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Entrepreneurial Orientation and Product Innovation Performance of MSMEs in West Java: Foresight Capabilities as a Mediating Variable

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Abstract

MSMEs have become the foundation for growth in various countries, including Indonesia. Especially in West Java, MSMEs play an essential role in absorbing labour. However, MSMEs in West Java face an uncertain business environment and difficulties in creating products that suit market needs. This research will use the Resource Based View (RBV) and Dynamic Capability View (DCV) theories. This research examines the influence of entrepreneurial orientation on the innovation performance of MSMEs by using foresight capabilities as a mediating variable. 245 MSMEs were collected as respondents to fill out the survey questionnaire. The MSMEs used in this research are from West Java, with the main characteristics of operating for more than one year and developing new products for at least two years. Structural equation modeling (SEM) was used to test the research framework. It was found that entrepreneurial orientation can influence the innovation performance of MSMEs positively and significantly. The influence of foresight capabilities on MSME product innovation performance has a positive effect. The mediating effect of foresight capabilities on the relationship between entrepreneurial orientation and product innovation performance was partially mediated. MSMEs that behave more entrepreneurially benefit from being more proactive, innovative, and risk-taking in an uncertain market environment. Product innovation can be achieved through a good understanding of entrepreneurial orientation mediated by an understanding of Foresight to process information for future decisions. Finally, managerial and theoretical implications and future research are presented.

Keywords: Entrepreneurial Orientation; Foresight; Product Innovation Performance; UMKM; West Java.

Abstrak

UMKM telah menjadi tumpuan pertumbuhan di berbagai negara, termasuk Indonesia. Khususnya di Jawa Barat, UMKM berperan penting dalam penyerapan tenaga kerja. Namun UMKM di Jawa Barat menghadapi lingkungan bisnis yang tidak menentu dan kesulitan dalam menciptakan produk yang sesuai dengan kebutuhan pasar. Penelitian ini akan menggunakan teori Resource Based View (RBV) dan Dynamic Capability View (DCV). Penelitian ini menguji pengaruh orientasi kewirausahaan terhadap kinerja inovasi UMKM dengan menggunakan kapabilitas foresight sebagai variabel mediasi. Sebanyak 245 UMKM dikumpulkan sebagai responden untuk mengisi kuesioner survei. UMKM yang digunakan dalam penelitian ini berasal dari Jawa Barat, dengan ciri utama beroperasi lebih dari satu tahun dan mengembangkan produk baru minimal dua tahun. Structural Equation Modeling (SEM) digunakan untuk menguji kerangka penelitian. Ditemukan bahwa orientasi kewirausahaan dapat mempengaruhi kinerja inovasi UMKM secara positif dan signifikan. Pengaruh kapabilitas foresight terhadap kinerja inovasi produk UMKM berpengaruh positif. Efek mediasi kemampuan pandangan ke depan pada hubungan antara orientasi kewirausahaan dan kinerja inovasi produk dimediasi secara parsial. UMKM yang berperilaku lebih berwirausaha mendapat manfaat dari sikap mereka yang lebih proaktif, inovatif, dan berani mengambil risiko dalam lingkungan pasar yang tidak menentu. Inovasi produk dapat dicapai melalui pemahaman yang baik tentang orientasi kewirausahaan yang dimediasi oleh pemahaman untuk mengolah informasi untuk pengambilan keputusan di masa depan. Penelitian ini menyajikan implikasi manajerial dan teoritis serta penelitian masa depan disajikan.

Kata Kunci: Orientasi Kewirausahaan; Pandangan ke Depan; Kinerja Inovasi Produk; UMKM; Jawa Barat.

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INTRODUCTION

With the rapid development of the business environment, companies are expected to be able to compete with competitors. To survive in the cutthroat competition, companies must be more innovative with their products (Manalu et al., 2023). Unlike large companies, MSMEs face hypercompetitiveness, characterized by volatility, uncertainty, complexity, and ambiguity (VUCA) (Semke & Tiberius, 2020). On the other hand, MSMEs often need more human resources, access to capital, ease of access to information, and creativity to innovate compared to established companies. So, the innovation by MSMEs will enable them to survive the cruel business competition.

Product innovation is an important prerequisite for the sustainability of business activities and organizational success (Madhoushi et al., 2011). Some researchers pay more attention to entrepreneurial orientation in small companies' product innovation (Genc et al., 2019; Ibidunni et al., 2020; Liao & Zhao, 2020; Shaher & Ali, 2020). Madhoushi et al. (2011) found that entrepreneurial orientation can influence SMEs' innovation performance in industrial zones in Iran. Furthermore, knowledge can play an important role in mediating the relationship between entrepreneurial orientation and innovation performance.

Entrepreneurial orientation is a process, decision-making style, and principles representing a company's strategic orientation (Lumpkin & Dess, 1996). Even though there is much research related to entrepreneurial orientation and SME product innovation, it still has limitations. Several researchers propose knowledge as a crucial factor in mediating this relationship (Liao & Zhao, 2020; Manalu et al., 2022). On the other hand, good knowledge of consumer desires and future competitor maneuvers is needed for decision-making strategies to increase innovation. Thus, this research will propose the concept of foresight as a mediating variable, potentially mediating this relationship.

The foresight concept provides MSMEs with the ability to process the information they have in the past and present for future decision-making. Although foresight has been applied to large companies in various sectors, small companies can practice foresight through SWOT analysis, interviews, and brainstorming (Vishnevskiy & Egorova, 2015).

Currently, MSMEs in Indonesia are experiencing a positive trend, with the number of MSMEs continuing to increase every year. The positive growth of MSMEs will have an impact on improving the Indonesian economy. Most of the MSMEs in Indonesia are household business activities that can absorb much labour. According to the Indonesian Ministry of Cooperatives and SMEs, in 2019, there were 65.4 million and 123.3 thousand workers (Tambunan, 2023). Especially in West Java, MSMEs are also receiving significant attention to increasing labour absorption. Even though MSMEs are often associated with economic growth in a country, they are not free from problems, one of which is product suitability with market needs (Chusumastuti et al., 2023). Thus, product innovation can be the key to surviving an uncertain business environment. On the other hand, the entrepreneurial spirit of business actors also plays a vital role in forming MSMEs that have competitiveness. Even though MSMEs have limited resources, the use of Foresight can be obtained simply through brainstorming and desk reviews between owners and employees.

Resource-based View (RBV) and Dynamic Capability View (DCV) will be the theoretical basis for this research. RBV views companies as having two types of tangible and intangible resources (Barney, 1991). The high intensity of competition in the business environment requires companies

to adapt quickly and dynamically (Teece et al., 1997; Wilden et al., 2013). RBV is significantly related to MSME performance because internal capabilities are assumed to be essential for improving performance and competitive gaps (Newbert, 2007).

Entrepreneurial orientation can be defined as the strategic behavior of a company related to risk-taking, innovation, and proactive (Covin & Slevin, 1989). Many studies show that entrepreneurial orientation is important for achieving competitive advantage and increasing maximum company profits (Zahra & Covin, 1995). First understood by Miller (1983) and then expanded by Covin & Slevin (1989), entrepreneurial orientation is a company's behavioral tendencies, managerial philosophy, or decision-making practices characterized by innovation, proactiveness, and a willingness to take risks. The focus is not on the individual but the process (Wiklund, 1999). Entrepreneurship researchers define companies that act on three dimensions (risk-taking, innovative, and proactive) as 'entrepreneurial'. Entrepreneurial orientation is often measured using unidimensional and multidimensional methods. The unidimensional concept refers to (Miller, 1983) and the multidimensional concept (Lumpkin & Dess, 1996).

A collection of literature has examined the relationship between entrepreneurial orientation and product innovation performance of MSMEs (Adams et al., 2019; Genc et al., 2019; Iqbal et al., 2021; Liao & Zhao, 2020; Shaher & Ali, 2020; Zhai et al., 2018). In their research, Zhai et al. (2018) found that entrepreneurial orientation has a significant positive impact on company innovation performance. Furthermore, Iqbal et al. (2021) found that entrepreneurial orientation can significantly strengthen innovation performance through risk-taking, reactiveness, and innovativeness.

Entrepreneurial orientation can be seen as an intangible organizational resource that will impact the courage to take risks, increase innovation, and proactively seek market-related information (Manalu et al., 2022). Meanwhile, foresight is often explained as practices, behavior, processes, programs, techniques, tools, and orientation to the future (Amsteus, 2011; Paliokaitė et al., 2014).

The foresight concept depends on the information collected and possessed for future strategic decision-making. Entrepreneurial orientation plays a very important role in obtaining information based on proactiveness, innovativeness, and risk-taking, strengthening the foresight of MSMEs in networking, time horizons, and analysis.

The RBV explains that rare, difficult-to-imitate, and valuable capabilities will be the basis of sustainable competitive advantage (Barney, 1991). Entrepreneurial orientation can be seen as an intangible organizational resource that will impact the courage to take risks, increase innovation, and proactively seek market-related information (Manalu et al., 2022). Meanwhile, foresight is often explained as practices, behavior, processes, programs, techniques, tools, and orientation to the future (Amsteus, 2011; Paliokaitė et al., 2014). Foresight analyzes current conditions based on past and present events and projects possible future events (Slaughter, 1996). Thus, foresight through scenarios allows companies to reduce uncertainty and increase the ability to understand changes and challenges in the future (Amer et al., 2013).

This research will use the concept of foresight, which is linked to the product innovation performance of MSMEs. The ability of MSMEs to predict future events is needed to compete in an uncertain business environment (Manalu et al., 2023; Rastegari et al., 2020). The information they get from various parties will help develop future product innovation. MSMEs can focus on daily business activities; they can support integrating external knowledge into developing innovation.

So, it is important to know the foresight capabilities of MSMEs and their relationship to product innovation.

Several previous studies have tried to link foresight with SME innovation performance (Manalu et al., 2023; Milshina & Vishnevskiy, 2018). AlMujaini et al. (2021), in their research examining the influence of foresight on SME innovation, were found to have a positive and significant effect. This paper will use multidimensional formative measurements using three dimensions: a. networking, b. time horizon, and c. analysis (Paliokaitė et al., 2014).

This research examines the direct effect of entrepreneurial orientation on MSME product innovation performance and uses foresight as mediation. The research population used in this research is MSMEs located in the West Java region and only in the craft, fashion, and food sectors. Finally, the methodology, results, discussion, conclusions, managerial implications, research limitations, and future research will be discussed.

RESEARCH METHOD

Sample and data collection

This research adopts a quantitative method to test the direct and indirect effect hypothesis between entrepreneurial orientation, foresight capabilities, and MSME product innovation performance. A questionnaire survey approach will be used to collect data in this paper. A Likert scale of 1, "strongly disagree" - 7, "strongly agree" is used to measure the dependent and independent variables. The population in this research is MSME owners from the West Java region, Indonesia. The main characteristics are that they have been conducting business activities for over a year and have had new product innovations for less than two years. These general criteria are used to ensure the accuracy of foresight capability and product innovation performance. Research questionnaires were distributed using non-probability sampling techniques online and offline. The period for distributing questionnaires is from March to June 2023. Three hundred questionnaires have been distributed, 268 questionnaires have been returned, and 245 or 81.6% of questionnaires can be continued at the testing stage.

Measurement

This paper employs three variables: entrepreneurial orientation, foresight capabilities, and product innovation performance. Entrepreneurial orientation uses nine indicators: proactiveness, risk-taking, and innovativeness (Manalu et al., 2022; Miller, 1983). Foresight capabilities employ ten indicators consisting of three dimensions: networking, time horizon, and analyzing referring to (Nyuur et al., 2015; Paliokaitė et al., 2014). Finally, the product innovation performance variable will use three indicators referring to (De Luca & Atuahene-Gima, 2007; Muñoz-Pascual et al., 2019).

RESULTS AND DISCUSSION

Demographic Respondent

Data was collected for almost four months (March to June). Based on Table 1, we propose several general characteristics such as age, gender, education level, length of time MSMEs have been operating, and product development. The total number of questionnaires that could be processed was 240 respondents. The average age of those filling out the questionnaire was 31-40 (39%). It

was found that the average MSME owner was male, 192 (78%) of the respondents. MSME owners who filled out the questionnaire had an average undergraduate education of 125 (51%) respondents. The time that MSMEs have been carrying out business activities was found to be an average of 1-3 years for 195 (80%) respondents. Finally, to measure that MSMEs are carrying out product innovation by looking at the product development that has been carried out, the average MSMEs have carried out product development in less than one year, 151(62%).

Table 1. Demographic Respondent

	Frequency	%
Age		
21-30	71	29
31-40	96	39
41-50	54	22
>50 year	24	10
Gender		
Male	192	78
Female	53	22
Level of Education		
High School	96	39
Undergraduate	125	51
Graduate	24	10
MSME operated		
1-3 years	195	80
3-5 years	32	13
>5 years	18	7
New product develops		
< 1 years	151	62
1 – 2 years	94	38

Source: Processed primary data, 2023

Convergent Validity

Validation Confirmatory factor analysis (CFA) was conducted to test the measurement model. Overall, CFA was a satisfactory measurement model for measuring the variables of entrepreneurial orientation, foresight capabilities, and product innovation performance. Based on model testing, it was found that the parameters $\chi 2 = 457.953$ df = 202, $\chi 2/df = 2.267$ p = 0.000, Gfi = 0.831, Agfi = 0.788, Tli = 0.873, Nfi = 0.820, Cfi = 0.889, Ifi = 0.890, Rmsea = 0.084. Next, the Average Variance Extracted (AVE) and Composite Reliability (CR) tests were carried out. Table 2 shows the factor loadings, AVE, and CR values. MSMEs ' entrepreneurial orientation, foresight capabilities, and product innovation performance were found to have loading factor values > 0.5, AVE values > 0.5, and CR values > 0.7. These results are overall appropriate and adequate for improving indicators (Bagozzi & Yi, 1988).

Table 2. Loading Factor, AVE, CR, Mean and Standard Deviation

Indicators	Loading Factor	AVE	CR	Mean	SD
Eo1	0.793	0.60	0.90	3.51	119
Eo2	0.754				
Eo3	0.759				
Eo4	0.785				
Eo5	0.729				
Eo6	0.802				
Eo7	0.802				
Eo8	0.779				
Eo9	0.763				
Nt1	0.767	0.54	0.78	3.74	1.21
Nt2	0.725				
Nt3	0.716				
Th1	0.796	0.61	0.86	3.94	1.28
Th2	0.772				
Th3	0.802				
Th4	0.762				
An1	0.749	0.58	0.80	3.97	1.29
An2	0.775				
An3	0.752				
Pip1	0.754	0.63	0.84	4.67	1.31
Pip2	0.820				
Pip3	0.806				

Source: Processed primary data, 2023

***Note.** *Eo: entrepreneurial orientation, Nt: networking, Th: time horizon, An: analyzing, Pip: product innovation performance*

Direct Effect Test

Hypothesis testing is carried out using Structural Equation Modeling (SEM). Direct relationship testing was carried out, and it was found that entrepreneurial orientation influences networking ($\beta = 0.511$, $p = 0.01 < 0.05$), entrepreneurial orientation can influence analysis ($\beta = 0.399$, $p = 0.01 < 0.05$), entrepreneurial orientation influences time horizon positively and significantly ($\beta = 0.349$, $p = 0.01 < 0.05$), analysis can influence the product innovation performance of MSMEs ($\beta = 0.273$, $p = 0.01 < 0.05$), time horizon influences the product innovation performance of MSMEs positively and significantly ($\beta = 0.597$, $p = 0.01 < 0.05$), networking can positively influence MSME product innovation performance ($\beta = 0.182$, $p = 0.025 < 0.05$). Lastly, entrepreneurial orientation can influence MSME product innovation performance positively and significantly ($\beta = 0.320$, $p = 0.01 < 0.05$) (Table 2).

Table 3 Path Testing

Path			Standardize Beta	T statistic	*p*	*Result*
Eo	→	Nt	0.511	5.579	0.001	Supported
Eo	→	An	0.399	4.508	0.001	Supported
Eo	→	Th	0.349	4.182	0.001	Supported
An	→	Pip	0.273	3.579	0.001	Supported
Th	→	Pip	0.597	7.055	0.001	Supported
Nt	→	Pip	0.182	2.239	0.025	Supported
Eo	→	Pip	0.320	3.634	0.001	Supported

Source: Processed primary data, 2023

Mediation Effect

Table 4. Mediation Results

Mediating effect					VAF value	Result
Eo	→	Nt	→	Pip	0.225	Supported
Eo	→	Th	→	Pip	0.394	Supported
Eo	→	An	→	Pip	0.254	Supported

Source: Processed primary data, 2023

Mediation effect testing will use the Variance Accounted For (VAF) technique by Preacher and Hayes (2008) to determine full or partial mediation. Mediation effect testing can be carried out if the direct and indirect effects are significant or the direct effect is not significant, but the indirect effect is significant. Based on VAF calculations, it was found that networking can partially mediate the relationship between entrepreneurial orientation and MSME product innovation performance by 0.225 (> 0.20 and < 0.80). Furthermore, time horizon can partially mediate the relationship between entrepreneurial orientation and MSME product innovation performance by 0.394 (> 0.20 and < 0.80). Finally, analysis can partially mediate the relationship between entrepreneurial orientation and MSME product innovation performance by 0.254 (> 0.20 and < 0.80). Overall, foresight capabilities using the three measurement dimensions of networking, time horizon, and analysis were found to partially mediate the relationship between entrepreneurial orientation and MSME product innovation performance (Table 4).

Entrepreneurial Orientation and Product Innovation Performance

The results of testing entrepreneurial orientation on MSME product innovation performance were found to have a positive and significant influence. The results show that MSMEs in West Java already have a good entrepreneurial orientation. MSME owners who have proactive, innovativeness, and risk-taking behavior will be able to improve their performance in creating product innovations.

This study's results align with previous research (Ato Sarsah et al., 2020; Tang et al., 2015; Zhai et al., 2018). Zhai et al. (2018), using a sample of 324 manufacturing enterprises, found that entrepreneurial orientation can improve technological innovation performance and ultimately can impact company performance. Shaher and Ali (2020), using SMEs in Kuwait with 221 respondents,

found that entrepreneurial orientation can influence innovation performance positively and significantly.

Proactiveness provides a view for MSME owners to actively seek information for product innovation needs. The innovativeness of MSMEs will provide their understanding so that they continue to want to know new things through experimental processes and creativity to develop new products. Risk-taking will enable MSMEs to make decisions by taking into account the risks that come from the knowledge they have in order to determine product innovation.

Entrepreneurial Orientation and Foresight Capabilities

The results of entrepreneurial orientation testing can positively influence foresight capabilities consisting of networking, time horizon, and analysis. This result is in line with the RBV theory which explains that small companies lack tangible assets and need more tangible assets. Entrepreneurial quality influences and is influenced by several internal factors (Fontela et al., 2006). Abuzaid (2017) found that foresight and visioning can influence entrepreneurial orientation positively and significantly.

Foresight is the ability to understand events that will occur in the future to find opportunities and threats that might affect business activities. Based on the dynamic capability view theory, companies must have dynamic capabilities to survive in an uncertain business environment. The owner's proactiveness will provide foresight to seize opportunities and anticipate future demand (Dess & Lumpkin, 2005). Thus, the entrepreneurial orientation of MSME owners will positively impact foresight capabilities.

Foresight Capabilities and Product Innovation Performance

The results of this research found that foresight capabilities, namely networking, time horizon, and analyzing, can influence the product innovation performance of MSMEs positively and significantly. This study's results align with previous research in theory and testing (Havas et al., 2010; Manalu et al., 2023; Sarpong & Meissner, 2018; Yoon et al., 2018).

Calof et al. (2020) found that open innovation can occur by combining the concepts of foresight and foresight networks to explore and utilize corporate foresight. Innovation can be done by using technology selection, scanning disruptions, and identifying future customer needs. Manalu et al. (2023) found that foresight capabilities can positively influence product innovation performance.

The network is developed by providing sufficient information for developing new products in line with consumer needs in the future. The time horizon will provide the ability to determine periods for analyzing events or changes in the market related to competitors and consumers. Analysis carried out well by companies will be able to increase their ability to innovate in line with consumer needs in the future (Martínez-Román et al., 2011). MSMEs need analysis to be able to interpret the data that has been collected to determine potential conditions in the future.

Mediation effect of Foresight

This research found that network, time horizon, and analysis can mediate the relationship between entrepreneurial orientation and MSME product innovation performance. This research provides a new view that foresight capabilities can mediate MSMEs' entrepreneurial orientation

and product innovation performance. A good foresight concept will allow MSMEs to process current and past data for future decision-making to improve their innovation performance. On the other hand, the entrepreneurial orientation of MSMEs will strengthen the search for information related to competitors and consumers to improve foresight capabilities.

Based on the Dynamic Capability View theory, companies in an uncertain business environment need dynamic capabilities to quickly adapt to changes (Yoon et al., 2018). Entrepreneurial orientation can influence product innovation performance mediated by foresight, which has a strategic view to obtain superior competitive advantages through resources and configuring knowledge based on the information held (Liao & Zhao, 2020).

The results of this research provide new theoretical and practical insights. It was found that this research is in line with the RBV theory, where companies that do not have sufficient capital and human resources tend to use intangible assets to gain competitive advantage. We propose foresight capability as a mediating variable in line with the idea that companies must have dynamic capabilities to face the uncertainty of the business environment. It was found that foresight capability can mediate the relationship between entrepreneurial orientation and product innovation performance, especially in MSMEs in West Java.

The results of the research can provide several new practical ideas. Firstly, it was found that MSME owners in West Java already have a good entrepreneurial spirit. Entrepreneurial orientation will provide new insight for each owner regarding being proactive in seeking information that will be useful, innovative in solving any problems that will occur and braver in taking risks based on in-depth structural and systematic considerations. We realize that foresight capability has only been studied in large companies with good resources. However, based on our indicator measurements, MSMEs can implement foresight capability well. These findings will be significant for MSMEs, especially in West Java, because having foresight capabilities will help them predict competitor maneuvers, consumer desires, and changes that will occur in the future. Having the ability to predict the future it will help West Java MSMEs in determining the direction of their product innovation in the future.

CONCLUSION

This research used a survey of 240 MSMEs from West Java, Indonesia. Theoretically, this research proposes and tests the relationship between entrepreneurial orientation and product innovation performance using foresight capabilities as a mediating variable. The research results suggest that entrepreneurial orientation has a positive and significant effect on the innovation performance of MSMEs, and foresight capabilities can mediate the relationship between entrepreneurial orientation and product innovation performance. Strengthening the entrepreneurial orientation of MSMEs will increase their ability to predict changes that will occur in the future, ultimately impacting their innovation performance. MSMEs that are more entrepreneurially oriented will provide more opportunities to obtain information from competitors and consumers, the opportunity to develop and be more competitive. This research found that MSMEs originating from West Java have implemented Foresight to improve product innovation performance. MSME managers or owners must be able to utilize the information they receive from consumers to carry out continuous innovation. The entrepreneurial orientation of MSME owners will play an essential role in their ability to use foresight abilities that have an impact

on product innovation. MSMEs are companies that have limited tangible assets. To be able to reduce these obstacles, MSMEs must be able to strengthen their internal factors by emphasizing intangible assets. Increasing their ability to be more proactive and innovative and act on risks will make it easier for them to obtain information that will improve their innovation performance to survive and develop in an uncertain business environment. Although the research results provide new insights, this research is not free from various limitations. First, few have tested the concept of foresight capabilities quantitatively. Second, this research only focuses on MSMEs operating in the crafts, fashion, and food sectors. Third, we only use MSMEs from the West Java region. This research still requires future research efforts, considering that developing foresight capabilities is necessary. Furthermore, several industrial sectors are felt to provide new knowledge. Lastly, testing is still needed in other areas.

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