The innovation process is more likely to depend on learning abilities in distributing and using knowledge (Alegre & Chiva, 2009). Organizations that have a high learning commitment and initiative will further enhance innovation performance (Tang et al., 2015). The hypothesis proposed in this study is as follows:

H<sub>3</sub>: Organizational learning has a significant effect on innovation performance.

#### **METHOD**

The data analysis used in this study was Structural Equation Modeling (SEM) using AMOS version 22. The SEM analysis process was carried out in 7 stages, namely: (1) Development of a theoretical model; (2) Development of flowcharts; (3) Conversion of flowcharts to structural equations; (4) Selection of input matrix and model estimation; (5) Analysis of possible model identification problems; (6) Evaluation of goodness of fit criteria; (7) Interpretation and modification of the model. Data was collected by distributing questionnaires to respondents. Questionnaire respondents are the owners of a business. From the process of distributing the questionnaires, this study obtained 185 respondents, then this research will conduct a normality test.

RESULT AND DISCUSSION

 Table 1. Respondent Demographic Characteristics

Description	Frequency	Percentage (%)
Location		
Bandung	97	52.43

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Cirebon	65	35.14
Tasikmalaya	13	7.03
Etc	10	5.41
Respondent Age		
20-45	123	66.49
>45	62	33.51
Respondents Education Level		
SENIOR HIGH SCHOOL	100	54.05
Bachelor	65	35.14
Postgraduate	20	10.81
Number of employees		
<10 people	114	61.62
10-20 people	40	21.62
>20 people	31	16.76
Total	185	100%

Source: Processed Secondary Data, 2022

### Measurement

This research uses confirmatory factor analysis (CFA). The CFA test aims to examine the construct's relationship with its latent variables: (1) innovative, proactive, and risk-taking entrepreneurial orientation (EO); (2) organizational learning (OL) with knowledge used, work experience sharing, target setting, and knowledge shared; and (3) innovation performance (IP) with the percentage of new products, new product development, and adoption of new ideas. After each variable construct has been confirmed, a full model can be built for SEM testing. Therefore the validity and reliability tests were carried out to see the accuracy and reliability of the measuring instruments in table 2. It can be seen in table 2 that all indicators are above 0.7 so that the indicators are stated to be valid and reliable.

Table 2. Validity and reliability test results

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Description	Factor	CR
ЕО		
Able to create new products in the last 5 years.	0.75	
Able to compete with competitors	0.78	0.84
Dare to take risks even though the possibility of loss.	0.85	
OL		
Cognitive social knowledge is able to solve problems.	0.77	
The learning process from various experiences is well encouraged	0.82	
by the company.		0.876
Accuracy of organizational learning targets is easy to achieve.	0.85	
The organizational atmosphere encourages knowledge in learning	0.86	
that is actively shared.		
IP		
The company's experimentation in new product development has	0.86	
been carried out before any innovative ideas were carried out		
Proactive organizations encourage new ideas and ideas to be	0.85	0.865
discovered		
Even if the ideas adopted by members of the organization are	0.84	
wrong, the ideas are still respected.		

Source: Processed primary data, 2022

# RESULTS AND DISCUSSION

# **Analysis Results**

Table 4 shows that hypothesis 1 (H1) is accepted because EO has a significant effect on IP ( $\beta$ = 0.32, p: 0.018 is significant on OL ( $\beta$ = 0.54, p: 0.000) while Hypothesis 3 is accepted because OL has a significant effect on IP ( $\beta$ = 0.69, p: 0.000).

Table 3. Hypothesis test based on regression weight value

hypothesis	P	Information

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1	0.018	Significant
2	0.000	Significant
3	0.000	Significant

Source: Primary data processed, 2022

### **Discussion**

The results of testing hypothesis one (H1) state that entrepreneurial orientation has a significant effect on innovation performance. This statement is in line with Shaher & Ali's research (2020), where organizational behavior that is oriented towards entrepreneurship can increase organizational innovation. Organizations that have a high level of entrepreneurial orientation tend to want to continue to develop new products, be more proactive in developing strategies and are willing to take risks in increasing organizational income (Tang et al., 2015). In addition, the proactive attitude of managers towards the ideas of their members will be directly proportional to the level of organizational innovation. Managers who dare to take risks by being innovative in creating products and being proactive in competing with competitors have greater opportunities to improve organizational innovation performance. The ability of the organization to create new products in the last few years shows that the organization is able to compete with competitors. This is supported by the courage to take risks in the process of creating new products. The more courageous managers are in taking risks, the greater the chance of new products, thereby increasing innovation performance within the organization.

The results of testing the second hypothesis (H2) state that entrepreneurial orientation has a significant effect on organizational learning. This statement adds to the empirical literature (Altinay et al., 2016; Fernández-Mesa & Alegre, 2015) that the existence of organizational learning assists the process of managers in oriented towards entrepreneurship. This is in line with the opinion of Wang et al., (2015) that SMEs that want to innovate and increase productivity and be at the forefront of the market must continue to grow by learning technology and knowledge and then combining and utilizing this knowledge. A conducive organizational atmosphere will encourage sharing of knowledge in the learning process so as to support the creation of new ideas and concepts. From this, the accuracy of learning targets will be easily achieved because the learning process is carried out without being constrained by distance, space and time. The capacity and skills possessed by both the organization and its members will be able to encourage the organization to develop towards entrepreneurship.

The results of testing the third hypothesis (H3) state that organizational learning has a significant effect on innovation performance. This statement is in line with the results of research by Dongling & Lam (2019), where organizational learning helps companies effectively cope with a turbulent external environment, to acquire and integrate resources and improve organizational innovation performance. The process of sharing knowledge, capacities and skills as well as organizational attitudes that are learner helps organizations to experiment with developing new products through ideas generated from the learning process. The learning atmosphere within the organization encourages organizations to be proactive in creating new products through the contribution of well-selected ideas and ideas. The empirical test results prove that H2 and H3 are accepted, so that there is a significant influence between entrepreneurial orientation and organizational learning on innovation performance. Based on the total effect produced, the path of applying organizational learning is empirically proven to be able to maximize the role of entrepreneurial orientation on innovation performance. Organizational learning has an indirect influence in encouraging entrepreneurial orientation to improve innovation performance. This supports research which states that organizational learning is flexible to be applied to SMEs in recognizing market trends (Gomes & Wojahn, 2017) so that it can create innovative ideas for organizations. Cognitive social knowledge and organizational atmosphere in the learning process have an indirect influence on organizations in conducting experiments to develop new products. Organizations are more willing to take risks because of the success of the learning process from various experiences so that they have greater opportunities to improve innovation performance. Although the test results also show that entrepreneurial orientation is able to have a direct influence on innovation performance, this value has a smaller effect when compared to the value of the results of the indirect influence of organizational learning. This proves that through the role of organizational learning, entrepreneurial orientation will be able to increase greater innovation performance in an organization.

## CONCLUSSION AND RECOMMENDATION

Based on the results of the analysis and discussion that have been described, it can be concluded that entrepreneurial orientation and organizational learning have a significant effect on innovation performance. Organizational learning is proven to be able to leverage the role of entrepreneurial orientation on innovation performance which is offered as a mediating variable to bridge future research obtained from replication research. The research results prove that the constructs of entrepreneurial orientation and organizational learning can be used to build innovation. In addition, the empirical model of organizational learning can effectively bridge

the role of entrepreneurial orientation in its impact on encouraging innovation performance in organizations. This is evidenced by the results of research showing the success of the indirect influence of organizational learning in encouraging the influence of entrepreneurial orientation on innovation performance. This model describes the organizational learning process in maximizing the role of entrepreneurial orientation to improve innovation performance in online businesses in Central Java. The results of this study are expected to have managerial implications for online business people, including a real orientation towards entrepreneurship by being innovative in creating new things and being proactive in every idea or ideas submitted by members. Through this, managers can see existing market opportunities and then dare to take risks after considering the ideas and ideas of their members. In addition, the support of easy access to information and knowledge will facilitate the learning process without being constrained by distance, space and time so that learning targets can be easily achieved by online businesses. This study has limitations on several factors. The research object is limited to MSME actors in West Java. Further research can be conducted on e-commerce on a larger scale or in creative industries such as crafts.

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