

The Effect of Proactive Action, Innovation and Risk Taking on Business Performance

Hansen Kavana¹ Ida Puspitowati^{1*}

¹*Faculty of Economics and Business, Universitas Tarumanagara, Jakarta 11470, Indonesia*

**Corresponding author. Email: idap@fe.untar.ac.id*

ABSTRACT

The role of SMEs and its development become increasingly important for the economy. The purpose of this study is to examine whether: 1) Proactive action can affect business performance 2) Innovation can affect business performance 3) Risk taking can affect business performance. The sample used in this study includes 50 respondents who own a food and beverage business in West Jakarta. The results show that there is a significant effect of innovation and risk taking on business performance, but proactivity has no significant effect on business performance.

Keywords: *Proactive, Innovation, Risk, Business Performance*

1. INTRODUCTION

1.1. Background

Small and Medium Enterprises (SMEs) are one of the backbones of the economy of a country, and SMEs are a major contributor in absorbing labor. According to [1], labor absorption in the SME sector reaches 96%, and can contribute 60% to GDP. SMEs play a very important role in reducing unemployment in developing countries such as Indonesia, according to data by the Central Statistics Bureau in 2020, the contribution of the UKM sector to Indonesia's Gross Domestic Products reached 61.41% with the number of SMEs almost reaching 60 million units.

The development of Small and Medium Enterprises plays a major role in the development of the manufacturing industry [2]. By increasing the number of small and medium business units, new small industries will emerge as well as new entrepreneurs and this will have an impact on the growth of Gross Regional Domestic Products.

According to the Minister of Industry, in 2019, projects that one of the mainstay sectors to support manufacturing growth and the national economy in the future will come from the food and beverage industry. The important role of the food and beverage industry sector can be seen from the consistently shown contribution to non-oil and gas GDP as well as realized investment.

The government plays an important role in ensuring the availability of raw materials in the food and beverage industry to be able to increase competitiveness and productivity. The food and beverage industry sector is value added based, therefore it is necessary to increase the downstream process. Based on data recorded by the Ministry of Industry in the first quarter of 2020, the food and beverage industry contributed to manufacturing GDP

by 36.4 percent. The growth of the industrial sector reached 3.9 percent in the same period. Thus the food and beverage industry sector is the largest contributor compared to other sectors. Furthermore, judging from the development of investment realization, investment in the food and beverage industry sector for the third quarter of 2017 domestic investment (PMDN) reached IDR 27.92 trillion or an increase of 16.3 percent compared to the same period in 2016. Meanwhile, the foreign investment (PMA) amounted to USD 1.46 billion. So it can be concluded that the food and beverage industry sector is a business field that is appealing to entrepreneurs.

Based on data from the Potensi Desa (Podes) of the Central Statistics Agency in 2018, the number of micro and small businesses in the food and beverage sector, during the 2014 – 2018 period gradually declined. Surprisingly, during that period, micro and small culinary businesses in DKI Jakarta decreased by almost half (46 percent), from 3,200 to 1,730 units. The decline in SMEs in DKI Jakarta needs to be looked into, along with efforts to improve the role and performance of SMEs, especially in food and beverage, because often traditional business models are still a form of SMEs, where entrepreneurs have limited knowledge of.

[3] stated that in the era of globalization, SMEs that implement entrepreneurial orientation (EO) will have better performance compared to businesses that do not apply entrepreneurial orientation. Meanwhile, [4] described that there are three important dimensions of EO, namely Proactivity, Innovation and Risk taking. Efforts to improve business performance can be carried out proactively for entrepreneurs to try to find new opportunities to overcome the constraints of the limitations of the business model.

[5] explained that a proactive attitude requires several supporting factors such as identifying opportunities,

anticipating changes in future demand, preparing strategic plans to achieve goals, and following up on business execution. Entrepreneurial innovation and proactiveness play a very important role in business activities with the aim of improving business performance [6].

Besides being proactive and having the courage to innovate, entrepreneurs are expected to show the courage to take risks to improve business performance. In general, risk taking is often described as a step taken with the risk of uncertainty but aims to improve business performance, as described by [7].

2. CONCEPTUAL DEFINITION OF VARIABLES

According to [3] entrepreneurial orientation is related to the organization leader's courage to take risks, seek opportunities, and make decisions to act. Meanwhile, according to [7], the concept of entrepreneurial orientation includes 3 dimensions, namely: Proactivity, Innovation and Risk taking.

2.1. Proactivity

[8] defined the basic form of proactive personality as a personality possessed by a person who is relatively unmoved by forces related to the situation, and can influence environmental changes. Proactive personality is described as a stable placement of proactive behavior. Proactive behavior according to [8] shows opportunity-seeking and forward-looking behavior characterized by anticipating market changes and acting ahead of competitors. Proactive creation and identification of opportunities have played a major role in many entrepreneurial concepts [9] [10]. [11] Explain that proactiveness plays an important role in relation to superior performance because it implies customer focus, understanding customer needs and ascertaining and exploiting what customers need, and actively deconstructing what competitors are offering so that they can produce better offers.

2.2. Innovation

According to [12], Innovation (innovation) can be in the form of ideas, forms of goods, or a new method where it can be felt or seen either a person or in a group, can be in the form of discovery or development. Meanwhile, [13] describes innovation as a process of changing new ideas and knowledge to create new products or services, in contrast to invention. Furthermore, according to [14], it affects existing marketing resources such as technology, expertise, knowledge, abilities, or strategies. According to [15], innovation is an activity that can cover the entire process of creating and offering services or goods that are either new or better than those that already exist.

2.3. Risk Taking

[16] describe risk taking as an opportunity where a successful entrepreneur turns an idea into an opportunity. Meanwhile, according to [17] risk taking is something that is always associated with the possibility of something happening that will harm the business unexpectedly. Meanwhile, according to [18], risk taking is a commitment to explore and accept all ideas to start a business. Risk taking according to [19] is a psychological variable that reflects a person's ability to take calculated risks and challenges that can be achieved.

2.4. Performance

According to [20], performance is the level of achievement of the company in a certain period of time. Company performance is a highly decisive factor in the development of the company. [21] stated that business performance is a measure of the success of a company in achieving its goals. Meanwhile, according to [22], business performance is the result of work that can be achieved in quality and quantity by an employee in carrying out tasks in accordance with the responsibilities given to them.

2.5. The Relationship between Proactive Actions and Business Performance

According to [11], proactivity tends to be related to superior business performance because it implements customers, understands customer needs, ascertains, finds out customer needs and finds out the value of competitors before making offers to customers. According to [23], the advantage of being proactive is increasing the company's receptivity to market signals and awareness of customer needs, therefore proactivity is related performance because it allows companies to respond to market signals.

H1: There is a significant effect of Proactive Action on Business Performance.

2.6. The Relationship between Innovation and Business Performance

[24] argue that innovation and capacity in implementing innovation determine whether an organization can achieve superior performance. An organization that combines the capacity to innovate with resources will be more successful in improving its capabilities and responding to the environment. This will produce a competitive advantage and organizations with significant innovative capacity can produce superior performance. According to [11], it requires a large amount of capital. Although success often depends on commercialization, applying innovation to companies will infuse learning mechanisms and markets with new views and perceptions of the organization so that they can contribute to business performance.

H2: There is a significant effect of Innovation on Business Performance.

2.7. The Relationship between Risk Taking and Business Performance

According to [25], businesses with strong behavior tend to be attracted to projects that have a high level of risk in order to get a greater return. This behavior will result in stronger business performance because the company is willing to take opportunities in the market. According to [26], risk taking is positively related to business performance. Similarly, according to [11], risk taking has a positive relationship to business performance. This research shows that companies need to show the courage to take risks and challenge existing businesses to improve performance.

H3: There is a significant effect of Risk Taking on Business Performance.

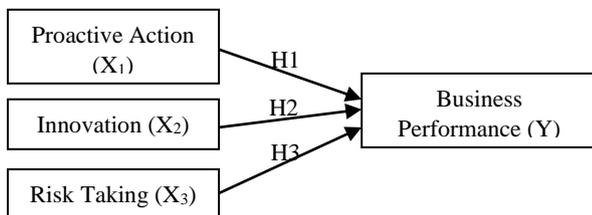


Figure 1 Research Model

3. RESEARCH METHODS

This research uses quantitative descriptive method. The sampling technique uses Nonprobability Sampling, with 50 respondents who were food and beverage business owners in West Jakarta,

The majority of respondents, as many as 34 people (68%) have been running their business for 1 to 3 years, while those aged 20 to 25 were as many as 39 (78%). The respondents were male dominated, as many as 30 males (60%). Based on the latest education, the majority of respondents have a SMA/SMK education, as many as 23 people (46%) and 23 respondents have undergraduate education (46%). Based on annual income, the number of respondents with income below Rp. 200,000,000 is 26 people and has the highest percentage of other respondents, at 52%.

4. RESULT AND DISCUSSION

Based on the validity and reliability testing of the variables, based on the 22 criteria used, loading factor is greater than 0.5, and the cross loadings value of the own indicator must be greater than other indicator for validity test and cronbach's alpha and composite reliability for reliability test has shown in the following table:

Table 1 Loading Factors

Result		Critical Value	Valid / Invalid
Outer Loadings			
Indicator	Loading Factors		
TP1	0.715	>0.5	Valid
TP2	0.775		Valid
TP3	0.786		Valid
TP4	0.829		Valid
TP5	0.868		Valid
I1	0.867		Valid
I2	0.795		Valid
I3	0.766		Valid
I4	0.813		Valid
I5	0.802		Valid
I6	0.816		Valid
I7	0.760		Valid
PR1	0.621		Valid
PR2	0.693		Valid
PR3	0.713		Valid
PR4	0.803		Valid
PR5	0.819		Valid
KU1	0.793		Valid
KU2	0.723		Valid
KU3	0.853		Valid
KU4	0.784		Valid
KU5	0.842		Valid

Source: Data processing using *SmartPLS 3.0*

Table 2 Cross Loadings

Indicator	Proactive	Innovation	Risk-Taking	Work Performance	Valid / Invalid
TP1	0.715	0.534	0.685	0.583	Valid
TP2	0.775	0.698	0.633	0.636	Valid
TP3	0.786	0.684	0.548	0.653	Valid
TP4	0.829	0.785	0.585	0.747	Valid
TP5	0.868	0.790	0.642	0.824	Valid
I1	0.775	0.867	0.670	0.787	Valid
I2	0.648	0.795	0.445	0.638	Valid
I3	0.691	0.766	0.644	0.667	Valid
I4	0.706	0.813	0.590	0.643	Valid
I5	0.707	0.802	0.527	0.665	Valid
I6	0.769	0.816	0.664	0.803	Valid
I7	0.663	0.760	0.507	0.747	Valid
PR1	0.532	0.266	0.621	0.326	Valid
PR2	0.547	0.557	0.693	0.570	Valid
PR3	0.643	0.440	0.713	0.522	Valid
PR4	0.687	0.618	0.803	0.676	Valid
PR5	0.715	0.653	0.819	0.770	Valid
KU1	0.724	0.661	0.694	0.793	Valid
KU2	0.685	0.620	0.669	0.723	Valid
KU3	0.719	0.767	0.680	0.853	Valid
KU4	0.643	0.729	0.559	0.784	Valid
KU5	0.722	0.765	0.671	0.842	Valid

Source: Data processing using *SmartPLS 3.0*

Table 3 Cronbach’s Alpha and Composite Reliability

Construct	Cronbach’s Alpha	Composite Reliability	Critical Value	Reliable / Unreliable
Proactive Action	0.885	0.896	>0.6	Reliable
Innovation	0.908	0.927		
Risk Taking	0.788	0.852		
Business Performance	0.859	0.899		

Source: Data processing using *SmartPLS 3.0*

Table 4 Adjusted R² Value

Variable	R-Square (Adjusted R ²)
Business Performance	0.851

Source: Data processing using *SmartPLS 3.0*

Based on the results of the value of Adjusted R-square (Adj R²), proactive action, innovation, and risk taking have a major influence on business performance by 85.1% and the remaining 14.9% is influenced by other variables not included in this study. Furthermore, the results of the Q-square test (Q²) show that proactive action, innovation and risk taking have a major influence on business performance at 0.524.

Table 5 Q-Square Value (Q²)

Variable	Q-Square (Q ²)
Business Performance	0.524

Source: Data processing using *SmartPLS 3.0*

Table 6 Hypotheses Test Results

Relationships	Path Coefficient	t-statistic	p-value	Result
Proactive Action → Business performance	0.224	1.419	0.156	Not Significant
Innovation → Business performance	0.464	3.343	0.001	Significant
Risk-Taking → Business performance	0.309	3.483	0.001	Significant

Source: Data processing using *SmartPLS 3.0*

Based on the table, it can be concluded that the innovation and risk-taking variable have a significant effect, where each t-statistic value of each variable is > 1.96 and the p-value of each variable is < 0.05 , but not with the proactive action variable which has a t-statistic value < 1.96 and a p-value > 0.05 , which means that proactive action has no significant effect on business performance.

Based on the hypothesis test that has been conducted, the not significant where proactive action has a positive but not significant effect, therefore in this study the performance of the food and beverage business in West Jakarta is not significantly affected by proactive action. The results of testing this hypothesis support the results of previous research conducted by [27] that proactiveness does not have a positive relationship with business performance.

Furthermore, H2 is accepted, which means that innovation has a significant influence on the performance of the food and beverage business in West Jakarta. The results of this study support research conducted by [28] where business performance is influenced by innovation, besides that innovation contributes to competitiveness, in the form of creative thinking related to company activities. H3 is accepted, which means that risk taking has a significant effect on the performance of food and beverage business in West Jakarta. The results of this research hypothesis testing are in line with previous research by Hughes and Morgan [11] with the result that business performance has a positive relationship with risk taking.

5. MANAGERIAL IMPLICATION

The results of this study of 50 food and beverage SMEs in West Jakarta, can be used as input for food and beverage SMEs in West Jakarta in an effort to improve business performance.

Improving business performance can be done by continuing to develop innovation and courage in taking risks, especially during the current pandemic in order to survive and at the same time improve business performance. Although Proactive action is not significant, it is still a concern for food and beverage SMEs to be more proactive in developing their business and taking opportunities.

6. CONCLUSION AND SUGGESTION

Based on the results of research on the effect of proactive action, innovation and risk taking on the performance of the food and beverage business in West Jakarta, it can be concluded that business performance is positively and significantly influenced by innovation and risk taking, while proactive action has no significant effect on the performance of the food and beverage business in West Jakarta. Because proactive actions are not significant, this can be used as input for food and beverage entrepreneurs

to continue to take proactive actions in order to improve business performance.

REFERENCES

- [1] <https://ekonomi.kompas.com/read/2018/10/31/204100326/sri-mulyani--umkm-serap-96-persen-tenaga-kerja>
- [2] D. R. Sulistyastuti. *Dinamika Usaha Kecil dan Menengah (UKM) Analisis Konsentrasi Regional UKM di Indonesia 1999 2001*. Economic Journal of Emerging Markets, vol 9, No 2, 2004
- [3] G. Knight. *Entrepreneurship and marketing strategy: the SME under globalization*, Journal of International Marketing, Vol. 8, No. 2, 2000. ISSN 1069-031X.
- [4] J. G. Covin, D. P. Slevin. *Strategic management of small firms in hostile and benign environments*, Strategic Management journal, vol. 10, 1989, pp. 75-87.
- [5] Crant, J. M. *The proactive personality scale in organizations*. Journal of Management, vol. 80, 2000, pp. 435-462.
- [6] I Made Sukaryawan. *Pengaruh Orientasi Pasar, Kewirausahaan, dan Inovasi Terhadap Kinerja Bisnis pada Perusahaan Aspal-Beton (Hotmix) di JABODETABEK.*, Jurnal MIX, Volume 3, No. 2, 2013.
- [7] G. T. Lumpkin, G. Dess. *Clarifying the entrepreneurial orientation construct and linking it to performance*, Academy of Management Review, vol. 21, 1996, pp. 135-172.
- [8] Bateman, T. S., & Crant, J. M. *The proactive component of organizational behavior: A measure and correlates*. Journal of Organizational Behavior, vol. 14, No. 2, 1993, pp. 103-118.
- [9] Kreiser, P. M. *Entrepreneurial Orientation and Firm Performance: The Moderating Role of Managerial Power*. American Journal of business, Vol. 25, no. 2, 2010.
- [10] Tang, J. *Proactiveness, Stakeholder-Firm Power Difference, and Product Safety and Quality of Chinese SMEs*, 2013.
- [11] M. Hughes, R. E. Morgan. *Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth*, Industrial marketing management, vol. 36, no. 5, 2007, pp. 651-661.

- [12] Kristiawan, M., dkk. Inovasi Pendidikan. Jawa Timur: Wade Group National Publishing, 2018.
- [13] Ramadani, V., & Gerguri, S. Innovations: principles and strategies. *Strategic Change*, vol. 20, no. 3-4, 2011.
- [14] Garcia, R. & Clantone, R. A critical look at technological innovation typology and innovativeness terminology: a literature review, *The Journal of Product Innovation Management*, Vol. 19 No. 2, 2002, pp. 110-132.
- [15] Suwarno, Y. Inovasi di sektor publik. STIA-LAN, Jakarta, 2008.
- [16] H. T. Keh, M. D. Foo, B. C. Lim. Opportunity evaluation under risky conditions: the cognitive processes of entrepreneurs, *Entrepreneurship Theory and Practice*, vol. 27, no. 2, 2002, pp. 125-148.
- [17] Basrowi. Kewirausahaan untuk perguruan tinggi. Bogor: Ghalia Indonesia, 2011.
- [18] Mitchell, R. K., Busenitz, L., Lant, T., McDougla, P., Morse, E., & Smith, J. (2004), "The distinctive and inclusive domain of entrepreneurial cognition research", *Entrepreneurship Theory and Practice*, Vol. 28 No.6, pp. 505-518.
- [19] Jain, R., & Ali, S.W. A review of facilitators, barriers and gateways to entrepreneurship: Directions for future research. *South Asian Journal of Management*, Vol. 20, 2013, pp. 122-163.
- [20] Suci, R. P. Peningkatan kinerja melalui orientasi kewirausahaan, kemampuan manajemen, dan strategi bisnis. *Jurnal Manajemen dan kewirausahaan*, Vol. 11, No. 1, 2009, pp. 46-58.
- [21] Purnomo, R. & Lestari. Pengaruh kepribadian, self-efficacy, dan locus of control terhadap persepsi kinerja usaha skala kecil dan menengah. *Jurnal Bisnis dan Ekonomi*, Vol. 17, No. 2, 2010, pp. 144-160.
- [22] Mangkunegara. Pengaruh Budaya Organisasi Terhadap Motivasi dan Kepuasan Kerja serta Kinerja Karyawan Pada Sub Sektor Industri Pengolahan Kayu Skala Menengah Di Jawa Timur. *Jurnal Manajemen & Kewirausahaan*, Vol. 7, No. 2, 2002, pp. 171-188.
- [23] P.M. Wright, B. Gerhart, J.R. Hollenbeck, R.A. Noe. *Human resource management: Gaining a competitive advantage* (4th Ed.). Boston, McGraw-Hill, 2003.
- [24] R. Hurley, G. T. Hult, Innovation, market orientation, and organizational learning: an integration and empirical examination, *Journal of Marketing*, Vol. 62, no. 3, 1998.
- [25] G. J. Avlonitis, H. E. Salavou, Entrepreneurial orientation of SMEs, product innovativeness, and performance, *Journal of Business Research*, vol. 60, no. 5, 2007, pp. 566-575.
- [26] A. Rauch, J. Wiklund, G. T. Lumpkin, M. Frese. Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future, *Entrepreneurship theory and practice*, vol. 33, no. 3, 2009, pp. 761-787.
- [27] Umar, Z. A. Peran Kemampuan Manajemen dan Orientasi Pasar Sebagai Mediasi Pengaruh Orientasi Kewirausahaan Terhadap Kinerja Bisnis, 2015.
- [28] R. J. Calantone, S. T. Cavusil, Y. Zhao. Learning orientation, firm innovation capability, and business performance. *Industrial Marketing Management*, vol. 31, 2002, pp. 515-524.