

# The Effect of Entrepreneurial Orientation on Performance Mediated by Innovation and Network Capability

*The Effect of  
Entrepreneurial  
Orientation*

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## **ABSTRACT**

*The development of the woodworking industry in Indonesia can be a highlight in the business world. However, 2020 is a year that gives a different color to the business world. The entry of the COVID-19 outbreaks into Indonesia in the first quarter of 2020 caused all industrial sectors including the manufacturing industry in Indonesia to experience a decline. The aim of this research is to analyze the influence of Entrepreneurial Orientation on Performance mediated by Innovation and Network Capability (Study at UD. Kondang Jaya Furniture and UD. Aryajati Furniture). This research method is quantitative. The population in this study were employees of UD Kondang Jaya Furniture and UD Aryajati Furniture. The number of samples in this research was 100 respondents. The sampling technique uses non-probability sampling with purposive sampling technique. The data source used in this research is primary data. The data analysis technique in this research was carried out using SMARTPLS 3.0 software. This research uses Structural Equation Model (SEM) analysis with Partial Least Square (PLS). Entrepreneurial Orientation has a positive and insignificant effect on Performance. Entrepreneurial orientation has a positive and significant effect on innovation. Entrepreneurial Orientation has a positive and significant effect on Networking Ability. Innovation has a positive and significant effect on performance. This means that the fourth hypothesis is accepted. Network Capability has a positive and significant effect on Performance. Innovation can mediate the influence of Entrepreneurial Orientation on Performance positively and significantly. Network Capability can mediate the influence of Entrepreneurial Orientation on Performance positively and significantly.*

**Keywords:** *Entrepreneurial Orientation, Innovation, Network Capability, Performance*

## **ABSTRAK**

*Perkembangan industri perkayuan di Indonesia dapat menjadi sorotan dalam dunia usaha. Namun tahun 2020 merupakan tahun yang memberikan warna berbeda bagi dunia usaha. Masuknya wabah COVID-19 ke Indonesia pada triwulan I tahun 2020 membuat seluruh sektor industri termasuk industri manufaktur di Indonesia mengalami penurunan. Tujuan dari penelitian ini adalah untuk menganalisis pengaruh Orientasi Kewirausahaan terhadap Kinerja yang dimediasi oleh Inovasi dan Kemampuan Jaringan (Studi pada UD. Kondang Jaya Furniture dan UD. Aryajati Furniture). Metode penelitian ini adalah kuantitatif. Populasi dalam penelitian ini adalah karyawan UD Kondang Jaya Furniture dan UD Aryajati Furniture. Jumlah sampel dalam penelitian ini sebanyak 100 responden. Teknik pengambilan sampel menggunakan non probability sampling dengan teknik purposive sampling. Sumber data yang digunakan dalam penelitian ini adalah data primer. Teknik analisis data dalam penelitian ini dilakukan dengan menggunakan*

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*bantuan software SMARTPLS 3.0. Penelitian ini menggunakan analisis Structural Equation Model (SEM) dengan Partial Least Square (PLS). Orientasi Kewirausahaan berpengaruh positif dan tidak signifikan terhadap Kinerja. Orientasi Kewirausahaan berpengaruh positif dan signifikan terhadap Inovasi. Orientasi Kewirausahaan berpengaruh positif dan signifikan terhadap Kemampuan Jaringan. Inovasi berpengaruh positif dan signifikan terhadap Kinerja. Hal ini berarti hipotesis keempat diterima. Network Capability berpengaruh positif dan signifikan terhadap Kinerja. Inovasi dapat memediasi pengaruh Orientasi Kewirausahaan terhadap Kinerja secara positif dan signifikan. Kemampuan Jaringan dapat memediasi pengaruh Orientasi Kewirausahaan terhadap Kinerja secara positif dan signifikan.*

**Kata kunci:** *Entrepreneurial Orientation, Innovation, Network Capability, Performance*

## **INTRODUCTION**

Timber productivity in Indonesia has increased since 2017. This makes the development of the timber industry in Indonesia can be a highlight in the business world. However, 2020 is a year that provides a different color for the business world. The entry of the COVID-19 outbreak into Indonesia in the first quarter of 2020 made all industrial sectors including the manufacturing industry in Indonesia decline. To overcome these problems, companies need a new strategy for company management to achieve competitive advantage. Many companies are trying to find alternative ways to increase the value of products with good strategy and quality. This is due to the dynamic conditions of the business environment. Entrepreneurship is important because the impact on organizational performance is very positive to be able to achieve competitive advantage (Putra & Utama, 2022). In the business world, there are factors that affect company performance. It becomes a competitiveness for companies in facing business competition in the market. Each company is competing to create new breakthroughs to increase sales and attract market interest. Furniture companies are included in the business world with fierce competition. Market demand for furniture products also never subsides. Therefore, a good company performance is needed to maintain the company's position in the market.

Performance according to Sundari & Urip (2021) is a description of the level of adjustment of the implementation of an activity in realizing the company's goals, objectives, mission and vision as stated in the strategic planning of a company. According to (Rismawaty, 2020) performance is the value of a combination of behaviors that make a positive or negative contribution to the achievement of company goals. Performance is the level of success or results of a person and the whole during a specified period in carrying out tasks and work with various possibilities such as goals, targets that are determined, and have been agreed upon, as well as standards of work results (Indika et al., 2022). Lailah & Soehari (2020) Performance is the result of work that has a strong relationship with the organization's strategic goals, customer satisfaction, and contributes to the economy. Permana (2018) explains that Performance is a form of action or implementation of tasks that can be completed by a person or group of people in a certain period of time and can be measured. Business performance is important because good business performance can ensure the sustainability of the business itself. Business performance can be used as a benchmark for the success or failure of a business. Taen & Eriswanto (2022) argue that Entrepreneurial orientation innovation and network capability can affect company performance (Rahmasari, 2018). Research conducted by Lailah & Soehari, (2020) shows the influence between Entrepreneurial orientation and innovation and network capability on Performance.

The first factor that can affect performance is innovation. Innovation according to Sitinjak (2020) is the result of creating something that is considered new which is intended to solve problems, in the form of ideas, goods, events, methods and so on carried out by a person or group. Innovation is the introduction of something new as a form of success of a new thing that makes something better. Innovation can also be expressed as the

realization, combination, or synthesis of original, relevant knowledge, a product of new value, a process, or a service (Lailah & Soehari, 2020). According to Mohammad et al. (2019) Innovation is the deliberate application and introduction of ideas, products, procedures, or processes that are new to the unit that applies them, designed to benefit individuals, groups, as well as organizations and society at large. Sutrisno et al. (2021) Innovation in this case includes four important parts, namely process, product, organization, and also marketing (Purwianti, 2021). Permana (2018) defines Innovation as the implementation of new ideas to create value either directly for the company or indirectly for customers, whether new things and added value are embodied in products, processes, organizational systems, or marketing systems. Strategic innovation is innovation in the process of formulating and implementing strategy. Innovation tends to reflect that companies are involved to support the creation of new ideas and creative processes that can produce new products or services, technological processes and new markets (Indika et al., 2022). Research conducted by Nugraha (2019) shows a positive influence between Innovation on performance. Other research conducted by Siti, (2018) shows a negative influence between innovation on performance. This is the basis for researchers to conduct this research.

Next is the network capability factor. According to Shu et al. (2018) Network capability is the company's ability to seek and find, manage and utilize ties, contacts and connections with other parties over time, develop and grow through the networks they build. These external resources and capabilities can affect company performance Network capability is the company's ability to initiate, develop and utilize external relationships between organizations (Putra & Utama, 2022). According to Melati et al. (2022), Network capability consists of developing effective network structure, supplier base reduction, longterm orientation quoted from (Permana, 2018). According to Karinda et al. (2018) defines Network capability as the ability to initiate, maintain and utilize relationships with various external parties. Then according to Lailah & Soehari (2020) Network capability plays a role in innovating and creating customer value. Harmonizing partnerships with various stakeholders has a positive impact on the company. This partnership makes it easier for companies to increase access to superior resources to support company performance. According to (Indika et al., 2022) defines Network capability, namely the development of the company's ability to collaborate and organize mutually beneficial business relationships quoted from (Karinda et al., 2018). Research conducted by Sundari & Uripi (2021) shows a positive influence between Network capability on performance.

Another factor that can affect performance is Entrepreneurial orientation. Entrepreneurial orientation according to Purwianti (2021) the willingness of organizations to find and accept new opportunities and subsequent changes to implement them as a result. Companies can use Entrepreneurial orientation in addition to using market orientation to achieve sustainable competitive advantage in an ever-changing business environment (Purwianti, 2021). Permana (2018) states that entrepreneurial orientation is better if measured by combining these three dimensions, pro-active (pursuing new opportunities to compete with competitors), innovative (innovating and developing a business to gain a competitive advantage) and risk taking (taking risks related to a business that is being run) (Melati et al., 2022). Fauziah et al. (2022) states that Entrepreneurial orientation is a specific entrepreneurial aspect of the style, method, and practice of decision making through creative thinking and innovative action to create opportunities. Sutrisno et al. (2021) reveal that entrepreneurial orientation is an entrepreneurial process and refers to processes, practices, decision-making styles, and behaviors that lead to entering the market with new products or with existing products. Entrepreneurial orientation can affect performance, based on research conducted by Fauziah et al. (2022) shows a positive influence between entrepreneurial orientation on performance. However, in research conducted by Sutrisno et al., (2021) it was found that Entrepreneurial orientation has no effect on performance. This is the basis for researchers to conduct this research further.

Furniture companies in the city of Surakarta continue to grow. The number of customers who are not only from the city of Surakarta is an attraction for entrepreneurs to increase their furniture production. UD kondang jaya furniture and aryajati furniture are examples of furniture companies in the city of Surakarta that have existed until now. Their customers are not only from the Surakarta prefecture, but also from outside the island of Java. Located in the city of Surakarta, so that it can be easily accessed by potential customers who want to place an order or purchase furniture products. The purpose of this study is to analyze the effect of entrepreneurial orientation on performance mediated by innovation and network capability" (Study at UD Kondang Jaya Furniture and UD. Aryajati Furniture).

## **LITERATURE REVIEW**

Performance can be measured if individuals or groups have set success criteria, both specific goals and targets (Kesuma & Istanto, 2021). Performance is also said to be a person's success in carrying out a job, how a person can complete his work. Entrepreneurial orientation is the orientation of individuals or organizations as business actors to adopt entrepreneurial processes, entrepreneurial practices, and entrepreneurial-based decision making (Sutrisno et al., 2021). The existence of knowledge about entrepreneurship for MSMEs will be able to improve the performance of MSMEs more effectively. This hypothesis is formed on the basis of research results from Sitinjak (2020) which found that entrepreneurial orientation has a positive and significant effect on performance.

According to Henelya & Wijaya (2020) defined entrepreneurial orientation as the process of making strategies for entrepreneurial actions and decisions. It can also be defined as behaviors and characteristics such as decision making and practices, which lead companies to new entries. While Innovation is the implementation of new ideas to create value either directly for the company or indirectly for customers, whether novelty and added value are realized. Entrepreneurial knowledge will be able to provide new insights to MSME actors to be able to innovate their products so that new products emerge that do not yet have competitors. This hypothesis is formed on the basis of research results from Lailah & Soehari, (2020) which found that entrepreneurial orientation has a positive and significant effect on innovation. Based on the description above, the researcher formulates the following hypothesis:

Entrepreneurial orientation refers to processes, practices, and decision making that drive towards new inputs. The form of application of entrepreneurial attitudes can be indicated by entrepreneurial orientation with an indication of the ability to innovate, be proactive, and the ability to take risks (Yoon et al., 2018). Network capability is the ability of companies to seek and find, manage and utilize ties, contacts and connections with other parties over time, develop and grow through the networks they build. The development of entrepreneurial knowledge for businesspeople will be able to make them expand their business network. Training on business will make them meet with fellow MSMEs so that a business network will be formed. This hypothesis is formed on the basis of research results from Lailah & Soehari, (2020) which found that entrepreneurial orientation has a positive and significant effect on network capability. Based on the description above, the researcher formulates the following hypothesis.

Innovation tends to reflect that companies are involved to support the creation of new ideas and creative processes that can produce new products or services, technological processes and new markets (Mohammad et al., 2019). Innovation can be interpreted as an act of the extent to which a company or business is involved in finding new ideas, experiments, novelty, and creativity in the products or services to be provided. Innovation is not only related to the creativity of producing products and services, but also those that can create new technological processes. Innovation will make the performance of MSMEs increase and also the marketing of MSMEs will run well because consumers will be attracted by product innovations made by MSMEs. This hypothesis is formed on the basis

of research results from Klongthong et al. (2020) which found that innovation has a positive and significant effect on performance.

Network capability is the company's ability to seek and find, manage, and utilize ties, contacts and connections with other parties over time, develop and grow through the networks they build. These outside resources and capabilities can affect company performance. A company needs to make relationships to develop. Basically, network capability can make it easier for businesspeople to get various information. With all the advantages of network capability, it will make the company's performance will also increase due to an extensive network and make MSMEs' knowledge of business will also develop. This hypothesis is formed on the basis of research results from Acosta et al., (2018) which found that network capability has a positive and significant effect on performance.

Entrepreneurial orientation can contribute to the superior performance and durability of a business. Entrepreneurial orientation is seen as having the ability to improve the performance of a company (Kesuma & Istanto, 2021). Entrepreneurial Orientation is an entrepreneurial activity that is most often applied in organizations or companies. Entrepreneurial orientation can increase the ability of MSMEs to innovate and make the performance of MSMEs increase due to the emergence of new products resulting from the innovation of MSMEs. This hypothesis is formed based on research results from Widyaningsih et al. (2018) which found that innovation can mediate the relationship between entrepreneurial orientation and performance.

Entrepreneurial orientation tends to have positive implications for business performance. This is what makes MSMEs survive because of the dominance of high entrepreneurial orientation of business actors (Sitinjak, 2020). Entrepreneurial orientation is very influential on company performance because without sufficient knowledge, MSMEs cannot develop properly. In addition to the existence of an extensive network or network capability is the impact of the entrepreneurial orientation obtained by MSMEs. An extensive business network will make it easier for MSMEs to develop. This hypothesis is formed on the basis of research results from Hamidah et al., (2022) which found that network capability can mediate the relationship between entrepreneurial orientation and performance.

H1: Entrepreneurial orientation has a positive and significant effect on performance.

H2: Entrepreneurial orientation has a positive and significant effect on innovation.

H3: Entrepreneurial orientation has a positive and significant effect on network capability.

H4: Innovation has a positive and significant effect on performance.

H5: Network capability has a positive and significant effect on performance

H6: Innovation mediates the relationship between entrepreneurial orientation and Performance.

H7: Network capability mediates the relationship between entrepreneurial orientation and performance.

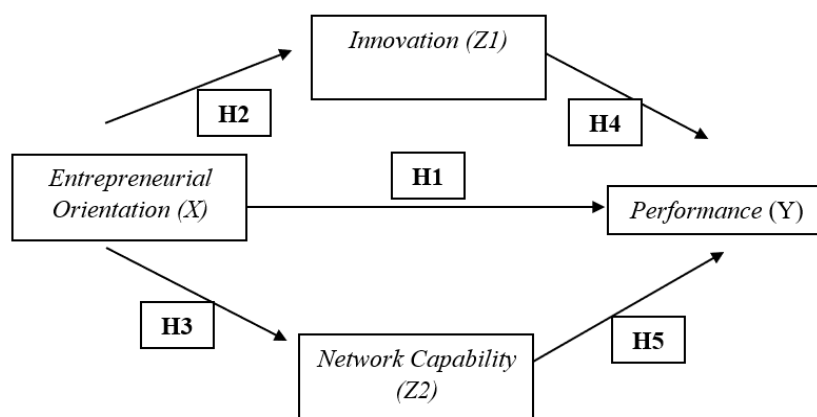


Figure 1. Research Framework

## METHODS

The research method used in this study is to use a quantitative approach. According to (Sugiyono, 2019) a descriptive approach is an approach to explain and also analyze research, but conclusions cannot only be formed through this descriptive approach. The population in this study were employees of UD Kondang Jaya Mebel and UD Aryajati Furniture. According to (Sugiyono, 2019), a sample is a part of the whole and the characteristics possessed by a population. The number of samples in this study were 100 respondents. The sampling technique used non probability sampling with purposive sampling technique. The data source used in this study is primary data. This data is obtained from the results of distributing questionnaires with the measurement scale used is a Likert scale. The data analysis technique in this study was carried out using the help of SMARTPLS 3.0 software. This research uses Structural Equation Model (SEM) analysis with Partial Least Square (PLS). PLS-SEM analysis consists of two Outer model and Inner model (Ghozali, 2018).

## RESULTS

The outer model testing is used to determine the specifications of the relationship between latent variables and their indicators. This testing includes validity, reliability, and multicollinearity. The inner model is used to test the influence between one latent variable and another latent variable. Inner model testing can be done through three analyses, namely measuring  $R^2$  (R Square), Goodness of Fit (GoF), and path coefficients. An indicator is considered to meet convergent validity in the good category if the outer loading value is  $>0.7$ .

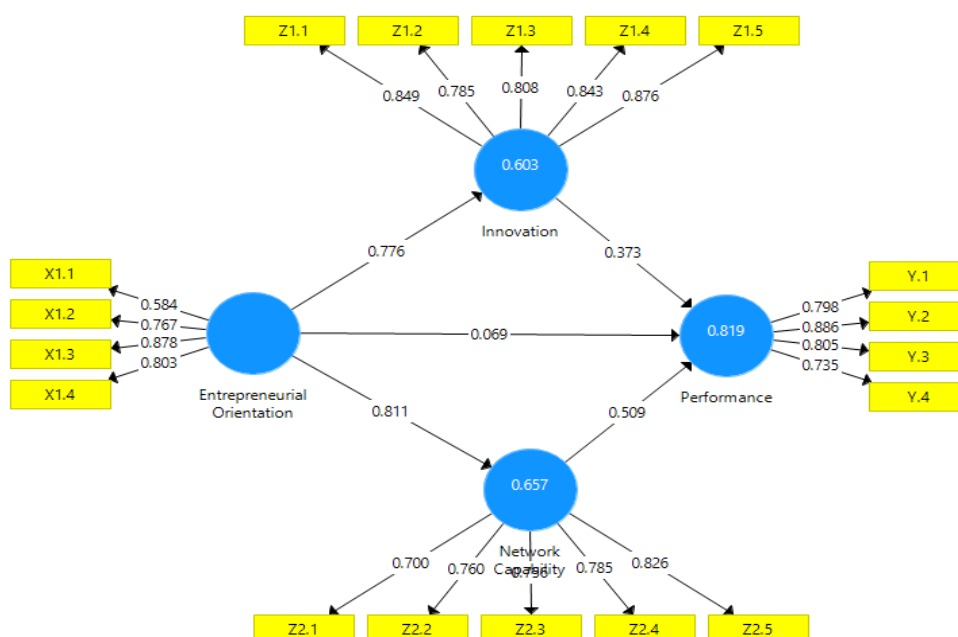


Figure 2. Outer Model

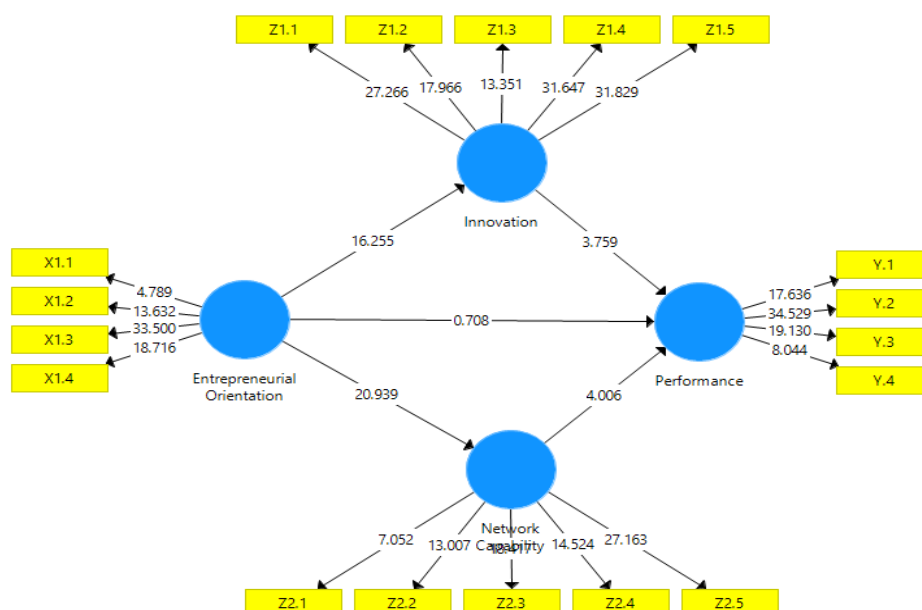


Figure 3. Inner Model

Based on Table 1, it is known that each indicator of the research variable has many outer loading values  $> 0.7$ . However, according to (Chin, 2001) the outer loading measurement scale of 0.5 to 0.6 is considered sufficient to meet the requirements of convergent validity. The data above shows that there are no variable indicators whose outer loading value is below 0.5. So that all indicators are declared feasible or valid for use in research funds can be used for further analysis

Table 1. Outer Loading Value

Variable	Indicator	Outer Loading
<i>Entrepreneurial Orientation (X)</i>	X.1	0,584
	X.2	0,767
	X.3	0,878
	X.4	0,803
<i>Innovation (Z1)</i>	Z1.1	0,849
	Z1.2	0,785
	Z1.3	0,808
	Z1.4	0,843
	Z1.4	0,876
<i>Network Capability (Z2)</i>	Z2.1	0,700
	Z2.2	0,760
	Z2.3	0,756
	Z2.4	0,785
	Z2.5	0,826
<i>Performance (Y)</i>	Y.1	0,798
	Y.2	0,886
	Y.3	0,805
	Y.4	0,735

Source: Primary Analysis data, 2023

Assessing discriminant validity is by looking at the AVE (Average Variance Extracted) value  $> 0.5$ . So it can be said to be valid in discriminant validity. The following is the AVE value of each research variable:

Table 2. Average Variance Extracted Value

Variable	AVE	Description
<i>Entrepreneurial Orientation (X)</i>	0,586	Valid
<i>Innovation (Z1)</i>	0,694	Valid
<i>Network Capability (Z2)</i>	0,588	Valid

Performance (Y)	0,653	Valid
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Source: Primary Analysis data, 2023

Based on Table 2, each variable in this study shows the AVE (Average Variance Extrancted) value, which is  $> 0.5$ . Each variable in this study has a respective value for the entrepreneurial orientation variable (X) of 0.586; Innovation (Z1) of 0.694; network capability (Z2) of 0.588; performance (Y) of 0.653. This shows that each variable in this study can be said to be valid in terms of discriminant validity.

Reliability test shows the level of consistency and stability of measuring instruments or research instruments in measuring a concept or construct (Abdillah and Hartono, 2015). Reliability testing in this study used Composite Reliability and Cronbach Alpha. Composite reliability is the part used to test the reliability value of indicators on a variable. A variable can be declared to meet composite reliability if it has a composite reliability value  $> 0.7$ . Below is the composite reliability value of each variable in this study:

**Table 3.** Composite Reliability

Variable	Composite Realibility
Entrepreneurial Orientation (X)	0,847
Innovation(Z1)	0,919
Network Capability(Z2)	0,877
Performance (Y)	0,882

Source: Primary Analysis data, 2023

From table 3, it can be shown that the composite reliability value of all research variables is  $> 0.7$ . With an entrepreneurial orientation (X) value of 0.847; innovation (Z1) of 0.919; Network capability (Z2) of 0.877; performance (Y) of 0.882. This shows that each variable has met the composite reliability so that it can be concluded that all variables have a high level of reliability. The second reliability test is Cronbach's Alpha. Cronbach's Alpha is a test where this test is a statistical technique used to measure internal consistency in instrument reliability tests or psychometric data. The construct is said to be reliable if the Cronbach alpha value is more than 0.60. below is the Cronbach's Alpha value in this study.

**Table 4.** Cronbach Alpha

Variable	Cronbach's Alpha
Entrepreneurial Orientation (X)	0,760
Innovation(Z1)	0,889
Network Capability(Z2)	0,824
Performance (Y)	0,821

Source: Primary Analysis data, 2023

Based on table 4, it shows that the Cronbach alpha value of all variables in this study is above  $> 0.6$ , which means that the Cronbach alpha value has met the requirements so that all constructs can be said to be reliable. The multicollinearity test can be seen from the tolerance value and variance inflation factor (VIF). Multicollinearity can be detected with a cut off value that shows a tolerance value  $> 0.1$  or the same as the VIF value  $< 5$ . Below is the VIF value in this study.

**Table 5.** Collinearity Statistic (VIF)

Variable	Innovation(Z1)	Network Capability (Z2)	Performance (Y)
Entrepreneurial Orientation(X)	1,0	1,0	3,199
Innovation(Z1)			3,778
Network Capability(Z2)			4,378

Source: Primary Analysis data, 2023

From table 5, the results of Collinearity Statistics (VIF) to see the multicollinearity test with the results of entrepreneurial orientation on innovation of 1.0; on network capability of 1.0; and on performance of 3.199. Then the value of innovation and network capability on performance is 3.778 and 4.378. From each variable has a cut off value  $> 0.1$  or equal



to the VIF value  $< 5$ , it does not violate the multicollinearity test. This model goodness test consists of two tests, namely R Square ( $R^2$ ) and Q-Square ( $Q^2$ ). The  $R^2$  or R-Square value shows the determination of exogenous variables on endogenous variables. The greater the  $R^2$  value indicates a better level of determination.  $R^2$  values of 0.75, 0.50, and 0.25 can be concluded that the model is strong, moderate, and weak (Ghozali, 2018). The following is the value of the coefficient of determination in this study.

**Table 6.** R-Square Value

	<i>R-Square</i>
<i>Innovation</i>	0,603
<i>Network Capability</i>	0,657
<i>Performance</i>	0,819

*Source: Primary Analysis data, 2023*

Based on table 6, the R-Square is used to see the magnitude of the influence of the entrepreneurial orientation variable on innovation, namely with a value of 0.603 or 60.3%, it can be said that this relationship is a moderate relationship. Then the effect of entrepreneurial orientation on network capability is with a value of 0.657 or 65.7%, it can be said that this relationship is a moderate relationship. Then R-Square is also used to see the magnitude of the influence of entrepreneurial orientation, innovation and network capability variables on performance, namely with a value of 0.819 or 81.9%, it can be said that this relationship is a strong relationship. The next test is the Q-Square test.  $Q^2$  value in testing the structural model is done by looking at the  $Q^2$  value (Predictive relevance).  $Q^2$  value can be used to measure how well the observation value produced by the model is also its parameter.  $Q^2$  value  $> 0$  indicates that the model has predictive relevance, while  $Q^2$  value  $< 0$  indicates that the model lacks predictive relevance. Based on the results of data analysis, the Q-Square value is 0.9441. This value explains the diversity of the research data can be explained by the research model by 97.6%, while the remaining 2.4% is explained by other factors that are outside this research model. Thus, from the results of these calculations, this research model can be declared to have good goodness of fit.

For hypothesis testing in this study, you can use the path coefficient value table for direct effects and specific indirect effects for indirect effects (mediation). The p value  $< 0.05$  indicates that there is a direct influence between variables, while the p value  $> 0.05$  indicates that there is no direct influence between variables. In this study, the significance value used is t-statistic 1.984 (significant level = 5%). If the t-statistic value  $> 1.984$  then there is a significant influence.

**Table 7.** Direct Effect

	<b>Hypothesis</b>	<b>Original Sample</b>	<b>t-Statistics</b>	<b>P Values</b>	<b>Description</b>
<i>Entrepreneurial Orientation (X) -&gt; Performance (Y)</i>	H1	0,069	0,708	0,480	Positive and not significant
<i>Entrepreneurial Orientation (X) -&gt; Innovation (Z1)</i>	H2	0,776	16,255	0,000	Positive and significant
<i>Entrepreneurial Orientation (X) -&gt; Network Capability (Z2)</i>	H3	0,811	20,939	0,000	Positive and significant
<i>Innovation (Z1) -&gt; Performance</i>	H4	0,373	3,759	0,000	Positive and significant
<i>Network Capability (Z2) -&gt; Performance</i>	H5	0,509	4,006	0,000	Positive and significant

Based on Table 7, the interpretation is as follows; The first hypothesis tests whether entrepreneurial orientation has a positive and significant effect on performance. In Table 7, the t-statistic value is 0.708 with an effect size of 0.069 and a p-value of 0.480. With a t-statistic value  $> 1.984$  and a p-value  $> 0.05$ , it can be concluded that H1 is rejected. The second hypothesis tests whether entrepreneurial orientation has a positive and significant effect on innovation. In Table 7, the t-statistic value is 16.255 with an effect size of 0.776 and a p-value of 0.000. With a t-statistic value  $> 1.984$  and a p-value  $< 0.05$ , it can be

concluded that H2 is accepted. The third hypothesis tests whether entrepreneurial orientation has a positive and significant effect on network capability. In Table 7, the t-statistic value is 20.939 with an effect size of 0.811 and a p-value of 0.000. With a t-statistic value > 1.984 and a p-value < 0.05, it can be concluded that H3 is accepted. The fourth hypothesis tests whether innovation has a positive and significant effect on performance. Table 7 shows a t-statistic value of 3.759 with an effect size of 0.373 and a p-value of 0.000. With a t-statistic value > 1.984 and a p-value < 0.05, it means that H4 is accepted. The fifth hypothesis tests whether network capability has a positive and significant effect on performance. In Table 7, the t-statistic value is 4.006 with an effect size of 0.509 and a p-value of 0.000. With a t-statistic value > 1.984 and a p-value < 0.05, it can be concluded that H5 is accepted. If the P-Values value < 0.05 then it is significant. This means that the mediator variable mediates the effect of an exogenous variable on an endogenous variable, in other words, the effect is indirect.

**Table 8.** Indirect Effect

	Hypothesis	Original Sample	t-Statistics	P Values	Description
Entrepreneurial Orientation (X) -> Innovation (Z1) -> Performance (Y)	H6	0,290	3,601	0,000	Positive and significant
Entrepreneurial Orientation (X) -> Network Capability (Z2) -> Performance (Y)	H7	0,412	4,127	0,000	Positive and significant

Source: Primary Analysis data, 2023

Based on table 8, the interpretation is as follows: The sixth hypothesis tests whether innovation can mediate the effect of entrepreneurial orientation on performance. From table 8, the t-statistic value is 3.601 with an effect of 0.290 and a p-value of 0.000. With a t-statistic value > 1.984 and a p value < 0.05, it can be concluded that H6 is accepted and the seventh hypothesis tests whether network capability can mediate the effect of entrepreneurial orientation on performance. From table 8, the t-statistic value is 4.127 with an effect size of 0.412 and a p-value of 0.000. With a t-statistic value > 1.984 and a p-value < 0.05, it can be concluded that H7 is accepted.

## DISCUSSION

Performance can be assessed when a person or group has a predetermined standard of success, including specific goals and targets (Kesuma & Istanto, 2021). Performance also reflects the success of individuals in completing their tasks or jobs. Entrepreneurial orientation, both at the individual and organizational levels, refers to the ability to adopt processes, practices, and decision-making based on entrepreneurial spirit (Sutrisno et al., 2021). An understanding of entrepreneurship in the context of MSMEs can effectively improve the performance of MSMEs. The results of this study indicate that indicators (Innovativeness, Proactiveness, Risk Taking, Competitive Aggressiveness, and Autonomy) are unable to influence or interact well with company performance. The research states that entrepreneurial orientation has no effect on performance, implying that company performance is not affected by entrepreneurial orientation (Humam & Praswati, 2022). Indicators in entrepreneurial orientation are used to build a product that is stable and ready to market by conducting in-depth research to align the product with the company. This research contradicts the findings of Sitinjak (2020) but aligns with the research conducted by Humam and Praswati (2022), where the results indicate that entrepreneurial orientation has a positive and insignificant effect on performance. Therefore, it can be concluded that the results of this study do not support previous research.

According to Henelya and Wijaya (2020), entrepreneurial orientation is defined as a process of designing strategies for entrepreneurially oriented actions and decisions. This definition encompasses certain behaviors and characteristics, such as decision making and practices, guiding companies toward new market penetration. Meanwhile, innovation is defined as the application of new ideas with the aim of creating value, both directly for

the company and indirectly for customers, in the form of new ideas and increased value. An understanding of entrepreneurship can provide new insights to MSME players, encouraging them to innovate in their products, resulting in new products that have no competitors. Entrepreneurial Orientation (EO) has a positive and significant effect on innovation because EO includes the ability to innovate, be proactive, and take risks (Freixanet et al., 2021). Additionally, entrepreneurial orientation plays a role in creating a competitive advantage through product quality, showing a positive and significant effect on innovation (Utami et al., 2023). Thus, EO provides the basis and resources for companies to seek opportunities, be creative in innovating, take risks, and be proactive, all contributing to increased innovation and innovation performance. This research aligns with the findings of (Lailah & Soehari 2020), where the results indicate that entrepreneurial orientation has a positive and significant influence on innovation. Therefore, it can be concluded that this research supports previous findings.

Entrepreneurial orientation refers to the steps, habits, and decision-making processes that drive towards new ideas. The implementation of entrepreneurial attitudes can be reflected in entrepreneurial orientation, which is indicated by innovative, proactive, and risk-taking capabilities (Yoon et al., 2018). Network capability refers to the company's skills in finding, managing, and utilizing relationships, contacts, and connections with other parties over time, so that the company can develop and grow through the networks it builds. Developing an understanding of entrepreneurship among business people can help them expand their business network. Through business training, they can meet fellow MSMEs, and this can form their business network. Entrepreneurial orientation has a positive and significant impact on network capability. Entrepreneurial orientation encourages organizations to develop a proactive mentality towards business opportunities (Rahman, 2023). With a focus on identifying and exploiting new opportunities, organizations that have an entrepreneurial orientation tend to be more open to cooperation and partnerships. This leads to the development of strong networking capabilities, where organizations can establish mutually beneficial relationships with external stakeholders, including business partners, suppliers, and customers. This research is also in line with research conducted by (Lailah & Soehari 2020) where the results of their research are that entrepreneurial orientation has a positive and significant effect on network capability. So, it can be concluded that this research supports previous research.

Innovation often reflects the involvement of companies in supporting the formation of new ideas and creative processes that have the potential to produce new products or services, as well as develop new technological processes and markets (Mohammad et al., 2019). Innovation can be interpreted as the level of involvement of a company or business in seeking new ideas, conducting experiments, introducing novelty, and applying creativity to the products or services offered. Innovation is not only related to creativity in producing products and services, but can also involve developing new technological processes. Involvement in innovation has the potential to improve MSME performance and optimize MSME marketing, as consumers tend to be attracted to innovative products produced by MSME players. Innovation has a positive and significant impact on company performance, being a key pillar in creating competitive advantage and ensuring business sustainability. Innovation allows companies to develop better products and services or even create new products that can meet customer needs more effectively (Iman, 2021). By presenting innovative solutions, companies can attract market attention, increase customer satisfaction, and ultimately, achieve significant revenue growth. This research is also in line with research conducted by (Klongthong et al. 2020) where the results of their research are that innovation has a positive and significant effect on performance. So, it can be concluded that this research supports previous research.

Network capability refers to the company's skills in finding, managing, and utilizing ties, contacts, and connections with other parties over time, so that companies can develop and grow through the networks they build. Resources and capabilities that come from outside have the potential to affect company performance. Therefore, establishing

relationships becomes a necessity for companies to develop. Basically, network capabilities can make it easier for businesses to get various information. With all the benefits obtained from network capabilities, company performance can improve due to an extensive network, and MSME knowledge about business will also experience development. The relationship between Network Capability and Performance is positive and significant, which means that the higher a person's ability to network, the higher the resulting performance. Network capability is used to develop the understanding, willingness and ability of new businesses by involving their business networks to gain access to resources and mobilize other network actors (Paula et al., 2019). This research is also in line with research conducted by (Acosta et al., 2018) and (Paula et al., 2019) where the results of the research conducted are network capability has a positive and significant effect on performance. So, it can be concluded that this research supports previous research.

Entrepreneurial orientation has the potential to make a significant contribution to the superior performance and resilience of a business. According to (Kesuma & Istanto, 2021), entrepreneurial orientation is considered to have the capability to improve the performance of a company. This entrepreneurial activity is generally often applied within an organizational or corporate structure. Entrepreneurial orientation is able to improve the capabilities of Micro, Small and Medium Enterprises (MSMEs) in innovating, which in turn can result in improved MSME performance due to new products that arise from the innovation efforts of MSME actors. The relationship between Entrepreneurial Orientation and Performance, mediated by Innovation, has positive and significant results, indicating that entrepreneurial orientation not only directly affects firm performance, but also through its effect on innovative activities. The resulting innovations can help companies adapt their products and services to evolving market needs, increase customer attractiveness, and support positive performance. This means that entrepreneurial orientation is able to increase the innovation ability of an entrepreneur and from this increased ability, it will improve the performance of the products produced by furniture entrepreneurs in Solo. This finding provides a contribution that the effect of entrepreneurial orientation on product performance can be improved through the innovation ability variable as a mediator (Ryadi & Yasa, 2016). The results of this study are in line with research conducted by (Widyaningsih et al. 2018) with the results of their research proving that innovation can mediate the effect of entrepreneurial orientation on performance.

The existence of entrepreneurial orientation generally has a positive impact on business performance, being a factor that encourages the resilience of Micro, Small and Medium Enterprises (MSMEs) due to the high prevalence of entrepreneurial orientation among business actors (Sitinjak, 2020). Entrepreneurial orientation is considered to have a significant influence on firm performance, given that adequate knowledge is essential for the optimal development of MSMEs. Network capability is also a result of the entrepreneurial orientation acquired by MSMEs. Involvement in an extensive business network can facilitate the growth of MSMEs. The relationship between Entrepreneurial Orientation and Performance, mediated by Network Capability, suggests that entrepreneurial orientation not only directly affects firm performance, but also through the mediation of network capability in forming strong business relationships. The ability to detect and pursue these opportunities can improve overall firm performance (Rahman, 2023). Thus, through the mediation of network capabilities, entrepreneurial orientation can positively influence firm performance by forming and utilizing effective and quality business relationships. The results of this study are in line with research conducted by (Hamidah et al., 2022) with the results of their research proving that network capability can mediate the effect of entrepreneurial orientation on performance.

## **CONCLUSION**

Based on the results and discussions that have been carried out, it can be concluded that entrepreneurial orientation has a positive but not significant influence on

performance. Although entrepreneurial orientation makes a positive contribution, its impact is not statistically significant on company performance. In addition, it appears that entrepreneurial orientation has a positive and significant impact on innovation and networking capabilities. This shows that companies that have an entrepreneurial orientation tend to be more innovative and have strong networking capabilities, which can play an important role in business development. The findings show that innovation has a positive and significant impact on company performance, as well as network capabilities. Therefore, it can be concluded that innovation and networking capabilities have a strong role in improving company performance. Furthermore, the research results also show that innovation and networking capabilities can act as significant mediators in linking the positive effects of entrepreneurial orientation on company performance. Thus, innovation and networking capabilities not only contribute directly to performance, but also significantly mediate the positive influence of entrepreneurial orientation on company performance.

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