

The Role Of Innovation In Mediating The Influence Of Entrepreneurial Characteristics And Orientation On Performance

Farha Kamilatun Nuha Anwar¹⁾, Meldona^{2)*} Yuliati³⁾, Adhitya Salman Alfarisyi⁴⁾, Zaeniko Saputra⁵⁾

^{1,4,5)} Management Study Program, Faculty of Economics, Universitas Islam Negeri Maulana Malik Ibrahim Malang

^{2,3)} Accounting Study Program, Faculty of Economics, Universitas Islam Negeri Maulana Malik Ibrahim Malang

*Corresponding Author

Email: meldona@akuntansi.uin-malang.ac.id

Abstract

Micro, Small and Medium Enterprises (MSMEs) are strategically important in the Indonesian economic system. Entrepreneurs play an important role in managing business operations to achieve high performance. Performance is influenced by entrepreneurial characteristics and orientation mediated by innovation to achieve business success. This study aims to provide empirical evidence on the influence of entrepreneurial characteristics and orientation towards performance mediated by innovation at coffee shops in Malang City. This research is quantitative research using a questionnaire instrument conducted on a research sample of 145 members of the Malang Coffee Lovers Community. Data analysis was performed using PLS-SEM SmartPLS 3.2.9. The results showed that characteristics and entrepreneurial orientation have a significant positive effect on performance, and the innovation plays a role as mediator between characteristics and entrepreneurial orientation towards performance. The high performance in the coffee field could be achieved if MSME actors as entrepreneurs pay attention to their daily attitude characteristics, especially in terms of experience in quality coffee business management and its production, and also have an entrepreneurial orientation, especially by paying attention to the commitment to innovate so that they can produce coffee product innovations which then also have an impact on improving performance in the form of increasing optimal operating profits.

Keywords: *Entrepreneurial Characteristics, Entrepreneurial Orientation, Innovation, And Performance.*

INTRODUCTION

Indonesia is ranked the 3rd largest coffee-producing country in the world in 2022/2023, after Brazil and Vietnam (katadata.co.id) (Nabilah, 2023). Coffee production produced by Indonesia of 11.85 million bags can contribute 7% to global coffee production, reaching 170 million bags per 60 kg of coffee in the 2022/2023 period (United States Department of Agriculture / USDA). 75% of Indonesia's coffee production comes from lowland areas in South Sumatra and Java, with a production capacity of 1.3 million bags of arabica coffee and 10.5 million bags of robusta coffee per year (Ayu & Bayu, 2022). Following the increasing global trend until now, global coffee consumption is in the fifth phase, where coffee consumers will focus more on the concept of high-quality artisan coffee, which is produced on a small scale but with a sustainable process with adequate technology, and Indonesia is an important player in the global arena in the sector.

In order to build the national economy, the Government of Indonesia supports the development of MSMEs and the modernisation of cooperatives. MSMEs strategically contribute to Indonesia's economic growth, reaching 99% of all available business units. The share of MSMEs in the gross national product is 60.5%, and the share of employment is 96.9% of total national labour consumption (ekon.go.id, 2022). The development of MSMEs that have grown significantly includes the growth of the coffee industry. The Indonesian government fosters collaboration between Indonesian coffee industry players. The government appreciates the dedication of the stakeholders in the Indonesian coffee industry who continue to support the sector's development by giving 1.86 million heads of farmer families and 50,000 general workers more power (ekon.go.id, 2021). According to Coordinating Minister Airlangga, coffee

contributes 16.15% to the GDP of the plantation sector. The high public interest in expanding the coffee business indicates that Indonesia's coffee industry has tremendous potential to continue growing. Malang showed significant growth in the East Java region; according to East Java BPS data, in Malang, it was recorded that in 2021-2022 coffee production increased to a total of 13,047 (Statistik, 2022). It contributes greatly to economic growth in the city of Malang.

Performance is a measure of success that shows growth for a business, including MSMEs (Sidek et al., 2019). MSMEs with good performance can expand their business, further supporting the country's economy to promote long-term economic growth, creating jobs and reducing unemployment (Hudson et al., 2001). According to Suryana et al. (2021), Rugian et al. (2019), and Sahabuddin & Djufri (2019) showed that the increasing performance shown by business growth, especially in the downstream sector in the coffee sector, is influenced by the high lifestyle changes of people who make coffee as a daily drink. Similarly, the research results by Sahabuddin & Djufri (2019) show increased people's purchasing power in coffee consumption caused by economic changes and technological and environmental developments that trigger lifestyle changes in coffee products.

Factors affecting performance are entrepreneurial characteristics. In general, entrepreneurship's characteristics are a person's personal or psychological uniqueness consisting of dimensions of values, attitudes, and needs (Belso-Martinez et al., 2013; Gedik et al., 2015). The uniqueness possessed by a business entity will be able to distinguish a business from competing with other businesses (Abubakar, 2018). Entrepreneurial characteristics greatly determine the success of a business (Dwiastanti & Mustapa, 2020). Entrepreneurial characteristics can be a driver in a business in order to grow rapidly (Suhartini, 2021). According to (Indarto & Santoso, 2020), indicators of entrepreneurial characteristics include experience, skills, leadership, and unyielding motivation. Study (Bustan, 2016) There are twelve indicators of entrepreneurial characteristics, namely: commitment and determination; responsibilities; ambition to always look for opportunities; resistance to risk and uncertainty; confidence; inventive and flexibility; requires immediate feedback; having high energy; have the drive always to excel; future-oriented; always learn from experience; and leadership skills. Martauli & Siahaan (2019) measured entrepreneurial characteristic variables with indicators: experience; education; perception of effort; the courage to take risks; willingness to strive. Mukti et al. (2020) use several indicators of entrepreneurship's characteristics: responsibility; the courage to take risks; confidence; requirement feedback; passion and hard work; future-oriented; reward achievements; organisational abilities (leadership); and originality.

The better the characteristics of entrepreneurship, the better the development of small and medium enterprises (Fajar Istinganah et al., 2020). Several previous studies show that entrepreneurial characteristics have a significant positive influence on the development of companies and MSMEs (Vijaya, D. P; Irwansyah, 2017); (Ürü et al., 2011); (Safitri & Khasan Setiaji, 2018); (Mukoffi & As'adi, 2021) and (Belso-Martinez et al., 2013). However, there are also research results that entrepreneurial characteristics do not significantly affect performance—according to Islam et al. (2018) concluded that the company's characteristics do not affect the company's success. Islamic Studies et al. explain that the characteristics of entrepreneurship, namely the business's origin, the business's length, the business, the size of the business and the source of funding, do not determine the success of a business. The originating business is inherited from parents, and the length of the business does not guarantee the success of the business.

In addition to entrepreneurial characteristics, performance is also influenced by entrepreneurial orientation. According to Lumpkin & Dess (1996), entrepreneurial orientation is a set of processes, practices, and decisions a company uses to drive an entirely new product/service, market, or innovative business pattern. Study Mthanti & Ojah (2017) showed that indicators of entrepreneurial orientation include 1) Commitment to innovation, 2) Proactive,

and 3) Courage to take risks. The commitment to innovate is shown by entrepreneurs' continuous, consistent efforts to always be creative in looking for new ideas and ways to innovate. Proactive reflects entrepreneurs' willingness and ability to respond to changes in conditions faced, as well as anticipating problems or needs that are likely to occur. Courage to take reasonable risks that have been calculated and have an attitude that likes to face challenges.

Layoo & Rahman (2019). Pangeran (2012), Sabahi & Parast (2020), and Al-Hakimi et al. (2021) stated that the performance of MSMEs is positively and significantly impacted by entrepreneurial orientation. Research Reswanda (2012), on the other hand, discovered that entrepreneurial orientation can only enhance business performance through sustainable competitiveness advantage factors and does not directly improve the operational performance of export-oriented leather craft SMEs in Sidoarjo. Therefore, entrepreneurial orientation has no real impact on performance.

The contradictory empirical findings above show a research gap, so it is necessary to further review the influence of entrepreneurial characteristics and entrepreneurial orientation on MSME performance by adding variables that mediate influences, namely innovation variables. Based on the grand entrepreneurship theory, innovation is important for large companies and MSMEs (Santoso et al., 2020; Maldonado-guzmán & Garza-Reyes, 2019; Ali et al., 2020). According to Issau et al. (2021), innovation is the capacity to consistently turn information and ideas into new products, processes, and systems to benefit the organisation and its stakeholders. According to Martínez Serna et al. (2016), innovation is the modification and growth of resources that assist MSMEs in creating value (new money). Similarly, Otache et al. (2021) and Ratnawati (2017) define innovation as a breakthrough of innovative ideas for a product or service to enhance a company's performance. Innovation is coming up with ideas and inventing things, such as new products, methods, and consumer services. According to Ali et al. (2020), innovation might take the shape of new goods or services, technological advancements in manufacturing, administrative systems or structures, or plans or initiatives involving organisation members. Innovation is one of the most crucial competitive instruments, and it has frequently been used as a gauge to evaluate a company's skills (Issau et al., 2021). Innovation in outputs, processes, and products is the main component of MSME innovation indicators, according to Maldonado-guzmán & Garza-Reyes (2019). According to the framework of Rosli & Sidek (2013), product, process, and market innovation make up the element of innovation. In the meantime, (Javad et al., 2020) stated that the indicator of MSME innovation should consider innovation in practices, organisational structures, and goods.

This research was conducted to build a conceptual framework that links the influence of entrepreneurial characteristics and entrepreneurial orientation towards performance mediated by innovation. The problems faced by business actors in the traditional coffee shops in Malang City gathered in Malang Coffee Lovers Community encountered a monotonous target market for adult men and marketing systems that rely only on word of mouth. The interesting thing about this ground coffee community that has its characteristics is the unique products and traditional classics, making these coffee products different from other coffee shops

RESEARCH METHODS

This quantitative research study employs an empirical methodology and the statistical test tool SEM PLS (Structural Equation Model Partial Least Squares Regression) to investigate the influence of direct and indirect relationships between entrepreneurial characteristic variables, entrepreneurial orientation, and performance mediated by innovation. By forecasting endogenous latent variables or identifying the key factors in previous research and route analysis

models, SEM analysis with PLS can be utilised for research targeted at anticipating and constructing theories (Sarstedt et al., 2022).

Additionally, 145 respondents' main data were directly gathered for this study through questionnaires that used the Likert scale paradigm to rate research variables with scores of 1 denoting "strongly disagree," 2 denoting "disagree," 3 denoting "neutral," 4 denoting "agree," and 5 denoting "strongly agree." The operational parameters are as follows:

Table 1. Variable Operational Matrix

No	Variables	Codes	Indicators	Items	Sources
1	Entrepreneurial Characteristics	EC1	Leadership	Have a leadership attitude in achieving the goals to be achieved. Possess a responsible attitude in directing subordinates.	Dwiastanti & Mustapa (2020), Suhartini (2021), Indarto & Santoso (2020), Martauli & Siahaan (2019), and Mukti et al. (2020)
		EC2	Experience	Have experience in recognising various types of quality coffee. Have experience in managing the coffee-making process.	
2	Entrepreneurial orientation	EO1	Proactive	Have the ability to initiate responding to changes in conditions faced Have the ability to anticipate problems that will occur in the future	Mthanti & Ojah (2017), Sabahi & Parast (2020), Layoo & Rahman (2019), Al-Hakimi et al. (2021)
		EO2	Commitment to innovation	Commit to always be creative in innovating Have the intensity of conducting research and development	
		EO3	The courage to take risks	Have the courage to take reasonable and calculated risks Have an attitude of liking challenges	
3	Innovation	IN1	Product innovation	Developing new products with new materials Make product modifications Modifying packaging	Santoso et al. (2020), Maldonado-guzmán & Garza-reyes, (2019), Ali et al., (2020), Issau et al. (2021)
		IN2	Marketing innovation	Maintain close relationships with key customers Using online media to expand marketing reach	
5	Performance	Perf 1	Marketing performance	Increase in market share Increased buybacks	Sidek et al. (2019), Hudson et al. (2001), Ng et al. (2020), Ratnawati et al. (2022)
		Perf 2	Financial performance	Increase in sales Profit growth	

RESULT AND DISCUSSION

One of the statistical programs, called Smart PLS, can be used to perform a structural equation modelling (SEM) analysis to determine how latent variables interact. (1) First, the evaluation of the measurement model (outer model) is conducted, and then the structural model is evaluated (J. Hair et al., 2017). Ensuring that each latent variable's indicators are appropriate for measurement constitutes the first step. The second stage involves evaluating the magnitude of the parameter value and the importance of the influence between factors (J. et al. et al., 2018). The results of research data analysis using SEM-PLS are shown in the following figure:

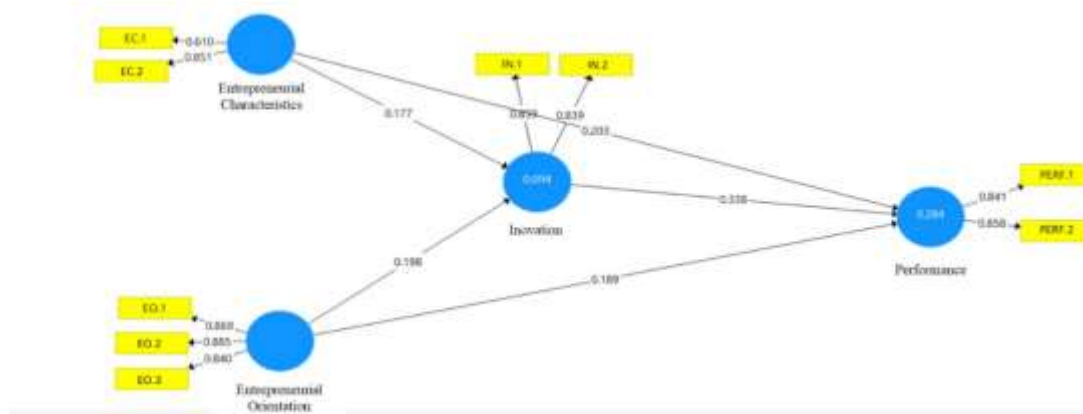


Figure 1. Structural model results

Table 2 demonstrates the construct's convergent validity, discriminant validity, and reliability requirements. R^2 indicates 0.632 as its value. According to Cohen (1988), a high impact is defined as one where the R^2 value is larger than 0.26 (26%), and the influence is demonstrated. A higher than zero Q^2 value is 0.172. The model is deemed to be fit if the Q^2 value is greater than zero, according to (J. F. J. Hair et al., 2018). When the AVE value exceeds 0.5, the measurement model is said to have achieved convergent validity. When a model's square root of each construct's AVE value is greater than the correlation between the constructs, the model is said to meet convergent validity (Sarstedt et al., 2022).

Table 2. Results Validity and Reliability

Variables	AVE	Composite Reliability	Innovation	Entrepreneurial Characteristics	Performance	Entrepreneurial orientation	R-Square	Q-Square
Innovation	0.721	0.838	0.849					
Entrepreneurial Characteristics	0.548	0.703	0.244	0.740				
Performance	0.722	0.839	0.436	0.350	0.850		0.632	0.172
Entrepreneurial orientation	0.703	0.904	0.258	0.341	0.346	0.865		

The path coefficient, which expresses the strength of the association between latent variables (Ringle et al., 2014), can be used to determine the relevance of the relationship between latent variables. The value of the t-test (critical ratio) produced from the bootstrapping procedure (resampling approach) can be used to determine the importance of the route coefficient. In Table 3 below, the t-statistic results for each path are displayed.

Table 3. Koefisien Jalur, T-Statistic dan P-Value

No.	Variables	Koefisien	T-Statistics	p-value
Direct Influence				
1	Entrepreneurial Characteristic → Performance	0.203	2.355	0.019**
2	Entrepreneurial orientation → Performance	0.189	2.408	0.016**
3	Entrepreneurial Characteristic → Innovation	0.177	1.981	0.048**
4	Entrepreneurial orientation → Innovation	0.198	2.415	0.016**

5	Innovation → Performance	0.338	4.016	0.000**
Effects of Mediation				
6	Entrepreneurial Characteristic → Innovation → Performance	0.063	1.990	0.047*
7	Entrepreneurial Orientation → Innovation → Performance	0.062	2.041	0.042**

* sign 10%, ** sign 5%

Source: Data processed using SmartPLS 3, 2023

The significance of the path coefficients, which each association between latent variables uses to define how strongly they are related, is examined during hypothesis testing (Ringle et al., 2014). The t-test value (critical ratio) and the p-value are two values that can be used to determine the importance of the path coefficient. Through the bootstrapping procedure (resampling method), both values were achieved. Table 2 shows that the form of direct influence (in points 1-5) and indirect influence (in points 6-7) is based on the wording of the problem and hypothesis.

The coefficient of the entrepreneurial characteristic path on performance results revealed significant t-statistic and p-values of 2.355 (>1.96) and 0.019 (0.05), respectively. The parameter's estimated value, representing the coefficient of the relationship between entrepreneurial characteristics and performance, is 0.203. **H1 is approved** since it may be inferred that entrepreneurial characteristics have a favourable and significant impact on performance. The findings of this study confirm the results of prior research by Vijaya, D. P; Irwansyah (2017), Ürü et al. (2011), Safitri & Khasan Setiaji (2018), (Mukoffi & As'adi (2021) and Belso-Martinez et al. (2013) that concluded the entrepreneurial characteristic have a good and significant impact on performance.

The coefficient of the entrepreneurial orientation path to performance results revealed significant t-statistic and p-values of 2.408 (>1.96) and 0.016 (0.05), respectively. The coefficient of the relationship between entrepreneurial characteristics and performance is estimated at 0.189. So that **H2 is accepted**, it can be inferred that there is a positive and significant relationship between entrepreneurial orientation and performance. The findings of this study are consistent with research by Pangeran (2012), Sabahi & Parast (2020), Layoo & Rahman (2019) and Al-Hakimi et al. (2021), which have highlighted a proactive attitude (one of the indications of entrepreneurial orientation) as a critical element that can affect the enhancement of project performance.

The innovation route coefficient results on performance revealed that the p-values and t-statistics were both significant at 0.000 (0.05) and 4.016 (>1.96), respectively. The parameter's estimated value, representing the coefficient of the relationship between entrepreneurial characteristics and performance, is 0.338. **H3 is accepted** since it may be inferred that innovation positively and significantly impacts performance. The findings of this study corroborate those of studies conducted by Santoso et al. (2020), Maldonado-guzmán & Garza-Reyes (2019), and Ali et al. (2020), which discovered that products would perform better if they are created through innovative and educational processes. Innovation is a crucial instrument to boost a corporate entity's performance (Otache et al., 2021; Ratnawati, 2017), whether an established corporation or a startup.

The test of the relationship between entrepreneurial characteristic factors and performance via innovation reveals significant t-statistic and p-values of 1,990 (>1.96) and 0.047 (0.05), respectively. 0.063 is the estimated parameter value that was found. Conclusion: **H4 is accepted** because innovation strongly mediates the effect of entrepreneurial characteristics on performance. The value of innovation demonstrates its significance as a variable that mediates the influence of entrepreneurial characteristics on performance concerning the direct influence of entrepreneurial characteristics on performance. Entrepreneurial characteristics have a 0.203 per cent direct and a 0.063 per cent indirect influence on performance. By calculating the impact of entrepreneurial characteristics on innovation and the impact of innovation on performance, a total effect of entrepreneurial characteristics on performance of 0.177 and 0.338 is obtained. So, innovation can mediate tangibly. The findings of this study, which suggest that innovation can

mediate the impact of entrepreneurial characteristics on performance, are consistent with research by Mustofa, H.N. & Anisa (2021), which found that innovation can considerably mediate the impact of entrepreneurial characteristics on performance.

When the variable entrepreneurial orientation is tested for its impact on performance through innovation, the results are significant according to the t-statistic and p-values, which are respectively 2.041 (>1.96) and 0.042 (0.05). 0.062 is the estimated parameter value that was found. Conclusion: H5 is accepted because innovation has a substantial capacity to mediate the impact of entrepreneurial attitude on performance. Entrepreneurial orientation has a 0.189 direct impact on performance and a 0.062 indirect impact. The combined effect of entrepreneurial orientation on innovation and innovation on performance, or 0.198 and 0.338, totalling 0.536, is the total impact of entrepreneurial orientation on performance as mediated by innovation. It is clear that innovation, acting as a mediating factor, has the potential to strengthen the effect of entrepreneurial orientation on performance. This study backs up research by Al-Hakimi et al. (2021) and Ferreras-Méndez et al. (2021), demonstrating that innovation aptitude can mediate the effect of entrepreneurial orientation on performance. It suggests that an entrepreneurial mindset can boost one's capacity for invention and enhance performance.

CONCLUSION

Based on the results and explanations of the study prove that characteristics and entrepreneurial orientation have a significant positive effect on performance, and the innovation plays a role as mediator between characteristics and entrepreneurial orientation towards performance. Based on the findings of this study, it is concluded that coffee MSMEs will achieve high performance if they have entrepreneurial characteristics that are realized by having experience in recognizing various types of quality coffee and experience in managing the coffee making process. They will also improve performance if they have an entrepreneurial orientation that is realized by a commitment to innovation, which is always creative and has the intensity of conducting development research through product innovation, namely developing new products with new materials, modifying products and modifying packaging.

As a development suggestion, it is necessary to increase entrepreneurial characteristics in terms of leadership and responsible attitude in directing subordinates. Suggestions related to entrepreneurial orientation require increasing proactive attitudes in order to have the ability to initiate in responding to the conditions faced and anticipating future problems and needs. In addition, it is also necessary to increase marketing innovation through close relationships with key customers and the use of online media to expand marketing networks. In today's increasingly global era, where businesses face a level of complexity of environmental changes and increasingly sharp business competition, coffee MSMEs must be able to adapt quickly so that further researchers can conduct further research by paying attention to aspects of management strategies, technology development and digital networks to be able to improve MSME performance more optimally.

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