


CHAPTER I

INTRODUCTION

This chapter contains the background of the topic raised from research, problem formulation, research objectives, problem limitations, and systematics of writing reports in this study.

1.1 Background



Innovation plays a pivotal role in driving development across various sectors, include technology, healthcare, and the economy. It acts as a catalyst for progress by fostering new ideas, methods, and technologies. In the context of development, innovation brings about several crucial advantages. First, it enhances productivity and efficiency by streamlining processes and introducing new tools and systems. Secondly, innovation promotes economic growth by creating new industries, generating employment opportunities, and increasing competitiveness in the global market. Ultimately, innovation is the cornerstone of sustainable development, pushing society forward, and addressing emerging challenges, making it an essential driver of progress and prosperity (Jerry, 2012).

Economy has important role as driving factor in development for economic growth, job creation, employment, innovation and entrepreneurships, finance access, market opportunities, competitiveness, better infrastructure and policy and regulatory to increase development. And its directly affects MSME's by providing opportunities for growth, innovation, job creation, and increased access to resource, and policies that support economic growth and create a conducive business environment which have a positive ripple effect on the MSME sector, contributing to overall development in a country (Erdin, 2020).

Development of MSME's is essential for their survival and success in conditions of economic growth, for their role as driver for economic growth (Erdin, 2020). by investing in their development, MSMEs can seize the opportunities presented during periods of economic growth and position themselves for long-term sustainability and success. One of the keys to push innovation from MSME's is through Entrepreneurial Orientation (Gomes et al. 2022).

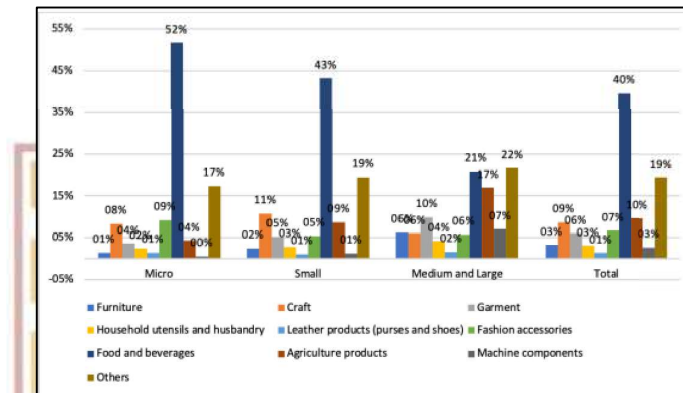


Figure 1.1 Percentage of MSME's Based on Business Product in Indonesia (Source: UNDP Report 2020)

Figure 1.1 shows the percentage breakdown of Micro, Small, and Medium Enterprises (MSMEs) across different business sectors in Indonesia, according to data from the UNDP 2020 report. The majority of MSMEs in the country are involved in the **food and beverage sector**, followed by industries like **crafts**, **fashion**, and other creative sectors. There are 64.2 million enterprises categorized as MSMEs (2018) in Indonesia, and they employ 97% of the total workforce. The COVID-19 pandemic has had a significant impact on MSMEs in Indonesia, with many businesses facing challenges in sustaining their operations over an extended period. According to a UNDP Indonesia report (2020), MSMEs in all industry sectors cannot survive more than 10 months on average if the pandemic persists. The government has programs to provide working capital assistance for micro-entrepreneurs, but many MSMEs are still on the brink of failure due to revenue significantly decreasing during the pandemic. These statistics underscore the significant attrition rate among MSMEs within the first few years of operation,

highlighting the challenges associated with sustaining these businesses over the long term.

The total number of Micro, Small, and Medium Enterprises (MSMEs) in Padang city is around three hundred thousand, with three thousands of MSME's in Padang City is categorized into creative industry (Ministry of Cooperatives and SMEs, 2022). With how much MSME's will affect Indonesia economy, MSMEs needed to increase its survival rate and lifespan, MSMEs need to develop their business that allow then to survive with innovation for it service or product.

The problem that occurs while Micro, Small, and Medium Enterprises (MSMEs) try to innovate and develop is multifaceted and includes challenges such as financial constraint, limited resources, low digital literacy, competition barrier, lack access to international markets, infrastructure and connectivity and lack of skilled manpower (Yao, 2016). Embracing Entrepreneurial Orientation (EO) can be a transformative strategy for addressing various challenges while MSMEs trying to innovate and develop it business.

Entrepreneurial Orientation (EO) refers to a strategic mindset or organizational culture that promotes entrepreneurial behaviors and actions within a business. It is a concept that reflects a company's willingness to take risks, be innovative, and pursue opportunities. EO comprises several key elements (Bouncken et al., 2016a; Patel et al., 2015). First is Innovativeness, involves a commitment to fostering and implementing new ideas and solutions that encourage creativity and a willingness to adapt and embrace change. Risk Taking, EO implies a readiness to take calculated risks in pursuit of opportunities while involves a willingness to invest resources in ventures that may have uncertain outcomes. Last is Proactiveness, Entrepreneurs and entrepreneurial organizations need to be proactive, actively seek out and exploit new opportunities, rather than merely reacting to market conditions.

Despite the overall positive evidence on the association between EO and firm performance, EO might be a necessary but insufficient condition for the success of new product development (Ireland et al., 2003; Rauch et al., 2009; McKenny et al., 2018). Thus, high levels of EO could lead to innovation failure if companies do not have adequate resources' endowments to cope with the inherent uncertainty of developing a strategy characterized by high risk taking, proactiveness and innovativeness (Patel et al., 2015). As a matter of fact, extant literature suggests that the relationship between EO and innovation outcomes is contingent on the development of internal capabilities such as organizational learning (Alegre and Chiva, 2013; Bouncken et al., 2016b), absorptive capacity (Patel et al., 2015) or organizational change (Wales, 2016). However, following the Resource-Based View (RBV) of the firm (George and Bock, 2011), a better understanding of the internal capabilities under which EO enhances NPD performance requires further attention.

In this sense, one important internal issue is the business model of the firm. A business model can be defined as the "design or architecture of the value creation, delivery, and capture mechanisms" of the firm (Teece, 2010). In order to be competitive, firms change and improve their business models over time. Business model innovation (BMI) is considered a specific form of innovation that helps to improve business performance (Bucherer et al., 2012). The ways of achieving business model changes (or BMI) have mainly analyzed the effects of the firm's external antecedents, such as environmental and technological changes, on BMI (Wirtz et al., 2010), but less attention has been paid to understanding internal antecedents. An advantage of focusing on internal factors (as opposed to external factors) is the control that firms have over them and the possibility this offers to firms to promote BMI through internal managerial practices. Drawing on the dynamic capability perspective, in this study we embrace the stream of the literature that emphasizes the role of internal factors in BMI and respond to calls that have recently been made to do more research on the internal drivers of BMI (Foss and Saebi, 2017; Frankenberger and Sauer, 2019; Martins et al., 2015; Saebi and Foss,

2015) and on the performance implications of BMI in entrepreneurial firms (Foss and Saebi, 2017).

Because EO enhance an organization attention to opportunities. Firms with strong EO tend to invest in the development of the competences to constantly scan and monitor the environment in order to identify new opportunities and to enter market early enough with new products and services, and mitigating difficulties of organizational structures and factors that enhance the use and combination of alternate technologies or substantial cost- saving technologies.

EO is driver of BMI, especially in highly uncertain context, the proactiveness characteristic of EO contributes to detect opportunities which require taking rapid decision and seizing these opportunities, these decisions involve changes and strategic adjustments of firm's core elements, resulting on BMI allowing the firm to stay ahead of their competition.

Business model innovation can represent a useful opportunity for product innovation, by making visible the advantages of their product in the eyes of the customer, for example through product innovation, the positive impact of BMI on innovation success is higher.

BMI as a key intermediary mechanism connecting EO and NPD performance, for sensing the need for business model innovation firms need to have some mechanism in place. In this process, dynamic capabilities assist the firm in creating and capturing value by encompassing the activates, process, and leadership skill which, (1) the need for changing/innovating existing business models is recognized, and (2) the necessary assets are (a) accessed and (b) orchestrated in the pursuit of new value creation, which EO as the internal dynamic capability that fosters the development of BMI. In turn business models allow firms to generate the source of new value creation, and competitive advantage.

In particular, BMI solution help firms to adapt to market requirements, hence they commercialize their product by selecting the appropriate combination of value suggestion, market segment, or cost structure, BMI may act as internal mechanism necessary to support the creation of value in new product and services introduces to the market, and to increase NPD Performance, which BMI serves as a conduit through which entrepreneurial behaviors impact on NPD performance.

The aim of this study is to examine NPD performance from an internal perspective in the context of MSMEs. To dig into this issue, we look at the connection between EO and NPD performance while integrating the role played by BMI in this relationship at the organizational level. In doing so, we make two main contributions: (1) we underscore the usefulness of BMI as a success factor for NPD performance in SMEs, and (2) we put forward a better understanding on the EO–NPD performance relationship that highlights the role of internal variables such as BMI and strengthen the connection between entrepreneurship and business models literatures in SMEs.

1.2 Problem Formulation

Based on the background of the study, the formulation of the problem in this study is:

1. What Entrepreneurial Orientation impact on New Product Development performance to Padang City MSME's
2. What Entrepreneurial Orientation impact on Business Model Innovation to Padang City MSME's
3. What Business Model Innovation impact on New Product Development performance to Padang City MSME's
4. How Business Model Innovation mediates the positive relationship between Entrepreneurial Orientation and New Product Development performance

1.3 Research Purposes

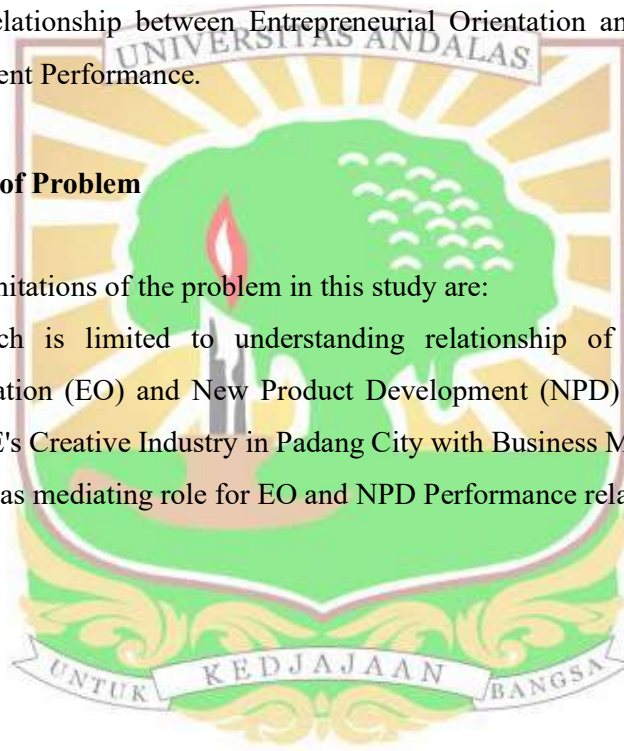
The objectives to be achieved from this study are:

1. To find out Entrepreneurial Orientation impact on New Product Development Performance.
2. To find out Entrepreneurial Orientation impact on Business Model Innovation.
3. To find out Business Model Innovation has positive impact on New Product Development Performance.
4. Understand that Business model innovation is a mediating variable in the positive relationship between Entrepreneurial Orientation and New Product Development Performance.

1.4 Scope of Problem

The limitations of the problem in this study are:

1. Research is limited to understanding relationship of Entrepreneurial Orientation (EO) and New Product Development (NPD) Performance in MSME's Creative Industry in Padang City with Business Model Innovation (BMI) as mediating role for EO and NPD Performance relationship.



1.5 Systematic Writing

The writing systematics of this study can be explained as follows:

CHAPTER I INTRODUCTION

This chapter contains a description of the background of the research conducted, problem formulation, research objectives, problem limitations, and systematics of final project research writing.

CHAPTER II LITERATURE REVIEW

This chapter contains literature that supports in making reports and is used as a reference in making reports. These theories include MSME, EO, NPD, NPD Performance, Business Model, BMI, SEM, and Cross Tabulation.

CHAPTER III RESEARCH METHODOLOGY

This research methodology contains a description of the steps taken in solving research problems. These steps consist of the object and time of research, data collection, data processing methods, and research stages.

CHAPTER IV DATA COLLECTION AND PROCESSING

Data was collected through distributing questionnaires and interviews to MSMEs in the creative industry of Padang City, and data processing was carried out according to predetermined methods.

CHAPTER V ANALYSIS

This chapter presents detailed analysis obtained from the data processing process related to the relationship between EO and NPD Performance with BMI as a mediator of the relationship between EO and NPD performance.

CHAPTER VI CLOSING

This chapter contains conclusions based on the initial research objectives and provides suggestions for further related research.