

**Review Article**

**ENTREPRENEURIAL ORIENTATION AND INNOVATION TO COMPETITIVE ADVANTAGE OF SMES IN NORTH SUMATERA MEDIATED WITH BUSINESS FINANCING FACTOR**

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**Received: 16.11.2019**

**Revised: 19.12.2019**

**Accepted: 10.01.2020**

**Abstract** The objectives of this study are to: (1) determine the correlation of entrepreneurial orientation to financing and competitive advantages of MSMEs in North Sumatra, (2) find out the correlation of innovations to financing and competitive advantages of MSMEs in North Sumatra, (3) find out the correlation of financing to competitive advantage of MSMEs in North Sumatra, and (4) find out whether the financing is able to be an intervening variable in the relationship between entrepreneurial orientation and innovation to the competitive advantages of MSMEs in North Sumatra. This study used quantitative descriptive approach. The population in this study were all MSMEs in North Sumatra, while the samples of this study involved 300 respondents to meet the sample criteria which was considered the most fit for maximum likelihood analysis in SEM. Data were processed using structural equation modeling (SEM) techniques using AMOS software. The results of the study show that (1) entrepreneurial orientation had a significantly positive correlation with financing and business competitive advantages, (2) innovation had a significant positive correlation with financing and business competitive advantage, and (3) financing was able to act as an intervening variable mediating the relationship between entrepreneurial orientation and innovation to the business competitive advantages

**Keywords:** Entrepreneurship orientation, innovation, financing, competitive advantage, SMEs.

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DOI: <http://dx.doi.org/10.31838/jcr.07.01.42>

**Introduction**

Business needs the ability to compete in the market, face a variety of challenges to sustain business continuity in the future. A dynamic environment, the existence of uncertainty, shifts in the expectations and desires of customers for the products produced by the company for businesses must determine the most appropriate and effective strategies to overcome various challenges.

**Research Questions**

The research questions proposed in this study are as follows:

1. What is the correlation between entrepreneurial orientation and business financing?
2. What is the correlation between innovation and business financing?
3. What is the correlation between entrepreneurial orientation and competitive advantage?
4. What is the correlation between innovation and competitive advantage?
5. What is the correlation between business financing correlate and competitive advantage?
6. Is business financing able to play a role as an intervening variable that mediates the correlation of entrepreneurial orientation and innovation with business competitive advantage?

**Research Objectives**

The objectives of this study are to:

1. find out the correlation between entrepreneurial orientation and business financing
2. find out the correlation between innovation and business financing
3. find out the correlation between entrepreneurial orientation and competitive advantage
4. find out the correlation between innovation and competitive advantage
5. find out the correlation between business financing correlate and competitive advantage

6. to prove that business financing is able to play a role as an intervening variable that mediates the correlation of entrepreneurial orientation and innovation with business competitive advantage

**Literature review**

**Entrepreneurship Orientation**

The dimensions of the entrepreneurial orientation process are the same basic dimensions as the strategy making process. The existence of entrepreneurial management concepts that describe organizational processes and methods and forms used by several companies as entrepreneurs are parts of the specific dimensions of an entrepreneurial orientation (Dess et al., 2005). Runyan, et al. (2006) states that a company that has an entrepreneurial orientation is brave in taking risks, as a pioneer in product innovation, and being proactive in innovation. Entrepreneurial orientation is defined as the processes, practices and activities that use innovation, risk taking and active efforts to win the competition.

**Innovation**

Innovation is a procedure for a company to be able to adapt to a dynamic environment. Company is required to be able to create a variety of new assessments and ideas and offer innovative products to improve service performance providing satisfaction to customers. Innovation is used as a way to build and develop organizations through the achievement and introduction of new technologies, new applications in various forms of new products so that it becomes a combination of various innovations that shape the arena of innovation (Prakosa, 2005).

Sustainability of an innovation carried out by a company is a fundamental need that will create a competitive advantage. Innovation is an important function of company management because innovation helps determine superior business performance. Innovation is more important as a strategy for the survival of a business, not only a matter of growth but also to succeed in increasingly intense competition and environmental uncertainty (Utaminingsih, 2016).

**Business Financing**

Financing is funding received from a party originating from the provision of funds in order to support planned investments, both independent and institutional (Muhammad, 2005). Financing is useful as initial or additional capital for business development, in the form of adding merchandise or expanding businesses (Prastiawati and Emile, 2016).

Funding is an activity that dominates the allocation of bank funds (Dahlan, 2005). Funds used in financing disbursements reach 70% to 80% of the bank's business volume. The main source of bank income comes from financing distribution activities carried out by banks in the form of profit sharing, mark up or rental income. Firdaus (2009) mentions the acquisition of income from this financing is expected to be a better bank profitability which is reflected in the increase in bank profits.

**Competitive Advantage**

Competitive advantage is a profit strategy of a company that collaborates to be more competitive in the market. The strategy designed to achieve competitive advantage must continue to be done to successfully become a market leader (Prakosa, 2005). The company's success in achieving competitive advantage is when there are various actions of companies in the industry/market to create economic value with the involvement of several companies that make the same efforts (Barney, 2010).

Kotler, et al. (2005) states that competitive advantage is the advantage over competitors achieved by offering more values to consumers than the values given by competitors. Expectations to be achieved through competitive advantage are that the companies are able to achieve profits on target, an increase in market share and customer satisfaction, and long-term business sustainability (Saiman, 2014).

**Conceptual Framework**

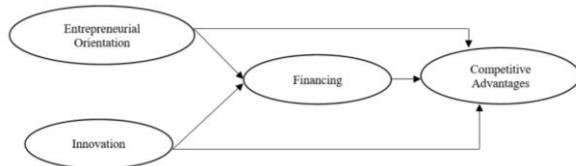


Figure 1. Research Conceptual Framework

**Hypothesis**

The hypotheses proposed in this study are as follows:

1. Entrepreneurial orientation has a significant positive correlation to business financing
2. Innovation has a significant positive correlation to business financing
3. Business financing has a significant positive correlation to competitive advantage
4. Entrepreneurial orientation has a significant positive correlation to business competitive advantage
5. Innovation has a significant positive correlation to business competitive advantage
6. Business financing is proven to play a role as an intervening variable that mediates the correlation of entrepreneurial orientation and innovation with business competitive advantage

**Research Methods**

**Research Approach**

This study used quantitative and explanatory descriptive research. This research explained the correlation of variables and various backgrounds affecting the correlation between those variables.

**Data Source and Data Collection Technique**

This study used primary data of interviews and respondents' answers to some questions and statements submitted in the research questionnaire. Meanwhile, the secondary data of documentation was used as a source of information in supporting primary data and research results.

**Research Population and Sample**

The population in this study included all MSMEs in North Sumatra that got funding from the Bank Sumatera Utara and were in the category of current financing during the 2015-2019 period. The number of samples was determined using the provisions of the Chi-Square testing criteria in the Structural Equation Model (SEM) between 100-300 samples for the maximum likelihood estimation technique so that there were only 300 respondents.

**Data Analysis Technique**

All data were processed through Structural Equation Model (SEM) analysis technique using AMOS software, and descriptive statistical analysis technique was to describe the respondent profile using SPSS.

**Respondent Characteristics**

The results of the descriptive statistical analysis present respondents' information based on several criteria, namely: age, sex, education, line of business, length of business carried out, total assets owned, whether self-owned business or not, and whether doing innovation or not.

SMEs in North Sumatra selected as respondents in this study were dominated by businesspeople aged 35-55 years (65%). They are in productive age and able to run businesses, achieve competitive advantages, and have business sustainability in the future.

For education criteria, it is known that respondents are business actors dominated by individuals graduating from high school (70%), bachelor (25%) and have no educational background (5%). It indicates that business operators in North Sumatra are businesspeople with limited knowledge and skills in which they run their business based on their experiences and needs.

The business sectors that are mostly run by MSMEs in North Sumatra based on their profile are home industries such as food processing and selling basic necessities in the residential environment (75%), followed with manufacturing industry businesses (20%) such as workshops, sewing clothes, convection, selling furniture, trading businesses (5%), and service businesses (5%). Based on the length of business, it is known that the most of them have run business over 3 years, i.e. 70%, while the rest are between 1-3 years (30%).

Based on the asset profile owned, it is known that 80% of the respondents had small assets, i.e. under 50 million, followed with 10% of the respondents having assets of 50 million to 200 million, and 10% of the respondents having above 200 million. This condition illustrates that the majority of business operators in North Sumatra who were the respondents of this study run home industry in the vicinity of their home environment and are small industries that have not developed significantly and are still low in competitive advantage capacity

Table 1. Regression Weight of Correlation Test among Variables

Relationship between Variables		Estimate	P	Results
Entrepreneurial orientation	→ Business financing	.065	.047	Significant
Innovation	→ Business financing	.314	.005	Significant
Entrepreneurial orientation	→ Competitive advantages	.717	.000	Significant
Innovation	→ Competitive advantages	.306	.050	Significant
Financing	→ Competitive advantages	.109	.034	Significant

Source: Results of Data Processing (2019)

Other information obtained based on the business ownership profile is known that 100% is a self-owned business. Based on the results of interviews with respondents, it is known that to get financial support from the bank, those who would be given funding assistance must be a self-owned business and guarantees that were fully owned by the business actors as a requirement from the bank. Another profile of business actors

was known that the majority of home industry business actors had not yet innovated or did not understand the innovation they must do to increase sales of products/services offered to consumers. Therefore, their orientation was only at the level of sales and targeted profits to increase and did not really understand the competitive advantage that must be obtained for business continuity. It was also influenced by the lack of knowledge and skills due to the level of education possessed by business actors.

**Results and Discussion**

The Full Model Structural Equation Model test results obtained correlation test results between variables to prove the hypothesis proposed in this study:

Direct and indirect correlation test results are to prove the financing variable as an intervening variable that mediates the correlation of entrepreneurial orientation and innovation on business competitive advantage. The results of the analysis obtained in the Structural Equation Modelling (SEM) analysis can be seen in Table 2 and Table 3 below:

**Table 2. Output of Direct Correlation among Variables**

	Entrepreneurial orientation	Innovation	Financing
Financing	.065	.314	.000
Competitive advantages	.717	.306	.109

Source: Results of data processing (2019)

**Table 3. Output of Indirect Correlation among Variables**

	Entrepreneurial orientation	Innovation	Financing
Financing	.000	.000	.000
Competitive advantages	.720	.411	.085

Source: Results of data processing (2019)

The following results of data analysis are used to answer the hypotheses in this study using output regression weight, namely:

1. Entrepreneurial orientation showed a significant positive correlation to business financing with a p-value of 0.047 and an estimated effect value of 0.065. Thus, hypothesis 1 in this study was accepted.
2. Innovation showed a significant positive correlation to business financing with a p-value of 0.005 and an estimated effect value of 0.314. Thus, hypothesis 2 in this study was accepted.
3. Entrepreneurial orientation showed a significant positive correlation to competitive advantage with a p-value of 0,000 and an estimated effect value of 0.717. Thus, hypothesis 3 in this study was accepted.
4. Innovation showed a significant positive correlation to competitive advantage with a p-value of 0.050 and an estimated effect value of 0.306. Thus, hypothesis 4 in this study was accepted.
5. Financing showed a significant positive correlation to competitive advantage with a p-value of 0.034 and an estimated effect value of 0.109. Thus, hypothesis 5 in this study was accepted

Entrepreneurial orientation was proven to have a significant positive correlation to the business financing and business competitive advantages for MSMEs in North Sumatra. These results provide information that entrepreneurship orientation is the most effective strategy for a business to be able to compete effectively in the same market while offering the same products. Entrepreneurial orientation is a factor that gives a real and strong influence on business financing and business competitive advantage, with a positive relationship meaning that when business people have a better entrepreneurial orientation, it will have an impact on better business financing and provide ability for businesses to be better in competitive advantage in the market. This entrepreneurial orientation

includes a process, practice and decision that will lead to a new input process with three aspects of entrepreneurship such as innovation, proactivity and risk taking (Jayaningrum and Sanawiri, 2018). Therefore, the results of this study are in line with Jayaningrum and Sanawiri (2018) stating that entrepreneurial orientation is capable of giving birth to innovations that make companies have effective and courageous strategies in taking risks to achieve competitive advantages. Fernandes-Mesa and Alegre (2014) also mentioned that entrepreneurial orientation as a managerial behavior that supports the export process through learning and innovation so that it can improve export performance.

Innovation has a positive and significant correlation to financing and competitive advantage. It was proven that the innovations carried out by MSME entrepreneurs in North Sumatra is a part of entrepreneurial orientations which is able to strongly and significantly influence business financing and business competitive advantage. A positive correlation illustrates that business actors who are able to innovate as part of a business strategy will increasingly provide positive opportunities and the better to be able to be given financial assistance by the banks and the greater the opportunity to gain competitive advantage in the market. This innovation effort has close links with an entrepreneurial orientation that is considered capable of striving for business in achieving competitive advantage. There is an opinion stating that entrepreneurial orientation can increase exports by learning about organizational mix and innovating so that later it will increase product exports as a competitive advantage. It can be concluded that there is a correlation between innovation and entrepreneurial orientation and competitive advantage (Blackburn & Kovalainen, 2009; Cope, 2003; Ireland & Webb, 2007; Wang, 2008).

Innovation is one of the success indicators in implementing new ideas. In addition, it is considered capable of supporting the achievement of maximum business performance. Several studies state that entrepreneurship is an activity of an innovation and innovation increases export performance because it is considered superior in competition (Fernandez-Mesa and Alegre, 2014). Competitive advantage is a solution for an effort to conduct a strategy in leading and showing its best performance against competitors in the same industry (Rothaermel, 2013). The strategy undertaken is part of an entrepreneurial orientation and innovation to increase company value (Zeebaree and Siron, 2017).

Funding showed a significant positive correlation to the competitive advantage of MSME entrepreneurs in North Sumatra. The financial support from bank financial institutions would help SMEs develop their businesses. The financial assistance provided would be an opportunity and support for businesses to innovate as part of an entrepreneurial orientation strategy and achieve competitive advantage and demonstrating product superiority against competitors in the same industry.

Financing is proven to be able to significantly and strongly influence competitive advantage with a positive correlation meaning that the better the financing received by business actors, the better it will help SMEs achieve their competitive advantage. Manimala and Kumar (2012) state that financing is a facility that becomes effective if MSMEs have the internal capability to be able to utilize these external facilities well, one of which is the internal ability to carry out an entrepreneurial orientation strategy to innovate. It is in line with Zeebaree and Siron (2017) stating that financing is an important factor and supports business competitive advantage. As an effort to maintain and develop a business, the entrepreneur and the government must support each other to contribute in venture capital investment support and issue regulations supporting business development (Southiseng and Walsh, 2010)

Financing is proven to be an intervening variable that mediates the correlation of entrepreneurial orientation and innovation to competitive advantage. Financing is a program that directly provides and provides sustainable business growth capabilities.

The business credit, financial assistance, training and technical efforts related to business innovation, services, infrastructure support will help strengthen businesses and make businesses able to compete in the market (Zeebaree and Siron, 2017; Gisip and Harun, 2013; van Stel, et al. 2006).

### Conclusion

The correlation of entrepreneurial entrepreneurs and innovation to the competitive advantage of SMEs in North Sumatra tend to create businesses that follow the current market trends; however, when the trend is no longer booming, they will replace it with the new ones. Various innovations created by businesspeople are not only innovations on the menus offered but also the packaging design. One type of partner support obtained by business people in North Sumatra is the presence of Go-Food services offered by the Go-Jek application that provides many benefits. In this case, the ease in ordering food offered to consumers increases demands.

The conclusions that can be obtained in this study are as follows:

1. Entrepreneurial orientation had a significant positive correlation to financing and the competitive advantage of MSME businesses in North Sumatra
2. Innovation had a significant positive correlation to financing and the competitive advantage of MSME businesses in North Sumatra
3. Financing had a significant positive correlation to the competitive advantage of MSME businesses in North Sumatra.
4. Financing was proven to play a role as an intervening variable that mediates the correlation of entrepreneurial orientation and innovation to the competitive advantage of MSME businesses in North Sumatra
5. The education level of MSMEs, i.e. high school, was the cause of the limited ability and expertise of business actors to develop their business; thus, it inhibited competitive advantage.

Low education level was also the cause of the lack of business/product innovation undertaken by MSME entrepreneurs in North Sumatra; thus, it hampered financing/investment opportunities for business development and making businesses fail to achieve competitive advantage.

### Acknowledgement

This research or article's publication entitled Entrepreneurial Orientation and Innovation to Competitive Advantages of SMEs in North Sumatra mediated with Business Financing Factor is supported by the Universitas Sumatera Utara for providing the TALENTA funds of 2019 to carry out this research through the COLLABORATION with lecturer from Universitas Diponegoro and Universitas Padjajaran which ones I am really fortunate to have the opportunity to work with them. This necessary given the rapid development of science and technology, so through collaboration with outside campuses it is expected that researchers are able improve the quality of research and the number of publications of research results in scientific journals internationally reputed.

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