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Research Article

Analysis of Micro, Small and Medium Enterprises (MSMEs) Development

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Abstract

This study examines the impact of entrepreneurial orientation on the development of Micro, Small, and Medium Enterprises (MSMEs) in Medan Sunggal, Medan. Entrepreneurial orientation, including proactivity, risk-taking, and innovation, plays a critical role in enhancing MSME performance, particularly in product development and market competitiveness. The research uses a quantitative approach, with data collected from 85 MSMEs in the region. Validity and reliability tests confirmed the accuracy and consistency of the instruments. Multiple linear regression analysis revealed a significant positive relationship between entrepreneurial orientation and MSME development, with an R^2 value of 0.807, indicating that 80.7% of the variance in MSME development can be explained by entrepreneurial orientation. The results suggest that fostering entrepreneurial qualities such as innovation and risk-taking can significantly boost MSME growth. This finding is consistent with previous research and underscores the importance of cultivating entrepreneurial skills among MSME owners and managers. The study recommends that local governments and business development organizations support entrepreneurial programs to enhance MSME performance. Future research could explore other factors affecting MSME success, such as access to finance, market conditions, and government policies, to gain a broader understanding of the dynamics influencing MSME development.

Introduction

Understanding the development of trends in the community is important for business actors, especially in the MSME business. In this increasingly dynamic and competitive era, they are required to create new, innovative products so that the business they build can grow bigger and not lose to competing with other business competitors. In addition, in the business environment, they are often faced with uncertainty because the environment is changing rapidly, so MSME business actors need to form a business strategy through a business model to meet consumer desires and needs.

In the context of MSMEs, having an entrepreneurial orientation can be said to be the key to improving company performance so that the business that is pioneered will be more focused. Successful new product development performance is very important for the company. Companies need to review, update, and change their product range regularly in line with existing trends because the product life cycle is very short. To maximize

development into a new product, an entrepreneurial orientation is required as the main key to improving relevant company-level results such as business performance, global competitiveness, or corporate entrepreneurship (Ferrerias-Méndez et al., 2021), so that the products developed can attract public attention.

New product development performance is closely related to entrepreneurial orientation. Entrepreneurial orientation as a company-level construct, determines the overall strategic posture of the organization, including business model innovation. According to Su, Zhang and Ma (2020) Business model innovation for companies can be said to be reshaping, generating new value to surpass their competitors. Business model innovation also affects the performance of new product development in a business. Business model innovation can be a perfect opportunity for product innovation. Because the process of creating and delivering value followed by companies to compete has an effect on the success of new product development performance, when business models are innovative, they provide benefits to customers such as new distribution solutions (Velu, 2015).

One of the potentials in each region is the existence of Small and Medium Enterprises (SMEs). Small and Medium Enterprises (SMEs) have a very important role in the national economy. Because in addition to playing a role in economic growth and equitable distribution of development results. The impact of SMEs on unemployment due to the workforce not being absorbed in the world of work is reduced.

Among the many emerging SMEs are SMEs in the snack food sector. Businesses in the snack or snack sector are businesses that are developing, especially in Pagar Alam City. The emergence of various unique foods and culinary tourism, as well as culinary trends as a lifestyle for today's society, are proof that this business is growing rapidly, so the existence of these SMEs must be maintained in order to continue to contribute to the regional economy. Seeing the development of the number of existing SMEs, it is undeniable that many SMEs have been established, but on the one hand, many also have problems so that they are unable to be consistent and the business is closed. SMEs have quite complex problems, so that they can affect the performance of SMEs, including; lack of knowledge about the market, weak bargaining power, lack of capital, and low technology. The cause of the weak performance and productivity of SMEs is also strongly suspected to be due to the weak entrepreneurial character and the suboptimal role of managers in managing businesses in a rapidly changing business environment like today Feriyansyah (2023). To get out of the problems faced by micro and small business actors, SME actors must design, install and operate a strategy formulation system, a strategic planning system and a program preparation system to motivate all company personnel in seeking and formulating strategic steps to build the company's future.

Literature Review

Micro, Small, and Medium Enterprises (MSMEs) are a vital sector for Indonesia's economy, contributing significantly to the Gross Domestic Product (GDP) and employment absorption. According to Law No. 20 of 2008, MSMEs are divided into three categories: micro, small, and medium enterprises. Micro enterprises are those owned by individuals or business entities with certain criteria, while small and medium enterprises have higher limits in terms of capital and annual revenue. MSMEs play an essential role in the national economy, contributing up to 60% of GDP and absorbing 97% of the workforce, as well as contributing to income distribution and national stability.

The development of MSMEs includes efforts to expand business capacity and potential, whether in terms of products, markets, or management. This process involves various strategies, including the adoption of new technologies, product innovation, and more thorough business planning. The success of MSME development is heavily influenced by the ability to adapt and capitalize on available market opportunities. Additionally, productivity measurement is crucial in assessing business success, with indicators such as efficiency, effectiveness, and other factors contributing to business growth.

Entrepreneurial orientation is a key factor in driving MSME development. Entrepreneurial orientation refers to the efforts to actively seek and exploit business opportunities, create innovations, and take risks to achieve objectives. A company with an entrepreneurial orientation is more focused on product and market innovation and takes a proactive approach to problem-solving. Entrepreneurial orientation is measured through

dimensions such as innovation, risk-taking, and proactivity, all of which play a significant role in improving MSME performance.

Entrepreneurial orientation can drive the necessary changes in product development and overall business performance. Innovation, as one of the dimensions of entrepreneurial orientation, helps companies introduce new products or services that can meet the ever-evolving market needs. Furthermore, risk-taking in entrepreneurial orientation contributes to a company's ability to compete and respond to market changes quickly. Companies with a strong entrepreneurial orientation will be better able to adapt and innovate in the face of market challenges.

In addition to entrepreneurial orientation, market orientation also plays a vital role in MSME success. Market orientation is an approach that emphasizes the importance of understanding consumer needs and desires and the ability to adapt products and services to customer preferences. With a strong market orientation, MSMEs can create a competitive advantage, increase customer satisfaction, and improve business performance. A market-oriented company will be more responsive to changing trends and consumer preferences, thereby enhancing its competitiveness in the market.

To achieve optimal performance, MSMEs must implement an integrated strategy that includes both entrepreneurial and market orientations. These orientations support each other in creating product innovations, improving operational efficiency, and expanding market share. MSMEs with a strong entrepreneurial orientation and the right market orientation can produce products more relevant to consumer needs, thereby increasing competitiveness and overall business performance.

Furthermore, entrepreneurial orientation can be measured using indicators such as proactivity, innovation capability, risk-taking, and the willingness to compete. By developing these indicators, MSMEs can enhance their internal capacity to survive and thrive in an increasingly competitive market. Success in product development and performance improvement for MSMEs greatly depends on entrepreneurs' ability to make the right decisions based on these entrepreneurial factors.

Previous studies have shown that entrepreneurial orientation significantly impacts MSME performance. For example, research by Ahmad Feriyansyah & Febriansyah (2023) demonstrated that entrepreneurial orientation has a strong influence on the performance of small and medium enterprises, with a coefficient of determination reaching 91%. Another study by Raidon Hutahaeen & Ayu Dita Sari (2023) also showed that market orientation and local empowerment policies significantly affect MSME marketing performance. This evidence proves that the combination of entrepreneurial and market orientations can have a positive impact on MSME performance.

As times progress, it is crucial for MSMEs to continuously innovate in developing products and improving business processes. Entrepreneurial orientation, driven by the ability to take risks and innovate, will create opportunities to develop new products that better align with market demand. On the other hand, market orientation allows MSMEs to adapt products to trends and consumer needs, improving competitiveness and expanding their market.

Overall, entrepreneurial orientation and market orientation complement each other in MSME development. By leveraging both, MSMEs can enhance their overall performance in product innovation, marketing, and operations. Therefore, it is essential to continue developing entrepreneurial capacity within MSMEs to face increasingly competitive market challenges and seize available opportunities for long-term success.

In the context of this research, the proposed hypothesis is that entrepreneurial orientation has an influence on the development of MSMEs in Medan Sunggal District. This hypothesis will be tested to determine the extent to which entrepreneurial orientation affects MSME development in the region, considering various factors related to innovation, risk-taking, and market orientation.

Research Method

This research employs a quantitative approach, utilizing field research to assess the influence of entrepreneurial orientation (X) on the development of Micro, Small, and Medium Enterprises (MSMEs) in the Medan Sunggal District, Medan. The study aims to understand how various factors such as proactivity, risk-taking, innovation, and competitive desire, which are aspects of entrepreneurial orientation, affect the development of MSMEs in this region. The research focuses on a population of 564 MSMEs in the area, from which a sample of 85 MSMEs is selected using the Slovin formula, considering a 10% margin of error to ensure 90% accuracy. Data collection is carried out through two primary methods: structured questionnaires and interviews. These tools are designed to gather comprehensive data on the operational characteristics of the MSMEs and the entrepreneurial orientation of their owners or managers. The questionnaire is constructed with open-ended questions to elicit detailed responses, and interviews are conducted to further explore the qualitative aspects of entrepreneurial orientation and MSME development. The gathered data is then analyzed using the SPSS software, which facilitates statistical analysis to determine the relationships between entrepreneurial orientation and MSME development. To ensure the accuracy and reliability of the findings, the study performs several tests. First, validity tests are conducted by correlating individual indicators with total construct scores to ensure the questionnaire measures what it intends to measure. A correlation coefficient greater than the critical value indicates valid instruments, while lower values suggest invalidity. Reliability tests follow, where the consistency of responses to the questionnaire is assessed using Cronbach's alpha, with values above 0.5 indicating reliability. After confirming the quality of the data, the research proceeds with classical assumption tests. These include a normality test to check whether residual values follow a normal distribution, which is a requirement for regression analysis. The Kolmogorov-Smirnov test is applied to assess normality, ensuring the validity of the regression model. Additionally, a linearity test is conducted to confirm the linear relationship between entrepreneurial orientation (X) and MSME development (Y). If the calculated F-value exceeds the critical F-value, a linear relationship is established. Following the assumption tests, multiple linear regression analysis is performed to identify the degree and significance of the impact of entrepreneurial orientation on MSME development. The regression model used in this analysis is expressed as $Y = a + b_1X_1 + e$, where Y represents MSME development, X refers to entrepreneurial orientation, and e represents the error term. The hypothesis testing includes t-tests to examine the individual effects of each independent variable on MSME development. If the t-value is greater than the critical value, it indicates a significant influence of that variable on the dependent variable. The F-test is used to assess the overall effect of all independent variables simultaneously on the dependent variable. A significant F-value suggests that entrepreneurial orientation collectively influences MSME development. Finally, the coefficient of determination (R^2) is calculated to measure the proportion of variance in MSME development explained by the entrepreneurial orientation variables. This statistic provides insight into the explanatory power of the model. The results of these tests will contribute to understanding how entrepreneurial orientation, including proactivity, risk-taking, innovation, and competitiveness, affects the growth and success of MSMEs in Medan Sunggal. By analyzing the relationship between these factors, the research aims to provide valuable insights into the strategies that can enhance MSME development and inform policy recommendations for supporting entrepreneurship in the region. Furthermore, the findings may help guide future initiatives and interventions that aim to foster a conducive environment for the growth of MSMEs, enabling them to contribute more significantly to the local and national economy.

Result

Medan Sunggal, a subdistrict in Medan, derives its name from the former kingdom of "Sunggal Serba Nyaman," originally a village founded by Datuk Aidir Surbakti in the Sembuaikan area near Mount Sibayak. In 1845, Datuk Abdullah Ahmad Surbakti moved the administrative center to the present-day area of Jl. PAM Tirtanadi. From 1866 to 1895, Datuk Baiduzzaman ruled the kingdom before being exiled to Cianjur for resisting Dutch colonization. Medan Sunggal is one of the 21 subdistricts of Medan and covers residential, office, and industrial areas. It is divided into 6 villages and 88 neighborhoods: Lalang, Sunggal, Sei Sikambing B, Babura, Tanjung Rejo, and Simpang Tanjung. The boundaries of Medan Sunggal are as follows: to the west, it borders Medan Sunggal and Medan Selayang; to the east, it borders Medan Polonia; to the south, it borders Medan Johor; and to the north, it borders Medan Petisah.

The study used various instruments to validate and analyze data, including validity and reliability tests. Validity assesses whether an instrument measures what it is intended to measure, while reliability ensures that repeated measurements yield consistent results. The instruments used in this research aimed to analyze the relationship between entrepreneurial orientation (X) and SME development (Y) in Medan Sunggal. Validity testing was carried out using a corrected item-total correlation (r). For this study, the critical value (r-table) was determined based on 85 respondents. All items in the Entrepreneurial Orientation variable (X) were found to be valid, as the calculated correlation values (r) were all greater than the critical value (r-table = 0.179). This means that all 8 items for Entrepreneurial Orientation were valid indicators.

Similarly, the validity of the SME Development variable (Y) was tested. The results showed that all 6 items were valid, as the calculated correlation values (r) exceeded the critical value (r-table = 0.179). This confirms that the items in the SME Development variable are valid and appropriate for measuring the variable in the context of this research. Reliability testing was conducted using Cronbach's Alpha, a statistical measure of consistency. For both variables, the Cronbach's Alpha values were 0.768 for Entrepreneurial Orientation and 0.787 for SME Development, both exceeding the threshold of 0.7. These results indicate that both variables are reliable, meaning the measurement instruments are consistent and can be used to measure these constructs effectively.

The normality test aimed to determine whether the data followed a normal distribution, which is a key assumption for regression analysis. The One-Sample Kolmogorov-Smirnov Test showed a significance value of 0.079, which is greater than the threshold of 0.05. This suggests that the data is normally distributed and suitable for further statistical analysis, such as regression. The linearity test examined whether there was a linear relationship between Entrepreneurial Orientation (X) and SME Development (Y). The results indicated that the linearity of the relationship was significant, with a p-value of 0.000 for the linearity test. Additionally, the deviation from linearity had a p-value of 0.104, which is greater than 0.05, confirming that the relationship is linear.

A simple linear regression analysis was conducted to examine the influence of Entrepreneurial Orientation (X) on SME Development (Y). The results showed a significant positive relationship between the two variables. The regression equation was $Y = -5.265 + 0.834X$, indicating that for every unit increase in Entrepreneurial Orientation, SME Development increases by 83.4%. The t-test was used to determine whether Entrepreneurial Orientation (X) had a significant effect on SME Development (Y). The t-statistic was 18.603, and the p-value was 0.000, which is less than the significance level of 0.05. This indicates that Entrepreneurial Orientation has a significant positive effect on SME Development, leading to the rejection of the null hypothesis and acceptance of the alternative hypothesis.

The F-test was conducted to test the overall significance of the model. The results indicated that the F-statistic was 346.068, with a p-value of 0.000, which is less than 0.05. This means that Entrepreneurial Orientation (X) significantly influences SME Development (Y) as a whole, and the model is statistically significant. The R² value, which indicates the proportion of variation in SME Development (Y) explained by Entrepreneurial Orientation (X), was 0.807. This means that 80.7% of the variation in SME Development can be explained by Entrepreneurial Orientation, while the remaining 19.3% is influenced by other factors outside the scope of this study.

The results of this study align with previous research, such as Fella Sifa Khoviani & Khairina Nur Izzaty (2020), who found a positive relationship between Entrepreneurial Orientation and SME performance. Similarly, Ahmad Feriyansyah & Febriansyah (2023) also found a significant impact of Entrepreneurial Orientation on SME performance, with their study showing a 91% coefficient of determination for the impact of Entrepreneurial Orientation on performance. The regression equation $Y = -5.265 + 0.834X$ indicates that for every increase in Entrepreneurial Orientation by one unit, SME Development increases by 0.834 units. This positive relationship suggests that a stronger entrepreneurial orientation leads to better development outcomes for SMEs. The constant value of -5.265 indicates that without any entrepreneurial orientation, the SME development score would be negative, which is conceptually not possible but shows the importance of Entrepreneurial Orientation.

The study's findings emphasize the importance of cultivating a strong entrepreneurial orientation in SMEs to enhance their development. Local governments and business development organizations should encourage entrepreneurship programs, skills training, and access to resources that can help foster an entrepreneurial mindset among SME owners and managers in Medan Sunggal. Future research could explore other factors that may influence SME development in Medan Sunggal, such as access to financing, market opportunities, or governmental policies. Researchers may also expand the scope of the study by including a broader sample size or exploring different regions to compare the findings and assess whether Entrepreneurial Orientation consistently influences SME development.

This study contributes to the growing body of literature on the role of Entrepreneurial Orientation in the success and development of SMEs. By providing empirical evidence of the positive impact of Entrepreneurial Orientation, the study helps reinforce the importance of entrepreneurial attitudes in shaping the trajectory of small and medium-sized enterprises. The findings of this research offer practical insights for SME managers and business owners in Medan Sunggal. By adopting a more entrepreneurial approach, including being proactive, innovative, and risk-taking, SMEs can potentially increase their chances of success. The study encourages SMEs to invest in developing these qualities to enhance their growth prospects.

Despite the significant findings, the study has some limitations. It focused solely on Medan Sunggal, which may not represent the situation in other regions. Additionally, the study only examined two variables—Entrepreneurial Orientation and SME Development—without considering other potential factors that could influence SME success, such as market conditions, technological advancements, and external economic factors. In conclusion, the study confirms that Entrepreneurial Orientation has a significant positive impact on SME Development in Medan Sunggal. The results suggest that cultivating entrepreneurial attitudes can lead to better development outcomes for SMEs. Further research should explore additional factors influencing SME development to provide a more comprehensive understanding of the dynamics at play in the growth of small and medium-sized businesses.

Conclusion

Based on the research findings and discussion, it can be concluded that Entrepreneurial Orientation has a significant impact on the Development of SMEs in Medan Sunggal District. This can be seen from the results of the hypothesis test, where the calculation of t-value (18.603) is greater than the t-table value (1.663), and the significance value is 0.000, which is less than 0.05, indicating that H1 is accepted and H0 is rejected. Therefore, it can be concluded that Entrepreneurial Orientation has a positive and significant effect on the Development of SMEs in Medan Sunggal District. Based on the R-Square analysis, it can be determined that the influence of Entrepreneurial Orientation on SME development is 80.7%, with the remaining 19.3% influenced by factors outside the scope of this research.

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