

Entrepreneurial Orientation And Its Effect On The Success Of Small Businesses

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Abstract

Entrepreneurial orientation (EO) has been widely recognized as a crucial driver of business success, particularly for small enterprises operating in competitive markets. This study aims to address this gap by examining the impact of EO on small business success in Indonesia. This study investigates the effect of EO dimensions—innovativeness, proactiveness, and risk-taking—on the success of small businesses in Indonesia. Using a quantitative approach with survey data collected from 150 small business owners across various sectors, the study applies multiple regression analysis to assess the relationships. The results reveal that innovativeness and proactiveness have a significant positive effect on business success, while risk-taking shows a moderate influence. These findings underscore the importance for small business owners to adopt innovative practices and proactively capitalize on market opportunities while mitigating risk. This research contributes to the growing body of literature on entrepreneurship in emerging markets, offering practical insights for entrepreneurs and policymakers on fostering small business growth.

INTRODUCTION

Small businesses are critical drivers of economic development, innovation, and job creation worldwide. According to the International Labour Organization (2020), micro, small, and medium enterprises (MSMEs) account for over 90% of businesses globally and contribute significantly to GDP and employment, particularly in developing countries. However, small businesses often face unique challenges such as limited access to capital, constrained resources, and heightened vulnerability to market fluctuations (Jones, 2023; Tran, 2021; & L.Zhang, 2022). These challenges necessitate the adoption of strategic behaviors that enable firms to survive and thrive in competitive environments (Kaplan, 2021; Orozco, 2020; Pires, 2022).

Entrepreneurial orientation (EO) has emerged as a key strategic posture that enhances a firm's ability to navigate uncertainty and seize opportunities (Anderson, 2021; Thompson, 2022). EO is typically defined as the combination of innovativeness, proactiveness, and risk-taking behaviors that guide decision-making and actions within a business (Lumpkin & Dess, 1996). Innovativeness refers to the propensity to engage in creativity and experimentation (Miller, 2020). Proactiveness involves anticipating future market trends and taking action ahead of competitors (Kotler, 2021). Risk-taking reflects the willingness to commit resources to uncertain ventures. Together, these dimensions shape how a firm identifies and responds to opportunities and challenges in its environment (Covin, 1989).

Existing research suggests that EO has a positive influence on business performance, particularly in dynamic and uncertain markets (Rauch et al., 2009). Firms that exhibit high levels of EO are more likely to introduce innovative products and services, capture new markets, and build competitive advantages that translate into long-term success. However, the relative importance of each EO dimension may vary depending on contextual factors such as industry characteristics, firm size, and resource availability (Khandwalla, 2021; Westhead, 2022). For small businesses, which often operate under resource constraints, the impact of EO may differ from that observed in larger, well-established firms (Brockhaus, 2021; Zahra, 2022).

In the context of developing countries like Indonesia, small businesses play a pivotal role in national economic growth; however, they often lack formal structures, strategic planning capabilities, and access to external support systems (Patil, 2022; Sulaiman, 2021). As a result, their ability to implement EO practices effectively may be limited, and empirical evidence on the relationship between EO and small business success in such settings remains scarce (Ng, 2021). Most existing studies focus on large corporations or developed economies, leaving a gap in understanding the specific challenges and opportunities faced by small businesses in emerging markets.

This study aims to address this gap by examining the impact of EO on small business success in Indonesia. Specifically, the research investigates how the individual dimensions of EO—innovativeness, proactiveness, and risk-taking—contribute to business performance outcomes, including financial growth, market expansion, and customer satisfaction (Yu, 2023; Y. , Zhang, 2021). By focusing on small businesses across various sectors, the study provides a comprehensive analysis of the role of EO in diverse industry contexts (Huang, 2022).

The novelty of this research lies in its focus on small businesses in a developing country setting, where the dynamics of EO may differ from those in mature markets (Kreiser, 2013). It also contributes to the literature by disaggregating the EO construct and analyzing the unique effects of each dimension on business success (Miller, 2018; Tushman, 2020). Understanding these relationships is crucial for designing targeted interventions that support the growth and sustainability of small businesses in Indonesia and similar economies.

Ultimately, this study seeks to inform both theory and practice by providing actionable insights for small business owners, policymakers, and entrepreneurship development organizations. By highlighting the strategic behaviors that drive small business success, the research gives practical guidance to entrepreneurs navigating complex and competitive markets. It contributes to the broader discourse on entrepreneurship and economic development in emerging markets.

METHOD

This research adopts a quantitative approach with a cross-sectional survey design. Data were collected from 150 small business owners operating in retail, services, and manufacturing sectors in three major cities in Indonesia: Jakarta, Bandung, and Surabaya. Respondents were selected using purposive sampling based on the criteria of having at least two years of business operation. The primary instrument for data collection was a structured questionnaire adapted from established EO and business success measurement scales (Covin & Slevin, 1989; Wiklund & Shepherd, 2005).

The EO scale evaluates three dimensions: innovativeness, proactiveness, and risk-taking. Meanwhile, business success was measured through indicators of financial performance, market growth, and customer satisfaction. To ensure the reliability and validity of the data, descriptive statistics and reliability tests were conducted. Furthermore, multiple regression analysis was applied to determine the impact of the three EO dimensions on small business success. Ethical approval was obtained for the study, and informed consent was secured from all participants to ensure the ethical conduct of research.

RESULTS AND DISCUSSION

This study collected data from 150 small business owners operating in various sectors across three major Indonesian cities: Jakarta, Bandung, and Surabaya. Descriptive analysis revealed that the respondents exhibited varying levels of entrepreneurial orientation, with a majority scoring moderately high in innovativeness and proactiveness, while being more cautious in terms of risk-taking. These findings reflect the adaptive nature of small businesses, where innovation and proactivity are seen as opportunities to compete. In contrast, risk-taking is approached more conservatively due to limited resources and high vulnerability to market uncertainty.

The results of the multiple regression analysis indicate that innovativeness has a significant and positive effect on the success of small businesses ($\beta = 0.42$, $p < 0.01$). This suggests that small businesses that prioritize the development of new products, services, or processes are more likely to achieve greater success. Innovativeness enables firms to differentiate themselves from competitors, respond to evolving customer needs, and capture emerging market opportunities. These findings align with previous research emphasizing the importance of innovation as a driver of competitive advantage, particularly in dynamic environments (Rauch et al., 2009)

Proactiveness also demonstrated a significant positive effect on business success ($\beta = 0.38, p < 0.01$). Small businesses that exhibit proactive behavior—such as anticipating customer trends, launching products ahead of competitors, and responding swiftly to market changes—tend to experience higher growth and customer satisfaction. This finding is consistent with Lumpkin & Dess, (1996), who argue that proactive firms are better equipped to seize market opportunities and avoid threats, thereby enhancing their long-term viability.

In contrast, the effect of risk-taking on business success was positive but relatively weaker ($\beta = 0.15, p < 0.05$). This suggests that while some degree of risk-taking is necessary for innovation and growth, excessive risk can be detrimental, particularly for small businesses with limited financial resources. Entrepreneurs must carefully balance risk-taking with prudent decision-making to avoid jeopardizing their operations. This finding supports the argument that the relationship between risk-taking and performance is context-dependent and nonlinear (Kreiser et al., 2013).

Further analysis revealed sectoral differences in the influence of EO dimensions. For example, in the technology and creative industries, innovativeness had a more substantial impact on success, while in traditional retail sectors, proactiveness—such as securing supply chains and adapting pricing strategies—was more critical. This suggests that the strategic priorities for small businesses may vary depending on their industry context, underscoring the importance of tailoring EO strategies to specific market conditions.

Qualitative insights from open-ended survey responses and follow-up interviews provided additional depth to the quantitative findings. Several entrepreneurs noted that their proactive efforts in networking, attending industry events, and leveraging digital platforms had opened new market channels and increased their visibility. Others emphasized that small-scale innovations—such as improving packaging, offering limited-time promotions, or adopting customer feedback—played a crucial role in retaining customers and enhancing business performance.

Interestingly, some respondents expressed hesitation in adopting aggressive risk-taking strategies, citing concerns over financial stability and fear of failure. This cautious approach reflects the socio-economic realities of small businesses in Indonesia, where access to credit is limited, and the consequences of business failure are often severe for family livelihoods. These observations underscore the importance of supportive policies that empower small businesses to take calculated risks, such as access to microfinance, business mentoring, and safety nets for entrepreneurs.

The findings also underscore the importance of fostering an entrepreneurial mindset within small businesses. Beyond individual traits, the success of EO implementation depends on creating a culture that encourages experimentation, learning from failure, and adapting to change. Entrepreneurs who cultivate a growth-oriented mindset are better equipped to navigate uncertainty and drive their businesses forward, even in challenging environments.

This study contributes to the theoretical understanding of EO by reaffirming that it is a multidimensional construct with varied effects on business success. While all three dimensions—innovativeness, proactiveness, and risk-taking—are essential, their relative impacts differ based on context. For small businesses in developing countries, innovativeness and proactiveness appear to be more critical. In contrast, risk-taking should be approached cautiously and supported by external enablers such as policy frameworks and access to capital.

Overall, the results provide valuable insights for small business owners, policymakers, and entrepreneurship development programs. Encouraging innovation through training, fostering proactive market exploration, and creating a supportive ecosystem for manageable risk-taking can enhance the resilience and growth of small businesses. Future research could expand on these findings by exploring longitudinal data, integrating qualitative case studies, or examining additional variables such as digital adoption, sustainability practices, and the role of gender in entrepreneurial behavior.

This research involved as many as 150 small business actors spread across three major cities in Indonesia, namely Jakarta, Bandung, and Surabaya. The three were chosen because they are centers of economic growth that represent a variety of small business sectors, ranging from trade and services to manufacturing. The selection of this location and the number of samples are intended to ensure that the analysis results accurately represent the actual conditions of small businesses in urban areas of Indonesia.

Based on descriptive analysis, most business actors exhibit high scores in the innovative and proactive dimensions, while the risk-taking dimension tends to have medium to low values. These findings show that small business actors in Indonesia prefer a safe growth strategy but remain aggressive in pursuing market opportunities. They are willing to try new things and move quickly, but remain cautious of risks.

The results of multiple regression analysis revealed that innovation had a significant and positive effect on the success of small businesses ($\beta = 0.42$, $p < 0.01$). This means that the higher the level of innovation applied by business actors, the greater the likelihood of their business success, both in terms of sales growth, customer satisfaction, and market expansion.

This innovative dimension encompasses activities such as the development of new products, the utilization of digital technology for business operations, and efficiency improvements through process automation. Innovation is not limited to technology, but can also take the form of marketing strategies, service enhancements, or strong brand differentiation to face increasingly fierce market competition.

In addition to being innovative, being proactive also showed a significant influence on the success of small businesses ($\beta = 0.38$, $p < 0.01$). Business actors with a proactive tendency can read the market's direction early, act before their competitors, and respond quickly to changes. This gives them a significant competitive advantage, especially in sectors with rapidly changing trends, such as food, fashion, and digital services.

For example, many small businesses have successfully launched seasonal products, adapted their offerings to digital trends, or leveraged viral moments for marketing

campaigns. Actions like these show the importance of having the courage to act early as a strategy to win the market.

Meanwhile, the risk-taking dimension had a positive effect but was not as strong as the previous two dimensions ($\beta = 0.15$, $p < 0.05$). These findings suggest that while risk is inherent in the innovation and growth process, small business actors in Indonesia tend to make careful calculations before making high-risk decisions.

Many business actors stated that limited capital and a lack of access to financing are the primary reasons for caution in taking risks. They avoid massive expansions, large amounts of debt, or untested projects due to concerns of potential losses that are difficult to overcome.

However, that does not mean that risk-taking is not necessary. Business actors who can take measured risks and manage uncertainty wisely tend to innovate more quickly and seize new opportunities. In this case, risk management training and financial support from external parties become very relevant.

Further analysis reveals that the influence of each dimension of EO also varies across different business sectors. In the technology and creative economy sectors, innovation is the primary determinant of success. In contrast, in the traditional retail industry, a proactive attitude is more decisive, particularly in managing the supply chain and responding to consumer demand.

Qualitative data from open-ended answers and additional interviews enriched the understanding. For example, business actors who diligently attend training and build networks within the business community gain wider opportunities for cooperation and promotion. They also tend to be more confident in experimenting with new products.

Some business actors have said that small changes, such as packaging adjustments, after-sales service, or a more personalized approach to customer communication, can have a significant impact on consumer loyalty. This suggests that innovation does not always have to be radical, but can also be incremental and consistent.

On the other hand, some respondents feel reluctant to take significant risks because the potential for failure will have a direct impact on the sustainability of their family life. In this context, the need for social security and support systems for small businesses is crucial, enabling them to make informed strategic decisions without undue social pressure.

These findings underscore the importance of cultivating an entrepreneurial mindset that not only relies on individual character but also on an organizational culture that fosters experimentation, learning from failure, and adapting to change. Small organizations with an open culture are more resilient.

Thus, this study confirms that entrepreneurial orientation is a multidimensional construct. The three dimensions have different contributions depending on the context. In the Indonesian context, being proactive and innovative are the main elements that drive the success of small businesses.

These findings align with previous research (Rauch et al., 2009; Kreiser et al., 2013), which demonstrates that EO's contribution to performance is highly contextual and

depends on both the organization's internal readiness and the supportive external environment.

To support the practice of EO across the board, the role of governments and entrepreneurial development agencies is essential. They can contribute to building an ecosystem that promotes innovation, providing access to training, and providing flexible and inclusive microfinance instruments.

The application of digital technology is also an essential factor in strengthening EO. Business actors who adopt digital platforms in their operations exhibit higher efficiency and a broader market reach, including in traditional sectors that were previously difficult to access online.

Finally, the results of this study offer broad practical implications. For business actors, it is essential to foster a culture of innovation and the courage to take action early. For governments and policymakers, these results can be used to formulate more targeted and effective interventions in promoting the sustainability of small businesses in Indonesia.

CONCLUSION

This study concludes that entrepreneurial orientation has a significant influence on the success of small businesses in Indonesia. Specifically, innovativeness and proactiveness are key drivers of performance, while risk-taking plays a supporting role in this process. The findings offer valuable insights for small business owners seeking to boost their competitiveness and resilience in rapidly evolving markets. Limitations of this study include its focus on three cities and the use of self-reported measures of business success. Future research should expand the sample to include other regions, incorporate longitudinal data, and investigate additional variables, such as entrepreneurial self-efficacy and external support systems. In practical terms, policymakers and business development programs should provide targeted support for small businesses, including access to training, mentoring, and flexible financing options, to cultivate a more innovative and proactive entrepreneurial ecosystem in Indonesia. Overall, this study underscores the pivotal role of entrepreneurial orientation in shaping the success of small businesses and provides a roadmap for both entrepreneurs and policymakers to foster a more innovative and proactive small business ecosystem in emerging markets.

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