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Entrepreneurial Orientation and Business Innovation Among Small and Medium-Sized Enterprises in Pare Pare City

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Abstract

This study examines the relationship between entrepreneurial orientation and business innovation among small and medium-sized enterprises (SMEs) in Parepare City. The study is motivated by the increasing importance of innovation for SMEs operating in an increasingly competitive business environment characterized by changing consumer preferences, technological development, and market uncertainty. A quantitative research approach with a correlational and explanatory design is employed to examine whether entrepreneurial orientation contributes to business innovation. Entrepreneurial orientation is assessed through the dimensions of innovativeness, proactiveness, and risk-taking, while business innovation is assessed through product or service innovation, process innovation, marketing innovation, and organizational innovation. Data are collected using a structured questionnaire administered to SME owners or managers and analyzed using descriptive and inferential statistical techniques, including Pearson correlation and simple linear regression. The illustrative results indicate a strong positive relationship between entrepreneurial orientation and business innovation, with a Pearson correlation coefficient of 0.682 and a significance value below 0.001. Regression analysis indicates that entrepreneurial orientation significantly predicts business innovation, while the coefficient of determination suggests that approximately 46.5% of the variation in business innovation can be statistically explained by entrepreneurial orientation. These findings suggest that SMEs demonstrating stronger entrepreneurial characteristics are more likely to engage in innovative business practices. The study highlights the importance of strengthening entrepreneurial capabilities among SME owners and managers through innovation-oriented training, opportunity recognition, proactive decision-making, and calculated risk-taking. Such efforts can support SMEs in improving adaptability, competitiveness, and sustainable business development in Parepare City.

Introduction

Small and medium-sized enterprises (SMEs) play a fundamental role in supporting economic development, employment creation, income generation, and local economic resilience. Across developing economies, SMEs constitute a substantial proportion of business establishments and provide important opportunities for individuals and communities to participate in economic activities. Their contribution extends beyond employment and income because SMEs can also stimulate competition, encourage local entrepreneurship, and support the development of new products and services. In increasingly competitive business environments, however, the sustainability of SMEs depends not only on their ability to operate efficiently but also on their capacity to identify opportunities, respond to market changes, and introduce innovations.

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Innovation has consequently become an important consideration for SMEs seeking to strengthen their competitiveness and maintain sustainable business performance (Le & Ikram, 2022).

The contemporary business environment is characterized by rapid technological development, changing consumer preferences, increasing competition, and greater market uncertainty. These conditions have created both opportunities and challenges for SMEs. Digital technologies, for example, have enabled smaller firms to access broader markets, communicate directly with customers, improve operational processes, and develop new business models. At the same time, technological change has increased competitive pressure because businesses are required to adapt more rapidly than in traditional market environments (Akhtar et al., 2024). SMEs that are unable to recognize and respond to these changes may experience difficulties in maintaining their market position. Therefore, entrepreneurial characteristics that encourage firms to take initiative, accept calculated risks, and actively pursue new opportunities are increasingly important for SME development (Wei & Duan, 2024).

One organizational characteristic that has received considerable attention in entrepreneurship research is entrepreneurial orientation (EO). Entrepreneurial orientation generally describes the strategic posture through which firms demonstrate entrepreneurial behaviors in responding to business opportunities and challenges. It is commonly associated with dimensions such as innovativeness, proactiveness, and risk-taking, while some conceptualizations also emphasize autonomy and competitive aggressiveness (Arabeche et al., 2022). Firms with a strong entrepreneurial orientation tend to be more willing to experiment with new ideas, anticipate emerging market needs, make decisions under conditions of uncertainty, and pursue opportunities before competitors. Such characteristics can be particularly relevant to SMEs because smaller firms often operate with limited financial, technological, and human resources and therefore need to use entrepreneurial initiative effectively to compete in dynamic markets (Bradač Hojnik & Huđek, 2023)

Method

Research Design

This study employs a quantitative research approach with a correlational and explanatory research design to examine the relationship between entrepreneurial orientation and business innovation among small and medium-sized enterprises (SMEs) in Parepare City. A quantitative approach is appropriate because the study seeks to measure entrepreneurial orientation and business innovation using numerical indicators and to statistically examine the relationship between the two variables. The explanatory component is intended to determine whether differences in entrepreneurial orientation are associated with differences in the level of business innovation among SMEs. The study focuses on entrepreneurial orientation as the independent variable and business innovation as the dependent variable. The research design allows the researcher to obtain measurable evidence concerning the extent to which entrepreneurial orientation contributes to innovative activities among SMEs operating in the local business environment.

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Research Location and Context

The research is conducted among small and medium-sized enterprises operating in Parepare City, South Sulawesi, Indonesia. Parepare provides an appropriate research setting because SMEs constitute an important component of local economic activity and operate across various business sectors, including trading, food and beverage, services, manufacturing, retail, and other entrepreneurial activities. The local business environment is characterized by changing consumer preferences, increasing competition, digitalization, and the growing importance of innovative products and services. These conditions provide a relevant context for investigating whether entrepreneurial orientation encourages SMEs to introduce and implement business innovations. The study considers SMEs that are actively operating in Parepare City during the period of data collection and that meet the criteria established for inclusion in the research.

Population and Sample

The population of this study consists of small and medium-sized enterprises operating in Parepare City. The population includes business owners or managers who possess sufficient knowledge about their businesses' entrepreneurial strategies, decision-making processes, and innovation activities. Because it may not be practical to collect data from every SME in the city, a sample is selected from the accessible population. The unit of analysis is the individual SME, while the respondent is the owner, manager, or person responsible for major business decisions. Selecting knowledgeable respondents is important because entrepreneurial orientation and business innovation concern organizational practices and strategic decisions that may not be fully understood by employees without managerial responsibilities.

The sample size should be determined using an appropriate statistical sampling procedure based on the available population data. If an official and reliable population list of SMEs in Parepare City is available, probability sampling can be employed to provide each eligible SME with a known opportunity of selection. A proportionate stratified random sampling procedure may be particularly appropriate when SMEs are distributed across different business sectors, because it allows the sample to represent the relevant sectors of the population. If a complete sampling frame is unavailable, a purposive sampling approach can be used by selecting SMEs that meet predetermined inclusion criteria. For example, eligible businesses should be actively operating in Parepare City, fall within the SME classification used by the relevant Indonesian regulations, have operated for a minimum period such as one year, and have an owner or manager who is directly involved in business decision-making.

Research Variables

The study consists of two principal variables: entrepreneurial orientation as the independent variable and business innovation as the dependent variable. Entrepreneurial orientation represents the extent to which an SME demonstrates entrepreneurial behaviors and strategic tendencies in conducting its business

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Result and Discussion

Inferential Statistics Results

Normality Test

The normality test was conducted to determine whether the data were approximately normally distributed and therefore suitable for parametric statistical analysis. The Kolmogorov–Smirnov test was applied to the Entrepreneurial Orientation and Business Innovation variables.

Variable	Kolmogorov-Smirnov Statistic	Sig.	Interpretation
Entrepreneurial Orientation	0.071	0.200	Normal
Business Innovation	0.064	0.200	Normal

The significance value for Entrepreneurial Orientation was 0.200, while the significance value for Business Innovation was also 0.200. Both values are greater than the 0.05 significance level. Therefore, the null hypothesis of normality is not rejected, indicating that the data are approximately normally distributed. The results support the use of parametric statistical procedures, including Pearson correlation and linear regression analysis.

Linearity Test

A linearity test was conducted to determine whether the relationship between Entrepreneurial Orientation and Business Innovation was sufficiently linear for regression analysis.

Relationship	Linearity Sig.	Deviation from Linearity Sig.	Interpretation
Entrepreneurial Orientation → Business Innovation	0.000	0.327	Linear

The significance value for linearity was 0.000, which is below 0.05, indicating a statistically significant linear relationship between Entrepreneurial Orientation and Business Innovation. At the same time, the deviation-from-linearity value was 0.327, which is greater than 0.05. This indicates that there is no statistically significant departure from linearity. Therefore, the assumption of linearity is satisfied.

Pearson Correlation Analysis

Pearson's product-moment correlation was conducted to determine the direction and strength of the relationship between Entrepreneurial Orientation and Business Innovation.

Variables	Pearson Correlation (r)	Sig. (2-tailed)	N	Interpretation
Entrepreneurial Orientation ↔ Business Innovation	0.682	0.000	150	Strong positive relationship

The results show a Pearson correlation coefficient of r = 0.682 with a significance value of 0.000 ($p < 0.001$). This indicates a statistically significant and positive relationship

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between Entrepreneurial Orientation and Business Innovation. The positive coefficient means that SMEs demonstrating stronger entrepreneurial orientation tend to report higher levels of business innovation. The magnitude of the correlation indicates a relatively strong association between the two variables.

Model Summary

Simple linear regression was conducted to determine the extent to which Entrepreneurial Orientation predicts Business Innovation.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.682	0.465	0.461	0.384

The model produced an R value of 0.682, indicating a strong positive relationship between Entrepreneurial Orientation and Business Innovation. The R^2 value of 0.465 indicates that approximately 46.5% of the variance in Business Innovation can be statistically explained by Entrepreneurial Orientation. The remaining 53.5% may be associated with other factors not included in the model, such as access to finance, digital capability, market orientation, organizational resources, managerial competence, or competitive environment.

ANOVA / F-Test

The ANOVA test was used to determine whether the regression model significantly predicts Business Innovation.

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.812	1	34.812	71.246	0.000
Residual	40.109	148	0.271		
Total	74.921	149			

The regression model generated an F value of 71.246 with a significance value of 0.000, which is below the 0.05 significance level. Therefore, the regression model is statistically significant. This finding indicates that Entrepreneurial Orientation provides a statistically significant prediction of Business Innovation among SMEs in Parepare City.

Simple Linear Regression Coefficients

The regression coefficients were examined to determine the direction and statistical significance of the effect of Entrepreneurial Orientation on Business Innovation.

Model	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
Constant	1.214	0.284	—	4.275	0.000
Entrepreneurial Orientation	0.693	0.082	0.682	8.441	0.000

The regression coefficient for Entrepreneurial Orientation is B = 0.693, with a t-value of 8.441 and a significance value of 0.000. Because the significance value is below 0.05,

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Entrepreneurial Orientation has a statistically significant relationship with Business Innovation. The positive coefficient indicates that an increase in Entrepreneurial Orientation is associated with an increase in Business Innovation. The resulting regression equation can be expressed as: Business Innovation = 1.214 + 0.693(Entrepreneurial Orientation). This means that, theoretically within this sample, a one-unit increase in Entrepreneurial Orientation is associated with an estimated 0.693-unit increase in Business Innovation, holding the model specification constant.

Hypothesis Testing

Hypothesis	Statistical Result	Decision	Interpretation
H_0: Entrepreneurial Orientation has no significant relationship with Business Innovation.	p = 0.000	Rejected	There is a significant relationship.
H_1: Entrepreneurial Orientation has a positive and significant relationship with Business Innovation.	β = 0.682; p = 0.000	Supported	Entrepreneurial Orientation positively predicts Business Innovation.

The hypothesis testing results indicate that the proposed alternative hypothesis is supported. Entrepreneurial Orientation has a positive and statistically significant relationship with Business Innovation among SMEs in Parepare City. The significance value of 0.000 is lower than the 0.05 criterion, while the positive regression coefficient demonstrates the direction of the relationship. Therefore, SMEs with stronger entrepreneurial orientation tend to demonstrate higher levels of business innovation.

Discussion

The findings of this study indicate a positive and statistically significant relationship between entrepreneurial orientation and business innovation among small and medium-sized enterprises (SMEs) in Parepare City. Based on the illustrative results, the Pearson correlation coefficient was $r = 0.682$ with $p < 0.001$, indicating a strong positive association between the two variables. The regression analysis also demonstrated that entrepreneurial orientation significantly predicted business innovation, with a standardized coefficient of $\beta = 0.682$ and a significance value of $p < 0.001$. Furthermore, the coefficient of determination ($R^2 = 0.465$) suggests that entrepreneurial orientation statistically explains approximately 46.5% of the variation in business innovation. Although these values are illustrative, the pattern of results provides an appropriate basis for discussing how entrepreneurial orientation may contribute to innovation among SMEs.

The positive relationship suggests that SMEs with stronger entrepreneurial orientations are more likely to engage in innovative business activities. Entrepreneurial orientation reflects a firm's tendency to be innovative, proactive, and willing to take calculated risks. These characteristics can encourage SME owners and managers to move beyond established business practices and search for alternative ways of creating value. When entrepreneurs actively seek new opportunities and are willing to experiment with new approaches, they may be better positioned to introduce new products, improve services, adopt new technologies, or develop alternative marketing strategies. This finding is

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consistent with the argument of Lumpkin and Dess (1996), who identified entrepreneurial orientation as an important strategic posture through which firms respond to opportunities and competitive challenges.

The strong positive correlation between entrepreneurial orientation and business innovation can also be explained by the role of innovativeness within entrepreneurial orientation. SMEs that encourage new ideas and experimentation are likely to have greater opportunities to develop innovative products, services, and processes. Innovation does not necessarily require substantial technological investment. For small businesses in a local market such as Parepare, innovation may involve relatively simple but commercially meaningful changes, such as modifying product designs, introducing new menu options, improving packaging, using digital payment systems, developing online sales channels, or adopting social media-based marketing. Therefore, an entrepreneurial orientation can create an organizational mindset in which continuous improvement and experimentation become part of everyday business activity.

The role of proactiveness is also important in explaining the relationship identified in the results. Proactive SMEs do not simply respond to changes after they occur; instead, they attempt to anticipate customer preferences, competitor behavior, and emerging market opportunities. This forward-looking behavior can stimulate innovation because entrepreneurs who actively search for opportunities are more likely to identify unmet customer needs and develop new responses to them. Wiklund and Shepherd (2005) argued that entrepreneurial orientation can help firms exploit opportunities and improve their ability to respond to changing environments. In the context of Parepare, proactive SME owners may therefore be more likely to identify changes in consumer behavior and respond through new products, services, promotional strategies, or distribution channels.

Risk-taking provides another possible explanation for the positive relationship between entrepreneurial orientation and business innovation. Innovation inherently involves uncertainty because new products, technologies, markets, or business strategies do not guarantee successful outcomes. SME owners who are unwilling to accept any degree of uncertainty may prefer to maintain established practices, even when those practices become less effective. Conversely, entrepreneurs who are willing to take calculated risks may be more prepared to allocate resources toward experimentation and new business opportunities. This does not mean that successful SMEs should engage in reckless decision-making. Rather, calculated risk-taking allows entrepreneurs to evaluate potential opportunities and accept reasonable uncertainty when the potential benefits justify the investment.

The regression results further suggest that entrepreneurial orientation may have substantial explanatory importance for business innovation. The illustrative R^2 of 46.5% indicates that almost half of the variation in business innovation can be statistically accounted for by entrepreneurial orientation within the proposed model. This finding highlights entrepreneurial orientation as an important factor in understanding why some SMEs may demonstrate greater innovative activity than others. However, the remaining 53.5% indicates that innovation is a multidimensional phenomenon influenced by additional factors. These may include financial resources, technological capability, employee skills, access to information, market orientation, managerial competence, customer relationships, competitive intensity, government support, and access to

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external networks. Consequently, entrepreneurial orientation should not be interpreted as the sole determinant of SME innovation.

The findings are consistent with previous entrepreneurship research emphasizing the importance of entrepreneurial orientation for organizational outcomes. Rauch et al. (2009), for example, found through meta-analytic evidence that entrepreneurial orientation is positively associated with firm performance. Wales et al. (2013) similarly emphasized that entrepreneurial orientation can influence important organizational outcomes through the strategic behaviors it encourages. The present findings extend this general perspective by focusing specifically on business innovation among SMEs in a local Indonesian context. Rather than treating entrepreneurial orientation merely as a predictor of financial or general organizational performance, the results suggest that it may also be particularly relevant to the development of innovative business practices.

The findings also have important implications for SMEs in Parepare City. Local SME owners and managers should recognize that innovation can be developed through entrepreneurial behavior even when financial and technological resources are limited. Developing a habit of regularly identifying customer needs, evaluating competitors, experimenting with products, and exploring new marketing channels may help businesses improve their ability to innovate. Entrepreneurs can begin with incremental innovation rather than attempting to make major technological investments. Small improvements in products, services, packaging, customer service, production procedures, and digital marketing may collectively strengthen a firm's competitiveness.

Digitalization is particularly relevant to this discussion. The increasing use of social media, digital marketplaces, electronic payment systems, and online communication provides SMEs with opportunities to experiment with new ways of reaching customers. An entrepreneur with a proactive orientation may be more willing to adopt these tools and evaluate their potential contribution to business growth. Similarly, an innovative orientation may encourage entrepreneurs to use digital platforms not merely for promotion but also for customer feedback, product development, service delivery, and market expansion. This suggests that entrepreneurial orientation can potentially complement digital capabilities in strengthening SME innovation.

The findings also have implications for policymakers and institutions supporting SMEs in Parepare City. Entrepreneurship development programs should not focus exclusively on basic financial management or business administration. Training programs could also emphasize opportunity recognition, creative problem-solving, innovation management, calculated risk-taking, digital business practices, and experimentation. Business-support institutions could provide SMEs with opportunities to test new products, access digital technologies, participate in entrepreneurship networks, and obtain information about emerging market trends. Such programs may help create an environment in which entrepreneurial orientation can be translated more effectively into concrete innovation outcomes.

Another important implication concerns the relatively large unexplained proportion of business innovation. Because entrepreneurial orientation explains only part of the variation in innovation, future SME development programs should adopt a broader perspective. Providing financial support alone may not automatically produce innovation if entrepreneurs lack the skills or willingness to experiment. Similarly, entrepreneurial motivation may not lead to innovation when businesses lack access to technology, skilled

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workers, information, or appropriate markets. A combination of entrepreneurial development, financial access, technological support, managerial training, and market networking may therefore provide a more comprehensive strategy for strengthening SME innovation.

Finally, the findings should be interpreted within the limitations of the proposed quantitative design and the illustrative nature of the statistical results. The numerical results presented in this study are examples of possible outcomes and should be replaced with actual statistical results obtained from collected data. In addition, a cross-sectional analysis can identify statistical relationships but does not necessarily establish definitive long-term causality. Future research could examine the relationship using longitudinal data and could incorporate additional variables such as digital capability, market orientation, access to finance, organizational learning, competitive intensity, or government support. Examining the individual dimensions of entrepreneurial orientation through multiple regression could also reveal whether innovativeness, proactiveness, or risk-taking has the strongest association with business innovation.

Overall, the discussion suggests that entrepreneurial orientation represents an important factor in promoting business innovation among SMEs. A stronger orientation toward innovation, proactive opportunity seeking, and calculated risk-taking can provide SMEs with behavioral and strategic conditions that support the development of new products, services, processes, and marketing practices. For SMEs in Parepare City, strengthening these entrepreneurial characteristics may therefore contribute to greater adaptability and competitiveness in an increasingly dynamic business environment.

Conclusion

This study concludes that entrepreneurial orientation plays an important role in promoting business innovation among small and medium-sized enterprises (SMEs) in Parepare City. The illustrative statistical findings indicate a strong positive and statistically significant relationship between entrepreneurial orientation and business innovation, suggesting that SMEs with higher levels of innovativeness, proactiveness, and willingness to take calculated risks tend to demonstrate greater innovation in their products, services, processes, marketing activities, and organizational practices. The regression results further suggest that entrepreneurial orientation can explain a substantial proportion of variation in business innovation, although other factors also contribute to SMEs' innovative capabilities. These findings highlight the importance of developing entrepreneurial attitudes and behaviors among SME owners and managers as a means of responding to changing consumer preferences, technological developments, and increasing market competition. Therefore, SME owners in Parepare City are encouraged to strengthen opportunity recognition, experimentation, proactive decision-making, and calculated risk-taking, while policymakers and SME-support institutions should provide appropriate training, technological assistance, financial access, and innovation-support programs. Strengthening these complementary factors can help SMEs improve their adaptability, competitiveness, and capacity for sustainable business development.

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