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ENTREPRENEURIAL ORIENTATION, DYNAMIC CAPABILITY AND INNOVATION: THE EFFECT ON THE PERFORMANCE OF MSMES

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ABSTRACT

Investigating how innovation, dynamic capabilities, and entrepreneurial orientation affect the performance of Micro, Small, and Medium Enterprises (MSMEs) in Medan City is the objective of this study. The background of this study is based on the significant role of MSMEs in the Indonesian economy, but many still face challenges in maintaining competitiveness amid technological developments and market dynamics. This study uses quantitative methodology and survey techniques, with questionnaires distributed to MSMEs in Medan City. The impact of independent factors on MSME performance is analyzed using multiple linear regression. The findings show that innovation, dynamic capacity, and entrepreneurial mindset have a significant and positive impact on MSME success. These results highlight the importance of developing entrepreneurial traits, flexibility, and product or service innovation to improve the success of MSMEs. This study is designed to be a resource for business leaders and policymakers in developing more successful MSME development strategies.

Keywords: entrepreneurial orientation, dynamic capabilities, innovation, MSME performance, economic uncertainty

ABSTRAK

Menyelidiki bagaimana inovasi, kemampuan dinamis, dan orientasi kewirausahaan memengaruhi kinerja Usaha Mikro, Kecil, dan Menengah (UMKM) di Kota Medan merupakan tujuan dari penelitian ini. Latar belakang penelitian ini didasarkan pada peran yang signifikan UMKM dalam perekonomian Indonesia, namun masih banyak yang menghadapi tantangan dalam mempertahankan daya saing di tengah perkembangan teknologi dan dinamika pasar. Penelitian ini menggunakan metodologi kuantitatif dan teknik survei, dengan kuesioner yang didistribusikan kepada UMKM di Kota Medan. Dampak faktor-faktor independen terhadap kinerja UMKM dianalisis menggunakan regresi linier berganda. Temuan menunjukkan bahwa inovasi, kapasitas dinamis, dan mindset kewirausahaan memiliki dampak yang signifikan dan positif terhadap kesuksesan UMKM. Hasil ini menyoroti betapa pentingnya mengembangkan sifat-sifat kewirausahaan, fleksibilitas, dan inovasi produk atau layanan untuk meningkatkan kesuksesan UMKM. Studi ini dirancang untuk menjadi sumber daya bagi para pemimpin bisnis dan pembuat kebijakan dalam mengembangkan strategi pengembangan UMKM yang lebih berhasil.

Kata kunci: *orientasi kewirausahaan, kapabilitas dinamis, inovasi, kinerja UMKM, ketidakpastian ekonomi.*

A. INTRODUCTION

In an era of globalization marked by increased commercial competitiveness, entrepreneurship is considered an important driving force for a country's economic progress (Nurbaiti et al., 2023). MSMEs contribute significantly to the Indonesian economy through job creation and business activities (Stiadi, 2021). This industry has grown rapidly during a period of unprecedented technological innovation. Let's look at the impact of Indonesia's creative sector on the national economy. Micro, Small, and Medium Enterprises (MSMEs) are businesses run by individuals or groups that are not branches or subsidiaries of large corporations (Munthe et al., 2023). MSMEs are profitable businesses owned by individuals or legal entities in accordance with MSME Law Number 20 of 2008.

Organizations that offer financial benefits and are managed by individuals or business associations in accordance with applicable laws and regulations are known as micro enterprises. Profitable companies known as small businesses are established by individuals or business associations that have no direct or indirect relationship with medium or large companies. Medium-sized companies, on the other hand, are independent companies that meet the legal requirements for such business entities but have no direct or indirect relationship with large companies (Sefanya & Ie, 2024).

Micro, small, and medium enterprises (MSMEs) account for 99 percent of all businesses in Indonesia, according to data from ekon.go.id. In addition, the MSME sector accounts for 96.9 percent of total employment and 60.5 percent of the national gross domestic product (GDP). The United Nations Conference on Trade and Development (UNCTAD) estimates that Indonesia has 65.46 million MSMEs, which contribute 97 percent of the workforce and 60.3 percent of GDP, in the October 2022 ASEAN Investment Study, according to data from Indonesia.go.id. The capacity of MSMEs to reach consumers is crucial for their long-term sustainability and growth, given their significant contribution to the national economy. In this approach, marketing plays an important role (Azro'i et al., 2023).

Marketing is the process of introducing and offering goods or services to consumers, while emphasizing the benefits they will gain from purchasing or using these products or services. Therefore, good marketing is very important to help MSMEs compete and grow in an increasingly competitive market (Khairunnisa, 2022). In his research, Ali (2025) mentions that marketing factors include product analysis, place, and promotion. These marketing factors are strongly related to the variables of entrepreneurial orientation, dynamic capabilities, and innovation in improving the performance of MSMEs. Marketing reflects the proactive attitude and courage of business actors in reaching consumers, which is part of entrepreneurial orientation. On the other hand, the ability of MSMEs to adapt their marketing approach to changing trends and market needs demonstrates dynamic capabilities. In addition, innovation in how products are marketed, such as the use of digital media or other creative approaches, is also a tangible form of innovation that impacts business competitiveness (Afriyani et al., 2021). Thus, marketing is

an important aspect that supports these three variables in driving the overall performance of MSMEs.

According to Sari et al. (2023), several related elements influence the performance of MSMEs and contribute to the success of companies. Among them is an entrepreneurial attitude, which includes proactivity, creativity, and the courage to take risks, thereby encouraging business actors to continue to adapt and develop. Innovation is also an important factor in increasing competitiveness, whether through product creation, manufacturing procedures, or marketing strategies. In addition, in Alrasid (2022), research, dynamic capabilities play a role in the ability of MSMEs to respond to environmental changes and effectively utilize market opportunities. Performance is also greatly influenced by competitive advantages, such as product and service quality, as well as managerial capabilities in managing resources efficiently. Access to market information and the ability to read consumer needs also strengthen the position of MSMEs in facing competition. All of these factors synergistically contribute to improving MSME performance, both in terms of productivity, business growth, and customer satisfaction.

Competition in the corporate sector requires all marketers to carry out their marketing efforts more effectively and efficiently. These marketing operations require core marketing ideas that are related to the interests of marketers and the desires and expectations of customers (Soviyana et al., 2022). Performance is a measure of the success of an individual's or organization's work or actual results as a result of their ability to complete tasks successfully. In an increasingly competitive business world, marketing performance is an important factor that affects business continuity and growth. Fierce market competition requires businesses to work more carefully in attracting and retaining customers. Marketing performance is often reflected in the ability of the sales force to reach consumers, explain product advantages, and provide satisfactory service. In a highly competitive environment, businesses that do not demonstrate good marketing performance tend to fall behind and lose market share (Fadhillah et al., 2021).

Improving understanding of the external environment and integrating it into the internal organization to encourage the development of new procedures and products are two important benefits of having an entrepreneurial mindset. Interestingly, the entrepreneurial perspective emphasizes the entrepreneurial process, in which companies innovate, take risks, and act proactively (Hidayat et al., 2023). Alrasid (2022) explains the principle of market change, emphasizing the importance of developing dynamic capabilities. These dynamic capabilities are marketing abilities that connect and utilize internal organizational resources, transforming them into value for customers and directly influencing the market.

Innovation is an important factor in improving the performance of MSMEs. Innovation is seen as an important tool for increasing competitiveness and survival in today's global corporate environment. In practice, innovation can take the form of new products or services, new manufacturing processes, new structural and administrative systems, or new organizational strategies (Komariah et al., 2022). Given the large number

of MSMEs in Indonesia, business actors must have a competitive advantage in order to compete and improve their performance. This competitive advantage is reflected in strengths such as a skilled workforce, customer loyalty, product and production process innovation, and creating products that meet consumer needs. Furthermore, opportunities to improve manufacturing quality, expand markets, and hone managerial skills contribute to this competitive advantage. SMEs with competitive advantages can improve their performance by increasing sales, operational efficiency, and consumer confidence, enabling businesses to thrive in highly competitive markets (Zatia Zatia et al., 2023).

Based on field observations, the performance of MSMEs in Medan remains poor, as indicated by relatively consistent turnover, low productivity, and limited market share at the local level. Many MSMEs have not fully utilized digital technology, both in manufacturing and marketing processes, resulting in products that are less competitive than those of their competitors. In addition, limited capital, human resource quality, and access to innovation are also obstacles to improving performance. As a result, MSMEs in Medan face major challenges in expanding their markets, increasing efficiency, and achieving better profitability, requiring strategies to strengthen entrepreneurship, dynamic capabilities, and innovation to drive performance growth in the digital era.

Previous studies have explored in depth the impact of entrepreneurial orientation and innovation on the success of MSMEs, such as the study by Sondra & Widjaja (2021) on garment MSMEs in West Jakarta. However, this study does not mention dynamic capacity as an important factor that determines the ability of MSMEs to respond to changes in the business environment. The study by Sefanya & Ie (2024) Investigating the impact of dynamic capabilities on competitive advantage and corporate success, but focusing on the food and beverage industry in Sleman Regency. Juliani & Ie (2024) research has not combined the roles of entrepreneurial orientation and dynamic capabilities that can strengthen the innovation process in facing competition and market dynamics.

This study is novel in integrating three important variables, namely entrepreneurial orientation, dynamic capabilities, and innovation simultaneously in analyzing their influence on MSME performance. Unlike previous studies that tended to test some of these variables separately and in different regional contexts, this study focuses on MSMEs in Medan City, which has different market characteristics and competition. Therefore, this study complements the literature on MSME growth by investigating the synergistic effects of entrepreneurial orientation, adaptive capabilities (dynamic capabilities), and innovation to improve company performance. To determine the extent to which each of these factors, both partially and simultaneously, can help MSMEs improve their performance in the face of competition and changes in a dynamic business environment, this study aims to explore and explain the impact of entrepreneurial orientation, dynamic capabilities, and innovation on the performance of MSMEs in Medan City.

B. RESEARCH METHOD

This study implements an associative model-based quantitative method, which serves to test the relationship between several variables and to assess possible causal relationships. Unlike correlational studies that only observe statistical associations, associative studies seek to determine whether one variable can directly influence another variable. Micro, small, and medium enterprises (MSMEs) in Medan were the subject of this study. In July 2025, the data collection process began. All 38,343 MSMEs in the city of Medan registered in the Cooperative and MSME Information and Data System (SIMDAKOP) program were the research population, according to the website medan.go.id.

A non-probability sampling technique was used to determine the sample size, which was calculated using the Slovin formula below:

$$n = \frac{N}{1+Ne2} = n = \frac{38.343}{1+38.343\times(0,10)^{2}} = \frac{38.343}{384,43} = 99,94 = 100$$

Explanation:

n = sample size;

N = population;

e = margin of error of 10%.

Therefore, the sample size for this study was set at 100 MSMEs. The respondent criteria included MSMEs in Medan City that were actively running their businesses and had previous experience in adopting entrepreneurial strategies, dynamic capacity, and innovation in their business activities.

Multiple linear regression was performed to test the hypothesis and correlation between variables. This technique is used to assess the significance of the influence of independent factors (Entrepreneurial Orientation, Dynamic Capability, and Innovation) on the dependent variable (MSME Performance). Researchers can determine the direction and extent to which each independent variable influences MSME performance, or the dependent variable, using this analytical method.

Version 25 of the Statistical Package for the Social Sciences (SPSS) was used to process the data. In general, the multiple linear regression equation in this study looks like this:

$$Y = a + b1X1+b2X2+b3X3\ e$$

Explanation =

Y = Performance

a = Constant

b1b2 = Multiple regression coefficient

X1= Entrepreneurial Orientation

X2= Dynamic Capabilities

X3 = Innovation

e = Standard error

The research strategy is to evaluate the extent to which each component affects MSME performance in Medan City.

Hypotheses

H1: Entrepreneurial orientation has a significant effect on the performance of MSMEs in Medan City.

H2: Dynamic capabilities have a significant effect on the performance of MSMEs in Medan City.

H3: Innovation has a significant effect on the performance of MSMEs in Medan City.

H4: There is a significant simultaneous effect of entrepreneurial orientation, dynamic capabilities, and innovation on the performance of MSMEs in Medan City.

C. RESULTS AND DISCUSSION

RESULTS

Validity test

To determine whether the items on the questionnaire were interrelated, a validity test was conducted. The correlation results of each respondent's answers, including the total score for each variable and the significance value, were compared at a significance level of 0.05 to conduct the validity test. The data was considered reliable or interrelated if the significance value was less than 0.05.

Table 1. Validity Test

Correlations

		X1.1	X1.2	X1.3	JMLHX1
X1.1	Pearson Correlation	1	.844**	.759**	.937**
	Sig. (2-tailed)		.000	.000	.000
	N	100	100	100	100
X1.2	Pearson Correlation	.844**	1	.783**	.941**
	Sig. (2-tailed)	.000		.000	.000
	N	100	100	100	100
X1.3	Pearson Correlation	.759**	.783**	1	.909**
	Sig. (2-tailed)	.000	.000		.000
	N	100	100	100	100
JMLHX1	Pearson Correlation	.937**	.941**	.909**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

Correlations

		X2.1	X2.2	X2.3	X2.4	JMLHX2
X2.1	Pearson Correlation	1	.669**	.074	.513**	.718**
	Sig. (2-tailed)		.000	.465	.000	.000
	N	100	100	100	100	100
X2.2	Pearson Correlation	.669**	1	.220*	.646**	.824**
	Sig. (2-tailed)	.000		.028	.000	.000
	N	100	100	100	100	100
X2.3	Pearson Correlation	.074	.220*	1	.004	.625**
	Sig. (2-tailed)	.465	.028		.968	.000
	N	100	100	100	100	100
X2.4	Pearson Correlation	.513**	.646**	.004	1	.642**
	Sig. (2-tailed)	.000	.000	.968		.000
	N	100	100	100	100	100
JMLHX2	Pearson Correlation	.718**	.824**	.625**	.642**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	100	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Correlations

		X3.1	X3.2	X3.3	JMLHX3
X3.1	Pearson Correlation	1	.765**	.787**	.915**
	Sig. (2-tailed)		.000	.000	.000
	N	100	100	100	100
X3.2	Pearson Correlation	.765**	1	.819**	.927**
	Sig. (2-tailed)	.000		.000	.000
	N	100	100	100	100
X3.3	Pearson Correlation	.787**	.819**	1	.941**
	Sig. (2-tailed)	.000	.000		.000
	N	100	100	100	100
JMLHX3	Pearson Correlation	.915**	.927**	.941**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

Correlations

		Y.1	Y.2	Y.3	JMLHY
Y.1	Pearson Correlation	1	.075	.731**	.853**
	Sig. (2-tailed)		.459	.000	.000
	N	100	100	100	100
Y.2	Pearson Correlation	.075	1	.087	.482**
	Sig. (2-tailed)	.459		.391	.000
	N	100	100	100	100
Y.3	Pearson Correlation	.731**	.087	1	.849**
	Sig. (2-tailed)	.000	.391		.000
	N	100	100	100	100
JMLHY	Pearson Correlation	.853**	.482**	.849**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data, 2025 (Processed Data)

Each question has a significance level of less than 0.05, based on the data above. Therefore, we can proceed to the next test because the data is considered valid or correlated.

Reliability Test

To ensure that the instruments or questionnaires in this study produce consistent results when measured repeatedly, a reliability test was conducted. If the reliability value is high, it means that the questions in the questionnaire are reliable because they produce stable and consistent data, making them suitable for accurately measuring customer satisfaction. In this study, dependability was assessed using Cronbach's Alpha, also known as the alpha reliability coefficient. If the alpha value exceeds 0.6, the data is considered credible.

Table 2. *Cronbach Alpha*

Reliability Statistics

Cronbach's Alpha	N of Items
.901	13

Source: Research Data, 2025 (Processed Data)

The calculated Cronbach's Alpha value, or alpha reliability coefficient, is 0.901, which is greater than 0.6. Therefore, the data is considered reliable and can be tested further.

Classical Assumption Test

Multiple linear regression, sometimes referred to as BLUES (Best Linear Unbiased Estimation), is based on a number of traditional assumptions. In short, traditional assumption tests aim to ensure that the regression model is appropriate.

By comparing the cumulative distribution of sample data with its theoretical distribution, the Kolmogorov-Smirnov test is a statistical technique for assessing whether the data distribution fits a specific distribution, usually a normal distribution. If the data is normal and the Asymp. Sig. (p-value) is greater than 0.05, then accept H_o. p-value (sig.) > 0.05 Accept H_o ⟶ The data is normal. Reject H_o if the p-value (Asymp. Sig.) is less than 0.05, indicating that the data is not normal.

Table 3. Kolmogorov Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		JMLHX1	JMLHX2	JMLHX3	JMLHY
N		100	100	100	100
Normal Parameters[a,b]	Mean	10.96	16.83	10.67	14.78
	Std. Deviation	2.872	2.249	2.872	3.448
Most Extreme Differences	Absolute	.073	.078	.086	.078
	Positive	.055	.048	.037	.068
	Negative	-.073	-.078	-.086	-.078
Test Statistic		.073	.078	.086	.078
Asymp. Sig. (2-tailed)		.200[c,d]	.138[c]	.065[c]	.143[c]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Research Data, 2025 (Processed Data)

The significance level of the four variables is greater than 0.05, so they meet the normality assumption. The data can be used for regression analysis with the assumption of normal residuals.

Multicollinearity

This test is used to ensure that the three independent variables, namely entrepreneurial orientation, dynamic capabilities, and innovation, are not too strongly correlated with each other. This is determined by analyzing the Variance Inflation Factor (VIF) value. This is done by determining whether the variance factor is <10 or the tolerance is >0.1.

Table 4. Multicollinearity

Collinearity Statistics	
Tolerance	VIF
.199	5.025
.199	5.025

Source: Research Data, 2025 (Processed Data)

From the table above, it is clear that there is no multicollinearity.

Heteroscedasticity

The variance of residuals between observations in a regression model can be determined using a heteroscedasticity test. When the variance of residuals does not change from one observation to the next, it is called homoscedasticity; when the variance of residuals changes, it is called heteroscedasticity. Heteroscedasticity does not appear in a good model.

In regression models, heteroscedasticity is identified through the Glejser test when the residual variance varies among independent variables. The method used to perform this test is to regress the absolute value of the residuals against the independent variables and determine the significance level of the regression. The model is considered heteroscedastic if the significance level is greater than 0.05. A significance value of 0.05 or less indicates heteroscedasticity. This test is basic, easy to implement in statistical software, and contributes to the validity of conventional regression assumptions.

Table 5. Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.464	.605		2.418	.017
	X1	-.143	.096	-.533	-1.487	.140
	X2	-.054	.036	-.158	-1.522	.131
	X3	.171	.097	.638	1.769	.080

a. Dependent Variable: abs_res

Source: Research Data, 2025 (Processed Data)

This regression model is free from heteroscedasticity, meaning that the residual variance is homogeneous and the regression analysis can be continued without requiring data transformation, because all independent variables have a significance value greater than 0.05.

Multiple Linear Regression Analysis Test

To determine whether the proposed hypothesis is accepted or not, a hypothesis test is used. The multiple regression test was performed using SPSS 25 to help process the data to determine whether the hypothesis was accepted or not. The SPSS calculation results are as follows:

Table 6. Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	1.884	.911	
	JMLHX1	1.048	.144	1.359
	JMLHX2	.165	.054	.166
	JMLHX3	-.455	.145	-.590

a. Dependent Variable: JMLHY

Source: Research Data, 2025 (Processed Data)

SPSS 25 calculations produced a constant value of 1.884, b_1 = 1.048, b_2 = 0.165, and b_3 = -0.455. The multiple regression equation for MSME Performance (JMLHY) is: 1.884 + 1.048 (Entrepreneurial Orientation) + 0.165 (Dynamic Capabilities) - 0.455 (Innovation).

Note:

1. If Entrepreneurial Orientation, Dynamic Capabilities, and Innovation are all zero, MSME Performance is projected to be 1.884.
2. The Entrepreneurship Orientation coefficient of 1.048 means that, assuming all other factors remain constant, a one-unit increase in Entrepreneurship Orientation will increase SME performance by 1.048 units.
3. A Dynamic Capability coefficient of 0.165 indicates that, assuming all other factors remain constant, a one-unit increase in Dynamic Capability will increase MSME performance by 0.165 units.
4. Assuming all other factors remain constant, an Innovation coefficient of -0.455 means that each one-unit increase in Innovation will cause a decrease in MSME performance of -0.455 units.

t-test

The impact of independent variables on dependent variables can be analyzed using the following hypotheses:

1. The hypothesis is accepted if the t-test significance level is greater than 0.05.
2. Ha, which indicates that independent variables affect dependent variables, is accepted if the t-test result is less than 0.05 (significance < 0.05).

Use the following formula to determine the df value before obtaining the t value from the previous table: Df equals n-k = 100--4 = 96. The statistical table produces a t value of 1.660.

Table 7. t test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.884	.911		2.069	.041
	JMLHX1	1.048	.144	1.359	7.271	.000
	JMLHX2	.165	.054	.166	3.069	.003
	JMLHX3	-.455	.145	-.590	-3.131	.002

a. Dependent Variable: JMLHY

Source: Research Data, 2025 (Processed Data)

The interpretation of the impact of each independent variable on the dependent variable (MSME performance) can be done based on the findings of the analysis in the Coefficient Table: The interpretation of the impact of each independent variable on the dependent variable (MSME performance) can be done based on the findings of the analysis in the Coefficient Table:

1. Entrepreneurial Orientation (JMLHX1) has a significance level of 0.000, or less than 0.05. This indicates that MSME performance is significantly influenced by the variable (JMLHY). The regression coefficient value of 1.048 indicates a positive effect, meaning that, assuming all other variables remain constant, SME performance increases by 1.048 units for every one-unit increase in entrepreneurial orientation.
2. Dynamic Capability (JMLHX2) has a significance value of 0.003, which is below the threshold of 0.05. This result shows that the success of MSMEs is significantly influenced by their dynamic capability. A positive effect is indicated by a regression coefficient of 0.165, which means that MSME performance increases by 0.165 units for every one-unit increase in dynamic capability. There is a statistically significant effect because the t-value of 3.069 is greater than the t-table value of 1.660.
3. The performance of MSMEs is greatly influenced by innovation (JMLHX3), as evidenced by its significant value of 0.002, which is less than 0.05 (0.002 < 0.05). The regression coefficient of -0.455, on the other hand, indicates a negative effect, meaning that MSME performance decreases by 0.455 units for every one-unit increase in innovation. The statistically significa
4. nt negative effect is indicated by a t-value of -3.131, which is much greater than the t-table value of 1.660.

F Test

First, determine the degrees of freedom using the following formula to create an F table: df denominator = n – k = 100 – 4 = 96

K – 1 = 4 – 1 = 3 is the numerator df.

The F table value is 2.70 at a significance level of 0.5% or 5%.

Table 8. F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	349.004	3	116.335	91.545	.000[b]
	Residual	121.996	96	1.271		
	Total	471.000	99			

a. Dependent Variable: JMLHY

b. Predictors: (Constant), JMLHX3, JMLHX2, JMLHX1

Source: Research Data, 2025 (Processed Data)

With a significance level of 0.000, the F value determined by ANOVA analysis is 91.545. The alternative hypothesis is accepted because the significance level (0.000) is less than 0.05 and the calculated F value (91.545) is greater than the F value (2.70 for df1 = 3 and df2 = 96). This indicates that MSME Performance (JMLHY) is significantly influenced by Entrepreneurial Orientation (JMLHX1), Dynamic Capabilities (JMLHX2), and Innovation (JMLHX3). In other words, the three independent variables in this study highlight imbalances in MSME productivity.

R^2 is the coefficient of determination.

The R-squared value that has been fulfilled is determined using the coefficient of determination. The model's capacity to explain the dependent variable decreases during the determination process.

Table 9. Determination Coefficient Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.861[a]	.741	.733	1.127	2.000

a. Predictors: (Constant), JMLHX3, JMLHX2, JMLHX1

b. Dependent Variable: JMLHY

Source: Research Data, 2025 (Processed Data)

The summary table of the model above shows an updated R-squared value of 0.733 based on the analysis findings. This indicates that 73.3% of the variation in MSME performance (JMLHY) can be attributed to Entrepreneurial Orientation (JMLHX1), Dynamic Capabilities (JMLHX2), and Innovation (JMLHX3), while the remaining 26.7% is influenced by factors not included in the regression model.

DISCUSSION

The Influence of Entrepreneurial Orientation on MSME Performance

It has been proven that an entrepreneurial mindset has a significant and positive impact on MSME performance. A stronger entrepreneurial orientation, which includes taking risks, seeing opportunities, and being proactive in business development, is associated with improved MSME performance. MSME performance improves in line with a stronger entrepreneurial orientation. However, in the field, obstacles such as limited access to capital, lack of entrepreneurial training, and inadequate business networks are still found. This shows that even though an entrepreneurial attitude has been developed, support in the form of funding, education, and networking is still needed so that the potential of entrepreneurial orientation can be maximized. These results are in line with a previous study (Nugroho & Santoso, 2021), which found that an entrepreneurial mindset significantly improves MSME performance, particularly through company development and market innovation.

The Influence of Dynamic Capabilities on MSME Performance

It has been proven that dynamic capabilities have a significant and positive impact on MSME performance. To improve performance, MSMEs must be able to adapt to changing market conditions, take advantage of new opportunities, and integrate technology into their daily operations. However, challenges such as slow adaptation to new technologies and a lack of systematic change management strategies still exist. This condition shows that dynamic capabilities must continue to be honed through continuous learning and monitoring of market trends. These results are consistent with the study (Pratiwi et al., 2024) that dynamic competencies are very important for the survival and growth of MSMEs in facing rapidly changing market conditions.

The Effect of Innovation on MSME Performance

Innovation actually has a negative impact on MSME performance, unlike the two variables mentioned above. This can occur if the innovation is not on target, fails to meet consumer demand, or results in high operational costs that reduce profits. In practice, many MSMEs attempt to innovate their products or services without adequate market research, resulting in products that do not provide significant added value to customers. This finding serves as a warning that innovation needs to be planned, datadriven, and tailored to the capabilities of available resources.

These results are in line with research (Chairudin et al., 2024) showing that unfocused innovation can result in low market adoption and high costs, which can negatively impact MSME performance.

The Simultaneous Effect of Entrepreneurial Orientation, Dynamic Capabilities, and Innovation on MSME Performance

Entrepreneurial orientation, dynamic capabilities, and innovation have been proven to simultaneously and significantly influence SME performance. The combination of a strong entrepreneurial attitude, strong adaptability, and targeted innovation will simultaneously drive improvements in SME performance. However, other factors also influence SME performance, such as government policy support, human resource quality, marketing strategies, and macroeconomic conditions. Therefore, to optimally improve MSME performance, a balance is needed between strengthening entrepreneurial orientation, developing dynamic capabilities, and implementing planned innovation. These findings are supported by research (Dewi et al., 2020), which shows that a combination of entrepreneurial orientation, adaptive capabilities, and measurable innovation can significantly improve MSME performance.

D. CONCLUSION

Based on the results of research on MSME actors in Medan City, MSME performance is positively and significantly influenced by entrepreneurial orientation and dynamic capabilities. However, MSME performance is negatively and significantly influenced by innovation. This shows that poor innovation or failure to meet consumer demand can harm a company's ability to perform. Simultaneously, these three variables significantly influence MSME performance and are able to explain most of the variation in MSME performance. These findings indicate that although entrepreneurial attitudes and adaptability are very important, innovation needs to be carried out in a planned manner and based on adequate market research in order to have a positive impact on MSME performance.

Recommendations

The researchers recommend that MSMEs in Medan focus on strengthening their entrepreneurial orientation through risk management training and market opportunity identification, as well as developing dynamic capabilities by improving their technological adaptability and continuously monitoring market trends. Specifically for innovation, MSME

players are advised to conduct in-depth market research before implementing product or service innovations, as well as considering the cost-benefit aspects so that innovation does not burden business operations. Local governments and related institutions are expected to provide comprehensive assistance programs in the form of entrepreneurship training, access to capital, and market research facilities to support MSMEs in optimizing these three factors in a balanced and planned manner for the sake of sustainable business performance improvement.

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