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THE EFFECT OF INNOVATION AND ENTREPRENEURIAL INTENTION TO FIRM PERFORMANCE

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ABSTRACT:

The purpose of this research is to measure the effect of entrepreneurial orientation and the types of innovation (product, process, marketing) to the firm performance. Little attention, however, has been given to the possible impact of various dimensions of innovation on firm performance. To achieve this purpose, the authors evaluate the impact of entrepreneurial orientation and the types of innovation on the performance of small and medium enterprises (SMEs). This study applied a quantitative design. The questionnaires were distributed manually and digitally to 236 workers who work in the small and medium enterprises (SME) in Jababeka, Cikarang area–Indonesia. The data were analyzed using a hierarchical regression analysis. The findings confirmed the hypothesis that entrepreneurial orientation and type of innovation influenced firm performance significantly.

Keywords: Innovation, entrepreneurial orientation, firm performance, SMEs, Indonesia.

Introduction

The backbone of developed economies throughout the world is in the SME sector (Ramayah, 2014). Further he stated, small and medium enterprises (SMEs) are the engines of global economic growth. In developed countries, such as those in the European Union (EU) with approximately 300 million populations, SMEs represent 99 percent of all businesses, which implies an average of 52 enterprises per 1,000 populations. Small and Medium Enterprises (SMEs) have an important role in the Indonesian economy, especially as the large provider of employment opportunities. Based on the published report Statistics Indonesia (2020), there are 64.2 million SMEs in 2018, the home for 97% employment and 99% businesses in Indonesia, and contribute around 60.3% to Indonesia's GDP (Santia, 2020). Therefore, SME's have the biggest contribution as a tool to reduce the poverty in the developing country like Indonesia. The largest sector of SMEs in Indonesia is, based on Statistics Indonesia report, dominated by agriculture and non-agriculture sectors (Haryanti dan Hidayah, 2018). Further, they reported that for non-agriculture sectors are dominated by groceries and retailers, accommodations and food and beverages, and processing industries. Even though, the growth of SMEs in Indonesia is promising, it creates a huge problem specially to stay in a competition since very rare SMEs can survive more than two years

(Permana, 2020).

Due to the biggest contribution of SME's in the economy, competitiveness, and development of SME's must be maintained continuously, especially in handling competition among them and other big companies as well (Rosli and Sidek, 2013). In addition, it is also important for them to have innovation (Delgado-Ballester, 2009; Zhang and Zhu, 2016) and entrepreneurial orientation (Arshada et al., 2014; McGee and Peterson, 2019), since those characteristics play an important role to compete and keep survive in the market (Saleh and Al-swidi, 2014).

From previous studies, product innovation represents the provision of solutions to market threats and opportunities, creating the "basis for the survival and the success of the firm well into the future" (Delgado-Ballester, 2009; Muller, 2019; Jajja, Kannan, Brah, and Hassan, 2017). In certain environments, entrepreneurial orientation may be a useful construct to understand the capability of certain firms to maintain performance tracks while other firms fail. This situation implies that a complex relationship exists between entrepreneurial orientation and firm performance (Pratono and Mahmood, 2015; Shirokova, Bogatyreva, Beliaeva, Puffer, 2016; Rezaei and Ortt, 2018; Moustaghfir, Fatihi, and Benouarrek, 2020). Therefore, the research questions related to this study are does product innovation influences firm performance? does process innovation influences firm performance? does market innovation influence firm performance? and does entrepreneurial orientation influences firm performance?

The specific objectives of this research are to explore the impact of innovation types; product innovation, process innovation, marketing innovation, and also entrepreneurial orientation on the performance of small and medium enterprises.

This research paper is divided into five sections. It begins with a general background, identifying the problem, objective of the study, significance of the study, limitation of the study, and the organization of the study. Followed by a presentation of the literature review and relevant research associated with the problem addressed in this study. The next section will discuss the methodology, tools, and procedures used for data collection in this study. Then, this study will present the analysis of the data and the final results. Last but not least, this study offers a summary and discussion of the researcher's findings, implications for practice, and recommendations for future research.

Literaturereview

FirmPerformance

Firm performance is expected to be affected by business development services and outsourcing activities (Hasan and Almubarak, 2016). Performance is the accumulated result of all work activities in the organization (Bayarçelik and Özşahin, 2014; Sahoo and Yadav, 2017; Ikram, Sroufe, Mohsin, Solangi, Shah, and Shahzad, F. (2019). Performance could be defined as the evaluation of all efforts in reaching out to the realization of management goals (Cetindere, Duran, and Yetisen, 2015; Putri, Yusof, Hasan, and Darma, 2017; Sanjaya, 2018). Business Performance is a description of the level of fulfilled task of the business's goals or target according to obtained results at the end of a business period (Yildiz, Basturk, and Boz, 2014). Performance is a matter of future-oriented, specially designed based on the particular conditions of each organization or individual and is based on inputs and outputs (Suhardi, 2015). All of the work activities that obtain results or management goals at the end of the business period is the definition of firm performance.

Bayarçelik and Özşahin, (2014) studies have shown that entrepreneurial orientation

which defines as the role of entrepreneurship as firm behavior has a significant positive effect on firm performance in Turkish Companies. Ar and Baki, (2011) conducted a study involving 270 managers of small and medium-sized enterprises (SMEs) located in Turkish science and technology parks (STPs) and found out that both of product and process innovation have a strong and positive association with FP. Cetindere, et al. (2015) studied the quality managers working at the 32 sample companies among the 65 operating in Kütahya. They found that effectiveness, efficiency, and utilization of resources, productivity, quality, quality of work-life, innovation, and profitability affect firm performance. Karabulut (2015) did a study involving 197 manufacturing firms in Istanbul in Turkey and found that innovation types have positive impacts on firm performance.

According to Zehir, Can, and Karaboga (2015), performance can be measured with financial and operational (non-financial) indicators. They found that financial measures are related to economic factors such as profitability and sales growth (e.g. return on investment, return on sales, and return on equity) and non-financial success factors such as quality, market share, satisfaction, new product development, and market effectiveness. Bayarçelik and Özşahin, (2014) found that proactiveness and competitor aggressiveness are closely related, both have a similar effect on firm performance. Ar and Baki, (2011) define the organizational performance of firms in terms of sales, profitability, and market share instead of accounting-based performance measures, such as ROA, ROS, and ROI. Cetindere et al. (2015) found that organizational performance concept is defined with 7 performance dimensions, these are as follows: effectiveness, efficiency and utilization of resources, productivity, quality, quality of work-life, innovation, and profitability and budget compliance.

Innovation

According to Yildiz, Basturk, and Boz (2014), innovation can be classified into product innovation, process innovation, marketing innovation, organization innovation, service innovation. Product innovation, process innovation, and marketing innovation are more familiar in the innovation literature (Rosli and Sidek, 2013). This study would be discussed more detail about product innovation, process innovation, and marketing innovation.

Product Innovation

Atalay, Anafarta and Sarvan (2013) defined product innovation as the introduction of a good or service that is new or improved to meet an external user or market user. This includes the improvements in technical specifications, components and materials, and the other functional. According to Ar and Baki (2011), product innovation is forming a new product category or implementing a small change to the existing products that have benefit to customers. It also refers to the introduction of a new product with a new material or small improvement of the existing product to meet the customer satisfaction (Rosli and Sidek, 2013). Product innovation can be defined as the existing product that has a new development from the materials, components, and functions (Hassan, Shaukat, Nawaz, and Naz, 2013). Other than that, product innovation is the changing or creation of new products according to the existing or potential customer requests (Kafetzopoulos, Gotzamani, and Gkana, 2015). So, product innovation can be concluded as the introduction of new products that have improvement in the material, specifications, functional to meet the customer satisfaction.

Leng, Liu, Tan, and Pang (2015) conducted research on product innovation among the science and technology department of local governments in Anhui province with 360

respondents found that market orientation and technology orientation affect product innovation. The research from Lukas and Ferrel (2000) about product innovation among the manufacturing industry in the U.S found that customer orientation, competitor orientation, and market orientation will affect product innovation. Ar and Baki (2011) conducted research on product innovation among small and medium enterprises of science and technology parks in Turkish with 90 percent of the participants have less than 50 employees found that the extent of R&D strategy, top management support (TMS), customer focus (CS), organizational learning capability (OLC), creative capability (CC), organizational collaboration (OC), and supplier relationship (SR) affect product innovation. Hernández-Espallardo and Delgado-Ballester (2009) conducted research on product innovation among small manufacturing industry in Spain with 218 of firm participants found that market orientation affect product innovation.

Rosli and Sidek (2013) found that product innovation for small and medium enterprises manufacturer is measured by the introduction of new products, technological newness in product, and product differentiation. According to Kafetzopoulos et al (2015), firms change or create entirely new products or services in the technology and manufacturing industry based on the existing and potential customers' requests. Hassan et al. (2013) found that product innovation for the manufacturing sector can be measured by-product is new to the customers, product is new to the firm, and bringing product variation in the existing products of the firm. Atalay et al. (2013) also found that product innovation for the automotive supplier industry is measured by the launching of new products to the market, launching customized products according to the market demand, and enhancing the new market with new development product. Other researchers, Ar and Baki (2011) found that product innovation for small and medium enterprises of the science and technology industry is measured by the rate of improving the existing product, and offering a new product to the market.

Process Innovation

Process innovation is a new improvement in the methods of production and logistics significantly or brings the significant improvement in the supporting activities such as maintenance, purchasing, accounting, and computing (Hassan et al., 2013). According to Atalay et al. (2013), process innovation is a change or development in the method of producing products or services. Rosli and Sidek (2013) said that process innovation is the process of reengineering and improving the internal operation of the business process. Process innovation concerns the creation of or improvement in the techniques and the development in process or system (Oke, Burke, and Myers, 2007). Ar and Baki (2011) defined process innovation as tools, devices, and knowledge that involves in creating or improving a method, and developments of the processes or systems. Process innovation can be concluded as a new creation or improvement in the existing method of product to make the development of products in the market.

Ar and Baki (2011) conducted research on process innovation among small and of science and technology parks in Turkish with 90 percent of the participants have less than 50 employees found that the extent of R&D strategy, top management support (TMS), customer focus (CS), organizational learning capability (OLC), creative capability (CC), organizational collaboration (OC), and supplier relationship (SR) affect process innovation. Hasan et al (2013) conducted research on process innovation among the manufacturing industry in Pakistan with 41 respondents found that marketing orientation, organizational performance, and organizational learning affect process innovation. Other researchers, Kafetzopoulos,

Gotzamanis, and Gkana (2015) studied the process innovation among 433 respondents of Greek companies found that quality management and competitive advantage affect process innovation. Rosli and Sidek (2013) conducted research on process innovation among small and medium enterprises of the manufacturing industry in Malaysia with 284 respondents found that improvement in techniques and development in process or system can affect process innovation. Atalay et al. (2013) conducted research on process innovation among the Turkish automotive supplier industry in Turkish with 20 respondents found that technology orientation and equipment or software affect process innovation.

Rosli and Sidek (2013) found that process innovation for small and medium enterprises manufacturers can be measured by R&D orientation, the application of new technology, and a new combination of materials in production. Kafetzopoulos et al. (2015) is also found that process innovation for the manufacturing sector can be measured by a new resource, tools, procedures, techniques of product. According to Hasan (2013), a measurement of process innovation for the Pakistan Manufacturing industry is by the improvement in the equipment, technology, and software of the production or delivery method. Other than that, Kafetzopoulos, Psomas and Kafetzopoulos, P.D. (2013) found that process innovation for the manufacturing industry is measured by introducing a new element in production materials, machinery, equipment, processes of product. Atalay et al. (2013) found that process innovation for the automotive supplier industry is measured by the adoption of process control technology and programmable equipment.

Marketing Innovation

Marketing innovation is the implementation of new marketing methods that including the changes in product design or packaging and product promotion (Psomas and Kafetzopoulos, 2015; Quaye and Mensah, 2019; Grzegorz and Robert, 2018). According to Rosli and Sidek (2013), marketing innovation deals with the marketing mix and market selection in order to meet customer buying preferences. Other authors, such as Medrano and Olarte-Pascual (2016) and Atalay et al. (2013) defined marketing innovation as the application of new marketing methods including involving the significant changes in the product pricing, promotion, or packaging. Marketing innovation is also can be defined as developing new techniques, methods, and tools to increase the company selling activities (Hassan et al., 2013). Based on the definition of marketing innovation from previous research, marketing innovation can be concluded as to create or make a new marketing method that involving product packaging, product pricing, and product promotion to increasing the product selling.

Hassan, Shaukat, Nawaz, and Naz (2013) conducted research on marketing innovation among the manufacturing industry in Pakistan with 41 respondents found that market innovation, customer orientation, organizational performance, competitive advantage, organizational learning affects marketing innovation. Rosli and Sidek (2013) conducted research on marketing innovation among small and medium enterprises of the manufacturing industry in Malaysia with 284 respondents found that Competitor, potential customer and market opportunity can affect marketing innovation. Kafetzopoulos et al. (2015) conducted research on marketing innovation among 433 respondents of Greek companies found that management orientation, market segmentation, product distribution, and marketing condition affect marketing innovation. Medrano and Olarte-Pascual (2016) also conducted research on marketing innovation among the manufacturing and service industries in Spain with 9415 respondents found that the larger the size of the enterprise, the greater the geographic scope of the market, and the enterprise's tendency to innovate affect marketing innovation. Atalay et al. (2013) conducted research on marketing innovation

among the Turkish automotive supplier industry in Turkish with 20 respondents found that distributing method, promoting method, and enlarge potential demand market can affect marketing innovation.

Rosli and Sidek (2013) found that marketing innovation for small and medium enterprises manufacturer is measured by the application of online transactions, innovative marketing and promotion, and the ability to find new markets. The measurement of marketing innovation according to Medrano and Olarte-Pascual (2016) for small-medium enterprises of the manufacturing industry in Spain is by market research, pricing strategies, market segmentation, promotions, distribution channels, and marketing information systems. Another author such as Hasan et al (2013) also found that marketing innovation the manufacturing sector in Pakistan is measured by new marketing methods, new marketing techniques, and new marketing tools. Atalay et al. (2013) also found that marketing innovation for the automotive supplier industry is measured by a new distributing methods, promoting methods, continually enlarge the potential demand market. Yam, Lo, Tang, and Lau (2011) found that marketing innovation for the manufacturing industry is measured by renewing the design of products, renewing the distribution channels, renewing the product promotion techniques, and renewing the product pricing techniques.

Entrepreneurial Orientation

Many authors define many different definitions for EO. For example, Al-Swidi (2016) defined EO is the processes of strategy-making that support the entrepreneurial actions and decisions of the organization. Entrepreneurial orientation is the involvement of the company to enter new markets (Arshada, et al., 2014). According to Zehir, et al. (2015), EO describes firm-level strategic processes that businesses use to gain competitive advantage. EO has become one of the main concepts of entrepreneurship studies for the last three decades (Ramayah, 2014). In line with prior research, EO is defined as the processes, structures, and behaviors of firms that are characterized by innovativeness, reactivity, and risk-taking (Ramayah, 2014). EO is considered to be an entrepreneurial method used by the firm to promote innovation, risk-taking behavior, and proactive management that takes opportunities (Pratono and Mahmood, 2016). EO is strategic processes, structures, risk-taking behavior, and proactive management that support the company to gain a competitive advantage to enter new markets.

Soininen, Puumalainen, Sjögrén, Syrjä, and Durst, (2013) studies have shown that work values (intrinsic, extrinsic, status, social) and attitudes (growth, survival) affect entrepreneurial orientation. Bayarçelik and Özşahin, (2014) researched entrepreneurial orientation in Turkey's Top 500 Industrial Enterprises found that EO mediates the relation between entrepreneurial climate and firm performance. Sininen, et al. (2013) studies have shown that innovativeness as an important component of EO because it reflects an important means by which firms pursue new opportunities. Pratono and Mahmood (2016) conducted research in small firms found that autonomy, innovation, risk-taking behavior, proactive behavior, and aggressiveness affect entrepreneurial orientation.

Entrepreneurial orientation is first defined by Miller (Bayarçelik and Özşahin, 2014). According to Zehir, et al., (2015), Miller conceptualized the three focal dimensions of EO as innovativeness, risk-taking, and proactiveness. Then aggressive competitiveness and autonomy were added by Lumpkin and Dess to Miller's 3 dimensions. So, EO constitutes five elements, there are as follows; autonomy, innovation, risk-taking behavior, proactive

behavior, and aggressiveness (Pratono and Mahmood, 2016). The first dimension is innovativeness. **Innovativeness** reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Soininen, et al., 2013). **Risk-taking** is defined as the willingness in pursuing opportunities and in preferring high-risk projects with opportunities for very high returns. Hence, risk-taking usually related to success (Ramayah, 2014). **Proactiveness** is described as an opportunity-seeking, forward-looking perspective characterized by the introduction of new services and products ahead of the competition and acting in anticipation of future demand (Bayarçelik and Özşahin, 2014). **Competitive aggressiveness** is reflected in the intensity of a firm's effort to outperform industry rivals in the marketplace (Soininen, et al., 2013). **Autonomy** is an independent action by an individual or team to create a business concept and then pursued the opportunities (Soininen, et al., 2013).

Research Gap

Innovativeness is a primary element of EO that plays an important role in boosting FP to differentiate SMEs' products from competitors' products. This concept may stimulate the capability of the firm to engage in product development and adjust production levels. Conversely, other studies highlight that EO does not affect FP due to the effect of other independent variables and the impact of moderating variables such as the business cycle time frame (Pratono and Mahmood, 2016). A prior study of Technology-based SMEs in Malaysia by (Arshada et al., 2014) found that no correlation between autonomy and business performance. Therefore, the authors will look further and apply all the theories from previous studies.

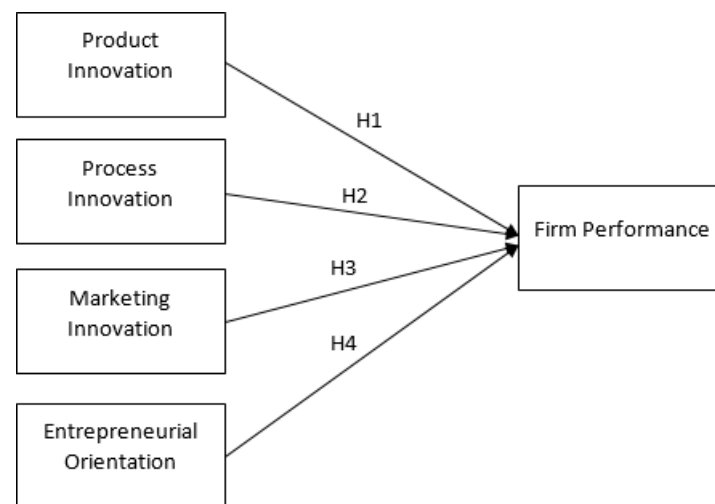


Figure 1. Research Framework

Research Method

This study used purposive sampling to choose the respondents and questionnaire as the instrument. The place of study was in Jababeka, Cikarang. Jababeka chosen since it is the largest industrial estate in the South-East Asia. For the face-to-face survey, the authors came to the small and medium enterprises (SME) and asked the employees to fill up the questionnaire. The criteria for employees to be eligible was at least 5 years working

experience. For the digital survey, the questionnaire was sent to employees with the same criteria. The questionnaire used the Likert scale from 1 “Strongly Disagree” until 7 “Strongly Agree”. The five statements that given by the workers that related to product innovation, process innovation, and marketing innovation were adapted from previous studies (Medrano and Olarte-Pascual, 2016; Atalay et al., 2013; Yam et al, 2011). The five statements that given by the workers that related to entrepreneurial orientation were adapted from previous studies (Bayarçelik and Özşahin, 2014; Ramayah, 2014; Soininen, et al., 2013). The three statements given by the workers related to firm performance were adapted from previous studies (Zehir et al., 2015). The data were collected for 3 months and 237 workers were managed to be collected

Results and discussions

Respondents’ Profiles

Most of the respondents are male (53,6 %) compare to the female (46,4 %). Most of the respondents are in the age of 20 – 30 years old (67,1%) from the total respondents, followed by less than 20 years old (21,1%) and greater than 30 (11,8%).

Data Analysis

Before data were test of its validity and reliability, three stages have to fulfill: KMOMSA > 05; Communalities > 0.5; Total variance explained > 0.6. The results show that The KMO value is 0.93, the Bartlett test significance is 0.000, the communalities are greater than 0.5, and the total variance explained is greater than 60% (78.874%).

In the reliability test, the Cronbach’s alpha value of product innovation was 0.897, the alpha value of process innovation was 0.790, the value of marketing innovation was 0.877 and entrepreneurial orientation had a value of 0.661 and performance was 0.729 (Table 1). Hence, all the variables are valid and reliable.

Table 1. Construct Validity and Reliability

Item Statement	Factor Loading	Cronbach’s Alpha
Performance 1	0.628	0.729
Performance 2	0.824	
Performance 3	0.518	
Product 1	0.863	0.897
Product 2	0.892	
Product 3	0.825	
Product 4	0.842	
Process 1	0.691	0.790
Process 2	0.885	
Process 3	0.761	

Process 4	0.895	
Marketing 1	0.883	0.877
Marketing 2	0.885	
Marketing 3	0.828	
Entrepreneuria 11	0.864	0.661
Entrepreneuria 12	0.864	
Entrepreneuria 13	0.755	
Entrepreneuria 14	0.754	

The model was tested for its fit before hypothesis being tested. The results showed CMIN value was 1.303; GFI was 0.951; AGFI was 0.951; IFI was 0.987; TLI was 0.982; CFI was 0.987; and RMSEA was 0.036. Hence, all the seven criteria have been fulfilled and the data were eligible for further analysis.

(H1) Product innovation influences the firm performance ($\beta = 0.687$; CR = 13.77; $p = 0.001$) and it has the second strongest effect compare to process innovation and entrepreneurial orientation. It means that the higher innovated products by the firm, it will turn out to have better performance. New product innovations create higher impulse buying behaviour of customers that lead to higher sales. This finding is also similar to the findings of Ar and Baki (2011), Phan (2019), Altuntas, Cinar, and Kaynak (2018), and Ramadani, Hisrich, Abazi-Alilia, Dana, Panthi, and Abazi-Bexheti (2018).

(H2) Process innovation influences the firm performance ($\beta = 0.519$; CR = 10.74; $p = 0.001$) and it is the third strongest influencer for firm performance compare to entrepreneurial orientation. In other words, for firms to get better performance they need to increase their process innovation, especially in terms of efficiency of production and logistics. This finding is similar to the finding of Ar and Baki (2011), Zhang, Wang, Zhao, and Zhang (2017), Wang (2019) as well.

(H3) Marketing innovation influences the firm performance ($\beta = 0.953$; CR = 14.48; $p = 0.001$) and it becomes the strongest significant factor to firm performance. Hence, SMEs to innovate their marketing in regard to product packaging, pricing strategy, and promotional tools to increase their firm performance in terms of sales. This finding is similar to the finding of Ramadani et al. (2018), Nieves and Diaz-Meneses (2016), Wadho and Chaudhry (2018)

(H4) Entrepreneurial orientation influences the firm performance ($\beta = 0.252$; CR = 2.77; $p = 0.001$) and it has the lowest significant influence toward firm performance compare to product, process and marketing innovation. Nevertheless, it is still one important factor to increase firm performance as found by Bayarçelik and Özşahin (2014), Kocak, Carsrud and Oflazoglu (2017), Hou, Hong, and Zhu (2019).

Conclusions and Recommendations

This study has proven the significant effect of innovation and entrepreneurial orientation towards SMEs performances. Hence, this study has contributed to the body of knowledge regarding the importance of innovation and entrepreneurial orientation towards

SMEs performance in Indonesia. Innovation is needed for companies especially SMEs to compete not only among themselves but also towards national and multinational companies. Any products are vulnerable to imitation, hence sophisticated innovations are needed all the time. The changing behavior of customers are also become the reason for innovation since they are hunger to get more and more products either in the quality or features. It has been mentioned in the study that innovation doesn't need to be product all the time, but instead process and marketing do. Process innovation becomes very reliable sources of innovation because it can reduce the cost by increasing efficiency, responsive inventory and delivery by improving how logistics work, and also the ergonomics of the product designs that will trigger impulse behavior of customers. To increase efficiency, SMEs can choose any process strategies that suit to them that can increase their competitiveness. SMEs who are in the supply chain of the automotive industry can choose the repetitive focus where they only care of making the spare parts in the best efficient way they can instead of innovating in regard to the product or marketing. SMEs can also choose the customization strategy where they focus on delivering customized products in big volume for their customers. They can also utilize their facilities by producing few varieties to maximize inventory to bring down the price of the products. On the other hand, to have low handling cost, SMEs need to choose a responsive strategy by not having fully utilization of their facilities to meet the uncertain demand. Decentralized inventory system, near the target market, would help them to reduce the handling cost as well as the transportation cost. Marketing innovation involves the product, price, and promotion. Understanding customer behavior, SMEs can start getting advice of how they need to package their products better, the right pricing, and tempting promotions to increase their sales. With high competition going on, customers need to choose the product from varieties of brands, hence the one with the best packaging will come as the winner. Packaging to different gender and income level are two things need to be considered by SMEs apart of the quality of the product. The way women see products are always different from men. Hence, the packaging needs really make a different between the gender. Pricing needs to be taken as good as possible. A very strong brand will only focus to deliver better value since the customers see value over cost. However, regular products need to consider the competitor price before setting their price since today's customers are not loyal in this segment and tend to switch product. These type of customers see cost over value. The only way customers know the existence of the products is through promotion. If firms fail to promote, they will be cornered by competitors. Hence, in order to succeed the competition, firms need to simultaneously innovate in terms of product, process, and marketing.

Since entrepreneurial orientation is also significantly influenced firm performance, hence SMEs need divert the way they do business. First, dare to think new ways in creating new products. SMEs need to let go business as usual and engage more on new creation to sustain in the market place. This characteristic needs to be exercised at least at managerial level. SMEs are also need to play with their nerve by taking risky opportunities to gain high returns. They also need to pursue new opportunity specially to predict future demand to stay ahead from their competitors. Not only that, SMEs are also need to take bold move to overthrow their competitors or any giant players in their marketplace.

For future studies, other types of innovation such as organizational innovation, R&D intensity (Ramadani et al., 2018), technological innovation (Ramadani et al., 2018; Kocak et al., 2017) can be considered. Future studies can also try to link marketing innovation towards other type of firm performance (Nieves and Diaz- Meneses, 2016) or indirect relationship of exploration and exploitation innovation toward firm performance through marketing

innovation (Hou, Hong, and Zhu (2019). To increase the generalization of this study, a replication study can be conducted in different industries such as the food and beverage industry since many entrepreneurs in Indonesia open their line of business in the food and beverage business.

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