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Entrepreneurial Orientation as a Driver of Innovation in Small and Medium Enterprises

Yosep Hardian Devates[1*]

[1] Universitas Sarjanawiyata Tamansiswa, Yogyakarta, Indonesia

Abstract

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In the context of global competition and increasingly complex market dynamics, small and medium enterprises (SMEs) are required to continuously innovate to maintain their competitiveness. This study aims to examine the role of entrepreneurial orientation in driving innovation within SMEs through a literature-based approach. Findings from various studies indicate that the proactive, risk-taking, and innovative dimensions of entrepreneurial orientation have a significant impact on innovation performance. These dimensions not only shape strategic behavior but also serve as catalysts for organizational transformation, enabling SMEs to adapt more effectively to external changes. The literature shows that entrepreneurial orientation contributes to product development, technological adoption, and the improvement of business processes, all of which enhance the overall competitiveness of SMEs. This study provides both theoretical and practical insights into how strengthening entrepreneurial attitudes can support sustainable growth in SMEs. Furthermore, it highlights the importance of integrating entrepreneurial orientation into long-term strategies to ensure resilience and adaptability in an ever-changing business environment.

*Corresponding author:
yosepucil37@gmail.com (Yosep Hardian Devates)

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1. Introduction

Small and medium-sized enterprises (SMEs) play a vital role in the global economy with a significant contribution to job creation, innovation, and economic growth. In many economic systems, SMEs are the backbone of productive and entrepreneurial activities that absorb a large number of workers and open up new business opportunities. This strategic role makes SMEs not only a supporting sector but also a main driver in creating socio-economic balance and inclusive growth. However, amid the rapid flow of globalization and technological changes, SMEs face various complex challenges. The constantly changing business environment demands that SME players have a high ability to adapt and sustainable innovation in order to survive and compete in a dynamic and competitive market (Sengers et al., 2019). One strategic approach that can be a driving force for SME competitiveness in the face of external pressure and market uncertainty is to adopt entrepreneurial orientation (EO). EO not only reflects an individual's entrepreneurial spirit but is a multidimensional organizational construct. The three main dimensions underlying EO are innovativeness, risk-taking, and proactiveness.

Innovativeness refers to the tendency to explore new ideas and create original solutions. Risk-taking reflects management's courage in making strategic decisions amid uncertainty. Meanwhile, proactiveness describes the spirit to be a pioneer in creating business opportunities, not just responding to market changes (Shaher & Ali, 2020). By strengthening these dimensions, it is hoped that SMEs will be able to innovate sustainably, both in product development, improving business processes, and improving business models so that they remain relevant and competitive in the face of external pressure. The results of various previous studies show that EO has a positive and consistent influence on achieving competitive advantage derived from innovation. The resulting innovation not only has an impact on internal efficiency but also increases added value for customers, expands markets, and opens up new collaboration opportunities (Freixanet et al., 2021). However, the effectiveness of implementing EO in SMEs is strongly influenced by various internal and external factors. Internally, managerial capabilities, technical skills, an organizational culture that supports creativity, and transformational leadership are determining elements of EO success.

On the other hand, externally, access to resources, such as capital, technology, and market information, also affects the optimal implementation of EO. This becomes even more challenging for SMEs, which generally have limitations in terms of production scale, infrastructure, and bargaining power against large suppliers and customers (Meekaewkunchorn et al., 2021). Therefore, an in-depth understanding of the relationship between EO and innovation is very important, both as a basis for formulating effective business strategies and as a basis for evidence-based policy making. This research was conducted using a literature study approach to explore and analyze various empirical findings that have been published in the last five years, from 2017 to 2021.

The main objective of this study is to comprehensively identify how each dimension of EO contributes to increasing innovation in SMEs (Deku et al., 2021). In addition, this study also aims to uncover the main factors that act as drivers and inhibitors in the implementation of EO in the SME environment. By understanding these elements, this study is expected to provide a more applicable strategic overview for business actors and other stakeholders. Not only that, the results of this study are also intended to provide practical recommendations that can help in the development of entrepreneurial strategies that focus on innovation, both at the level of individual entrepreneurs and in the realm of public policy. The literature study approach is considered relevant because it provides a theoretical and practical perspective based on comprehensive secondary data from various research contexts that have been carried out previously.

2. Literature Review

2.1. Concept of Entrepreneurial Orientation (EO)

EO or entrepreneurial orientation is defined as a strategic tendency of an organization to continuously innovate, dare to take risks, and act proactively in pursuing and taking advantage of available market opportunities. This definition emphasizes that EO is not just an individual attitude or characteristic, but is more of a strategic approach and overall organizational behavior that is consciously directed at creating business growth. The three main dimensions of EO, namely innovativeness, risk-taking, and proactiveness, have important functions as the foundation for organizational behavior in developing a vision, formulating strategies, and making decisions that are oriented towards achieving competitive advantage and long-term growth. The innovative dimension reflects the organization's urge to continuously explore new ideas and create added value through creativity.

The risk-taking dimension describes the organization's readiness to face uncertainty and be willing to place resources on opportunities with uncertain outcomes. Meanwhile, the proactive dimension indicates the ability to detect market changes earlier and act faster than competitors. Cho et al. (2018) emphasized that EO is a very important and relevant framework in developing innovation capabilities, especially for SMEs operating under increasing competitive pressure. By having a strong EO, SMEs can more easily navigate challenges and increase agility in responding to changes in the business environment.

2.2. Innovation in the Context of SMEs

Innovation is a process that involves the creation of value through product development, process improvement, service improvement, or the creation of new business models aimed at providing a sustainable competitive advantage for the organization (Freixanet et al., 2021). In the context of small and medium-sized enterprises (SMEs), innovation is usually not radical or disruptive as is often the case in large companies, but is more incremental, namely small changes or improvements that are carried out gradually and continuously. This incremental innovation is often adapted to the limited resources owned by SMEs, such as limitations in terms of capital, expert workforce, technological infrastructure, and access to global markets. Therefore, innovation in SMEs is generally carried out by optimally utilizing available resources and with high creativity to create new value from limited conditions.

According to sahoo and Yadav (2017), the innovation process carried out by SMEs is strongly influenced by the entrepreneurial orientation of the business owner, especially in terms of the courage to take risks and the level of creativity they have. This means that the higher the tendency of SME owners to innovate and take strategic risks, the greater the opportunity to produce products or services that are superior to competitors. This shows that the link between EO and innovation is very strong, especially in supporting the long-term competitiveness of SMEs amid a dynamic and rapidly changing market competition.

2.3. The Relationship between EO and Innovation

Various academic studies consistently show a positive and significant relationship between entrepreneurial orientation (EO) and the level of innovation in small and medium-sized enterprises (SMEs). This relationship is not only correlational but also causal in many industrial contexts. For example, the proactive and innovative dimensions of EO play an important role in encouraging the adoption of digital technology among SME players. The adoption of this technology then contributes directly to an increase in innovative activities, both in terms of products, services, and business processes, which in turn strengthens the company's competitive position in the market.

In addition, a study conducted by Shaher and Ali (2020), showed that the influence of EO on innovation does not always occur directly but can be mediated by other factors such as knowledge sharing or the process of sharing knowledge within the organization. With a mechanism for sharing information and experience among employees, innovative ideas can develop more quickly and be implemented more effectively. Furthermore, Meekaewkunchorn et al. (2021) emphasized that in today's digital era, the use of social media triggered by an entrepreneurial spirit has become a strategic tool to expand market reach and accelerate the innovation process. This activity not only strengthens the innovative capabilities of SMEs but also has a direct impact on overall business performance.

3. Method

This research adopts a literature study method with a systematic approach to gain a comprehensive understanding of the role of entrepreneurial orientation (EO) in driving innovation in small and medium-sized enterprises (SMEs). To ensure the accuracy and credibility of the data, the selection of literature was carried out based on a number of strict inclusion criteria. First, all selected articles come from the publication period between 2017 and 2021, so that the relevance and actuality of the issues discussed are maintained. Second, each article must explicitly discuss topics that directly connect EO with innovation in the context of SMEs, so that the suitability of the substance to the research focus can be accounted for. Third, only articles published in reputable scientific journals and that have gone through a peer-review process are used as sources, in order to maintain the quality and validity of the information studied.

The literature search process was carried out systematically through the Google Scholar search engine, using main keywords such as “entrepreneurial orientation”, “innovation”, “SMEs”, and “performance”. These keywords are combined using Boolean operators to narrow down the search results to truly relevant literature. From the initial search results, dozens of articles were filtered based on abstracts, full content, and thematic suitability. After going through a strict selection process, a total of 12 articles were selected that met all the criteria and were considered representative in describing the dynamics between EO and innovation in SMEs.

These articles come from various leading international journals known to have significant contributions in the fields of management, innovation, and entrepreneurship, such as Sustainability, and Administrative Sciences. Each article was analyzed in depth with a focus on the structure of the research variables, the methodological approach used (both quantitative and qualitative), and the main findings that contributed to the understanding of the relationship between EO and innovation. Through a thematic approach, researchers grouped the main ideas, recurring patterns, and differences in views that emerged from each study. This approach allows for a more systematic mapping of knowledge, as well as helping to identify research gaps that are still open for further exploration in future studies.

4. Results

The results of the literature study show that entrepreneurial orientation (EO) consistently has a significant positive influence on the level of innovation in small and medium-sized enterprises (SMEs). Almost all of the articles analyzed in this study show that the main dimensions of EO namely proactiveness, innovativeness, and risk-taking contribute directly to the ability of SMEs to produce innovation, both in terms of products, internal processes, and business strategies as a whole. These three dimensions not only function as indicators of EO but also act as a driving force that activates the organization's capacity to explore, develop, and implement new ideas in the face of a constantly evolving business environment.

The proactive dimension in EO encourages SME players not only to react passively to market changes and dynamics but also to take an active role as pioneers in creating new business opportunities. This includes the ability to identify market trends early on, read the direction of changes in consumer demand, and formulate strategies that allow them to get ahead of competitors. A study by Shaher and Ali (2020), confirmed that proactiveness plays an important role in helping SMEs identify technology trends and untapped market needs, giving them the opportunity to become market leaders in certain segments or niches. In practice, this is reflected in the activities of SMEs in conducting simple research on customers, exploring collaboration opportunities with new partners, and creating products or services that fill unmet needs. Proactiveness also means openness to customer input and the ability to respond quickly through product iteration (Zhan et al. 2017).

The innovative dimension is the core of entrepreneurial orientation because it is directly related to the process of creating something new or improving something that already exists. Innovation is not only limited to the development of new products but also includes innovation in business models, service systems, internal processes, marketing methods, and the use of digital technology. Sengers et al. (2019) found that companies with high EO levels show a greater tendency to launch new products, improve existing product lines, and apply information technology to speed up business processes and increase operational efficiency. In the context of SMEs, this is generally done gradually through incremental innovation that takes into account the limitations of capital, human resources, and managerial capacity. However, a simple but targeted form of innovation can still generate great added value, especially when it is based on a good understanding of customer needs and behavior (Baldassarre et al., 2017).

The courage to take risks is also an important pillar in EO which shows the readiness of SME owners and management to invest in new projects or strategies whose results cannot be fully guaranteed. A study by Meekaewkunchorn et al. (2021) emphasizes the importance of this element because in conditions of uncertainty and limited information, innovative decisions often require significant risk-taking. For SMEs, this risk can be in the form of investing in new equipment, entering new, unfamiliar markets, or launching products with technology whose advantages have not been proven in their segment. In a highly competitive business environment, reluctance to take risks actually has the potential to cause stagnation. Therefore, EO plays a role in providing a framework of thinking and psychological encouragement so that business actors are more confident in managing risks in a calculated way, not speculatively. In addition, EO also supports an experimental approach, which is trying something on a small scale first, then making adjustments based on the results obtained.

Furthermore, some literature shows that the relationship between EO and innovation is not entirely linear, but is often mediated or moderated by other factors. For example, Shaher and Ali (2020), showed that knowledge sharing or the exchange of knowledge among team members in an organization can strengthen the effect of EO on innovative results. In organizations that have a collaborative culture, are open to ideas, and encourage communication between departments or individuals, EO tends to be more effective in producing innovation. Knowledge sharing accelerates the spread of ideas, minimizes duplication, and broadens perspectives, so that the innovations that emerge are more mature and relevant to market needs.

Apart from internal aspects such as organizational culture, technological support is also identified as a factor that strengthens the influence of EO on innovation. A study by Freixanet et al. (2021) shows that the use of social media, digital platforms, and technology-based applications allows SMEs with an entrepreneurial orientation to reach new consumers, expand access to market information, and test product ideas more quickly. Technology provides an efficient tool for validating ideas, running direct digital marketing, and automating previously manual processes. SMEs that are active on digital channels have higher flexibility in experimenting with distribution models, communication strategies, and customer service methods, which in turn increases their innovative capabilities and competitiveness (Depaoli et al., 2020).

Although the potential of EO in driving innovation is very large, its implementation in the SME environment still faces a number of serious obstacles. Sahoo and Yadav (2017) revealed that limitations in terms of human resources, both in terms of quantity and quality, often become the main obstacle in developing EO-based innovation. In addition, access to financing is still a fundamental problem, where many SMEs find it difficult to get business capital or loans to fund their innovative activities. Another challenge is the lack of entrepreneurial training or education that can increase the strategic capacity of business owners to manage and develop EO in a structured way. The majority of SME players still run their businesses intuitively, without a strong understanding of managerial concepts and innovation strategies (Blanchard, 2020).

Furthermore, a study by Cho et al. (2018) confirmed that strengthening EO is not enough at the level of leaders or business owners, but must include the entire organizational structure. Empowering employees by involving them in decision-making, rewarding innovative contributions, and an open communication system are important components so that EO can be transformed from a concept into a real practice that produces an impact. Without support from all elements of the organization, EO risks becoming an empty slogan that is not functionally implemented. From a methodological point of view, most of the research analyzed in this study uses a quantitative approach, especially through surveys of SME players from various business sectors. The measurement of EO generally refers to the Covin and Slevin (1989) scale, which measures the intensity of the proactive, innovative, and risk-taking dimensions through structured statements. Meanwhile, the innovation variable is measured based on indicators of innovation frequency, the level of newness of products or services, and the efficiency and effectiveness of internal business processes.

The results of these studies show that the correlation between EO and innovation is statistically significant in almost all of the studies reviewed. In fact, in some cases, EO has been proven to be a dominant predictor of innovative achievement, outperforming external factors such as market conditions, government policies, or competitor pressure. By considering the overall findings, it can be concluded that entrepreneurial orientation is not just an additional attribute in an

SME's business strategy, but is a main foundation for the creation of sustainable innovation. EO provides a framework of thinking, behavior, and value systems that allow organizations to continue to move forward, learn from failure, and respond to change adaptively. When implemented comprehensively and supported by a strong internal system, EO can make SMEs entities that not only survive but also develop progressively in a constantly changing business ecosystem.

5. Discussion

The results of this literature study consistently confirm that entrepreneurial orientation (EO) plays a very important role in creating innovative excellence for small and medium-sized enterprises (SMEs). The three main dimensions of EO namely proactiveness, innovativeness, and risk-taking not only operate separately but also reinforce each other and form a solid synergy as the foundation for the success of innovation in the context of SMEs. This synergy is reflected in how SMEs are able to design adaptive business strategies, respond to opportunities quickly, and create creative solutions to the challenges they face. The proactiveness dimension in EO specifically helps SMEs not only to survive in the midst of competition but also to be able to develop and even dominate certain market niches. Proactiveness includes the ability to actively map untapped market opportunities, respond to industry trends before competitors do, and create added value for customers through a faster and more planned approach.

In a digital era characterized by technological disruption and rapid changes in consumer preferences, proactiveness becomes a strategic asset that cannot be ignored. The ability to act faster than competitors not only creates a temporary advantage but can also build customer loyalty and expand market share. The courage to take risks is also an inseparable component in the dynamics of EO, especially in the context of strategic decision-making in an environment full of uncertainty. Although SMEs are often in a vulnerable position to the impact of risk, due to limited resources and access to information, it is in this context that risk-taking plays a role as a catalyst for innovation. However, this courage must be accompanied by adequate risk management capabilities so that the decisions taken remain within measurable limits and do not endanger the continuity of the business. In other words, an effective EO strategy needs to be complemented by a mature risk management system, including risk analysis, contingency planning, and continuous monitoring and evaluation of decision results.

The innovation resulting from EO is not an instant or momentary result. On the contrary, innovation emerges through a series of repeated experiments, a continuous learning process, and an organizational culture that actively encourages creativity and tolerance for failure. In this case, the success of EO implementation is strongly influenced by the internal conditions of the organization, especially in creating a work environment that is open to new ideas, collaborative, and provides space for exploration. Organizations that value the learning process and give appreciation for the innovative efforts of employees tend to be more successful in transforming EO into real and sustainable innovation output (Makhloufi et al., 2021).

The practical implications of these findings are very clear. There is an urgent need to strengthen the entrepreneurial capacity of SME players through systematic and sustainable training, mentoring, and competency improvement programs. The government, financial institutions, business incubators, and other supporting organizations have a strategic responsibility to provide access to important resources, such as business capital, appropriate technology, and market networks. These efforts will be more effective if they are designed based on an understanding of the characteristics of EO and the dynamics of innovation at the SME level.

6. Conclusion

This study concludes that entrepreneurial orientation (EO) has a significant influence in driving the realization of innovation in small and medium-sized enterprises (SMEs). The three main dimensions of EO, namely proactiveness, innovativeness, and risk-taking, are proven to be a very important foundation for creating a business environment that encourages change, renewal, and sustainable growth. These dimensions not only shape entrepreneurial behavior but also become a strategic framework that allows SMEs to respond to market dynamics more agilely and creatively. Although in reality many SMEs face various limitations, especially in the aspects of human resources, technology, and capital, the application of EO can be a solution that allows them to be more adaptive, innovative, and competitive.

EO helps SMEs build a growth mindset and confidence in facing uncertainty. However, the success of EO implementation is highly dependent on the managerial capacity of the SME owner or manager, an organizational culture that is open to innovation, and adequate support from the external environment. To create innovation systemically, SME players are advised to integrate EO as part of the company's long-term strategy. Support from the government, financial institutions, and other stakeholders is also needed through policies and programs that can facilitate the development of EO more broadly and sustainably. Thus, EO has the potential to become the main driver in transforming SMEs into more innovative economic actors, with high competitiveness, and able to contribute to inclusive and long-term economic growth.

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