



Entrepreneurship Orientation, Explorative Innovation, Exploitative Innovation, Ambidexterity and Profitability

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Abstract

Company must have orientation and innovation in any form. Motivation and ability are needed to create actions that are more profitable for the company to continue to be oriented to something that can increase profitability. An entrepreneurial-oriented company must describe the characteristics it has. Such as introducing products, taking advantage of opportunities in competition, having innovation and daring to accept risks. Therefore, entrepreneurial orientation can be connected with exploitation and exploration innovation in carrying out opportunities found by companies to achieve the desired goals. The purpose of this study is to determine the effect of entrepreneurial orientation on exploratory innovation. Entrepreneurial orientation towards exploitative innovation, the influence of entrepreneurial orientation on ambidexterity, the effect of ambidexterity on profitability, were studied by young entrepreneurs by means of convenience sampling. Collecting data by distributing questionnaires both online and offline. The SEM analysis technique uses smart PLS. The results of the study show that there is an influence between entrepreneurial orientation and exploratory innovation. Entrepreneurial orientation towards exploitative innovation and the influence of entrepreneurial orientation on ambidexterity and the influence of ambidexterity on profitability.

Keywords: *Entrepreneurial Orientation; Exploratory Innovation; Exploitative; Profitability Ambidexterity*

Introduction

Entrepreneurial orientation is part of Entrepreneurship. Understanding the phenomenon of entrepreneurial orientation as one of the strengths that organizations have to improve the course of the entrepreneurial process and can foster entrepreneurial behavior patterns that are applied to maintain business. Furthermore, the entrepreneurial orientation can explain the overall picture of entrepreneurial activity by providing knowledge about the various dimensions of the entrepreneurial orientation. (Miller, 1983). Kilenthong (2016) Entrepreneurial orientation refers to strategic postures that explain the behavior of a company.

Young, technology-based entrepreneurs face two fundamental challenges related to their new obligations. The first is to utilize internal capabilities effectively and efficiently to create revenue streams and manage cost structures. Second, making new innovations to cope with the development of new technologies and the short life cycle of many technological products and services caused by intense industry competition (Tukker and Tischner, 2017). Utilization of technology for young entrepreneurs requires diversity of innovation (Hughes et al., 2021), which is defined as a high quality, balanced simultaneity (Simsck, 2009) of exploitation and exploration activities. Increase process efficiency, improve operational management, and create value that can ultimately help achieve legitimacy, accountability, reliability, and business sustainability. At the same time, it is also looking for new opportunities to build creative services and products to deal with rapid technological developments driven by intense competition in the technology industry (exploration) to survive in the medium to long term. Durisin and Todorova, (2012); Koryak et al., (2018) explained that entrepreneurial orientation has a positive influence on exploratory innovation, exploitative innovation, and ambidexterity (O'Reilly, 2013). Ambidexterity- (Burgess et al., 2015; Koryak et al., 2018), is a company activity that can affect the profitability of a business (Mom et al., 2019).

Explorative and exploitative innovation are two competing activities, but important, young technology-based companies on strategic entrepreneurship, Strategic behavior of entrepreneurship tends to create and implement exploratory and exploitative innovations in creating business opportunities (Feng et al., 2019; Heavey et al., 2015). Companies that best channel strategic entrepreneurship in gaining profits and achieving profitability. For this reason, the purpose of this study was to determine the effect of entrepreneurial orientation on exploratory innovation. Entrepreneurial orientation is related to exploitative innovation, the effect of entrepreneurial orientation on ambidexterity and the effect of ambidexterity on profitability.

Literature Review

Entrepreneurial orientation creates actions that motivate companies to continuously seek entrepreneurial opportunities based on market changes (Wales et al., 2015, 2020). Ultimately, EO embodies the managerial desire to unsettle and change the nature of competition, which manifests itself either in disrupting existing product market conditions or spearheading the development of new market spaces or both exploiting and exploring (Ireland et al., 2003; Kollmann and Stockman, 2014; Ramachandran et al., 2019; Zhang et al., 2016). Explorative innovation is based on incremental additions, new product improvements and cost increases to existing products and technologies. Exploitation innovation is based on the possibility of new technologies and creative ideas to form new products that are completely different and have the potential to obtain superior business performance (He and Wong, 2004; Hughes, 2018). Therefore, EO can stimulate an internal environment that is sympathetic to exploratory innovation breakthroughs and provide conditions to support exploitative product innovation initiatives. For example, EOs should improve the identification of rich opportunity flows that are capable of disrupting the movement of competitors in the short to medium term (Covin and Wales, 2019). Companies follow an exploration strategy to find new opportunities in the market, identify customer needs or create new demands (O'Cass et al., 2014). Exploration allows companies to acquire and create knowledge and information from every corner of the organizational environment, Jurksiene & Pundziene, 2016).

Mc Dermott & Prajogo (2012) Exploitative innovation is related to extensions to existing products and services. These exploits focus on improving and reusing existing products and processes until improvements occur. Companies follow an exploration strategy to discover new opportunities in the market, identify customer needs or create new demands by anticipating potential wants. Exploration is

oriented towards disruptive innovation practices, products and technologies (O'Casey et al., 2014). He and Wong (2004) exploratory innovation as technological innovation aimed at entering new product market domains. Apikan, Sanal & Ayden (2012) The ability to innovate exploratory and exploitative means innovation carried out through exploration or search with the aim of finding something new (Hu & Chen, 2016; Zhang, Edgar, Geare, & O'Kane, 2016). This should ensure that the organization is able to undertake an exploratory process for sustainable growth while leveraging current business practices to maximize returns (Stubner, Blarr, Brands, & Wulf, 2012).

The effect of EO on product innovation can then be multiplied as well. As young, entrepreneurial-oriented companies innovate and proactively enter the market, the accompanying competitor reactions and retaliation prompts companies to make further strategic adjustments to products, services and technology. Ambidexterity can set the conditions for companies to benefit from new market opportunities and current market opportunities. Innovation ambidexterity is resource intensive and requires managers to make active investment decisions that maintain a balance between exploratory and exploitative innovation activities (Fourme et al., 2019). The impact of ambidexterity on profitability, some studies found a positive relationship (Hsu et al., 2013; Severgnini et al., 2018), others identified a negative relationship.

The research model that can be described is as follows:

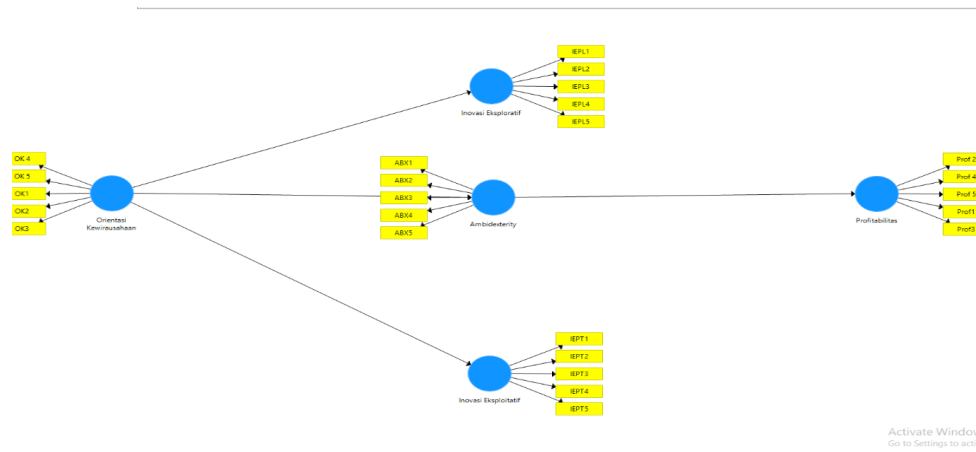


Figure 2 . Research Model

Hypothesis:

H₁ : Entrepreneurial orientation has a positive influence on exploratory innovation.

H₂: Entrepreneurial orientation has an influence on exploitative innovation.

H₃ : Entrepreneurial orientation has an influence on Ambidexterity

H₄: Opportunity has an influence on profitability.

Research Methods

The population in this study were all young businesses in Jabodetabek. The technique used is *convenience sampling*, because respondents were selected as samples. Data collection through questionnaires was carried out online and offline to Muida entrepreneurs who were selected subjectively

by researchers. In measuring the entrepreneurial orientation variable using indicators as many as 5 items. To measure , explorative innovation is 5 items , exploitative is 5 items , ambidexterity as many as 5 items and profitability variables as much as 5 items. Data collection techniques by distributing questionnaires via *google form* . SEM analysis technique using Smart PLS. The analysis technique used is SEM with PLS *software* .

Results and Discussion

Respondent Profile

The study used 100 respondents, who were selected by sample. Of the 89 respondents used, the majority of respondents were male as much as 54%. For the age of the respondents who gave the most assessments, they were more than 25 years old as much as 53%, at the level of education the most were in S1 education as much as 55%, the most types of business in the retail business as much as 37%.

Analysis

Research data processing using PLS-SEM software which consists of two analyzes, namely the outer model and the inner model. .

Outer Model

Based on the analysis of the results of the measurement model (*Outer Model Analysis*) it was found that all indicators used to measure the research variables were valid and reliable so that they could represent the research variables and were trustworthy and reliable.

a. Convergent Validity

Table 1. Results of AVE . Value

| | Average Variance Extracted |
|------------------------------|----------------------------|
| Ambidexterity | 0.592 |
| Exploitative Innovation | 0.581 |
| Explorative Innovation | 0.532 |
| Entrepreneurship Orientation | 0.500 |
| Profitability | 0.585 |

Based on the results of the analysis above, the AVE value of each variable in the table has a value above 0.5 so it can be concluded that the above variable has met the analysis of convergent validity which can be measured by the AVE value.

b. Discriminant Validity

Table 2. Discriminant Validity

| | Ambidexterity | Exploitative Innovation | Explorative Innovation | Entrepreneurship Orientation | Profitability |
|------------------------------|---------------|-------------------------|------------------------|------------------------------|---------------|
| Ambidexterity | 0.769 | | | | |
| Exploitative Innovation | 0.807 | 0.762 | | | |
| Explorative Innovation | 0.735 | 0.798 | 0.729 | | |
| Entrepreneurship Orientation | 0.655 | 0.765 | 0.728 | 0.707 | |
| Profitability | 0.980 | 0.827 | 0.759 | 0.653 | 0.765 |

Discriminant validity is seen from the *Heteroit-Monotrait Ratio* (HTMT) approach. A good HTMT value is 0.796 (Henseler et al., 2015), the threshold value is still acceptable if it is less than 0.90 (<0.90), if the HTMT exceeds 0.90 then the HTMT indicates a lack of discriminant validity.

From the results of the discriminant validity analysis in the table, it shows that the value of the *Heteroit-Monotrait Ratio* on each indicator variable has a value of less than 0.90 (<0.90) so that all indicators of each variable can be accepted.

c. Composite Reliability Test

Sekaran and Bougie (2013) stated that the reliability of a measurement indicates that the indicator is consistent to be used from time to time. Testing reliability by looking at the value of *composite reliability* and *Cronbach's Alpha*. If each *item* used in measuring the variable has a *composite reliability value* > 0.60 then the variable is declared reliable, if each *item* used in measuring the variable has a *Cronbach's Alpha value* > 0.60 then the indicator or *item* to measure the variable is declared reliable. (Malhotra, 2020).

Table 3. *Cronbach's Alpha and Composite Reliability*

| | Cronbach's Alpha | Composite Reliability |
|------------------------------|------------------|-----------------------|
| Ambidexterity | 0.826 | 0.878 |
| Exploitative Innovation | 0.819 | 0.874 |
| Explorative Innovation | 0.780 | 0.848 |
| Entrepreneurship Orientation | 0.748 | 0.832 |
| Profitability | 0.821 | 0.875 |

From the results of the reliability analysis shows that the value of *Cronbach's Alpha* and *Composite Reliability* on each variable indicator has a value of greater than 0.60 (> 0.60) so that all indicators of each variable have met the requirements and are declared reliable.

Inner Model

a. Coefficient of Determination Test (R²)

The Result of the Coefficient of Determination

The value of R-Square (R²) is used to determine the coefficient of determination and measure the level of variation of changes in the independent variable to the dependent variable. *The R-Square* value has 3 criteria, namely as follows: a value of 0.75 – 1 indicates (the influence is strong), a value of 0.5 – 0.74 indicates (the influence is moderate), then a value of 0.25 – 0, 49 indicates (the influence is weak).

Table 4. Coefficient of Determination of *R-Square*

| | R Square |
|-------------------------|----------|
| Ambidexterity | 0.429 |
| Exploitative Innovation | 0.585 |
| Explorative Innovation | 0.530 |
| Profitability | 0.960 |

Based on the results of testing the coefficient of determination (R²), it can be explained that the R-square profitability value is 0.960, which means that 96% of profitability can be explained from Ambidexterity.

Inner Model Test

The result of *bootstrapping* Is:

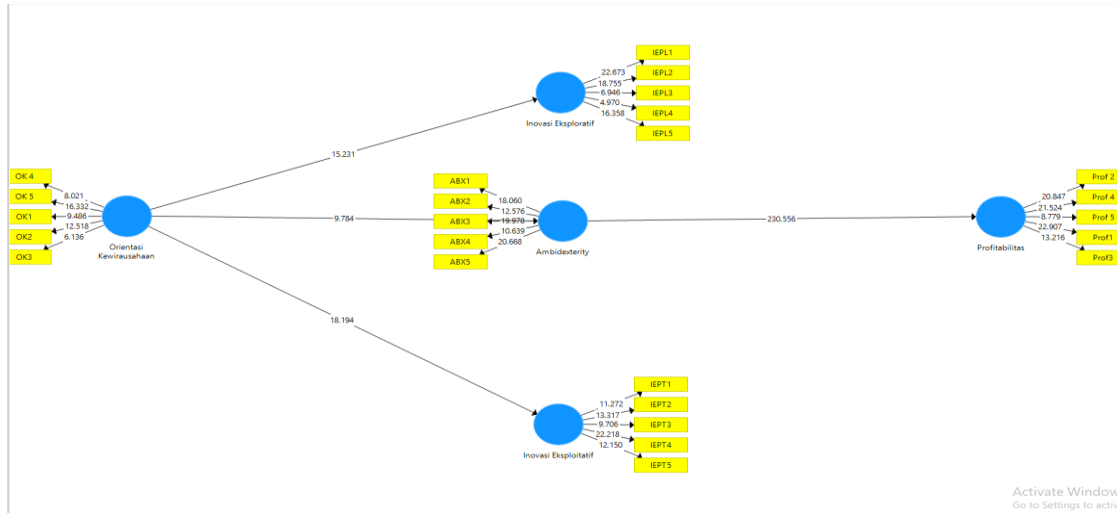


Figure 2. *Bootstrapping* Test Results

Based on the results of the *bootstrapping test* which can be seen in Figure 2, the complete significance test results can be seen in table 5 below:

Table 5 Test Results

Table 5. *Bootstrapping* Test Results

| | Original Sample | Sample Mean | Standard Deviation | T Statistics | P Values |
|---|-----------------|-------------|--------------------|--------------|----------|
| Explorative Innovation Entrepreneurship Orientation → | 0.728 | 0.742 | 0.047 | 15,333 | 0.00 |
| Entrepreneurial Orientation → Exploitative Innovation | 0.765 | 0.775 | 0.042 | 18,326 | 0.00 |
| Ambidexterity Entrepreneurial Orientation → | 0.655 | 0.666 | 0.063 | 10.397 | 0.00 |
| Ambidexterity → Profitability | 0.980 | 0.980 | 0.004 | 26,870 | 0.00 |

Based on the results of testing the hypothesis above, the following test results are obtained:

- 1). In the path that shows the effect of Entrepreneurial Orientation on Explorative Innovation of SMEs, the p value obtained is 0.000 with a T statistic of 15.333 and a positive path coefficient of 0.728. Because the path p value < 0.05, T statistic > 1.96 and the path coefficient is positive, it can be concluded that *entrepreneurial orientation has a significant influence on SME exploratory*

- innovation*. This shows that research hypothesis 1 says: “ Entrepreneurial orientation has a positive influence on exploratory innovation. "received.
- 2). In the path that shows the influence of Entrepreneurial Orientation on the Exploitative Innovation of SMEs, the p value obtained is 0.000 with a T statistic of 10.397 and a positive path coefficient of 0.765. Because the path p value < 0.05 , T statistic > 1.96 and the path coefficient is positive, it can be concluded that *entrepreneurial orientation has a significant influence on the exploitative innovation of SMEs*. This shows that research hypothesis 2 says “: Entrepreneurial orientation has a positive influence on exploitative innovation. "received.
 - 3). In the path that shows the effect of Entrepreneurial Orientation on the Ambidexterity of SMEs, the p value obtained is 0.000 with a T statistic of 15.333 and a positive path coefficient of 0.655. Because the path p value < 0.05 , T statistic > 1.96 and the path coefficient is positive, it can be concluded that *entrepreneurial orientation has a significant influence on Ambidexterity. SMEs*. This shows that research hypothesis 3 says " : Entrepreneurial orientation has a positive influence on Ambidexterity. "received.
 - 4). In the path that shows the influence of Ambidexterity on the profitability of SMEs, the p value obtained is 0.000 with a T statistic of 26,870 and a positive path coefficient of 0.980. Because the path p value < 0.05 , T statistic > 1.96 and the path coefficient is positive, it can be concluded that *Ambidexterity has a significant influence on the profitability of SMEs*. This shows that research hypothesis 4 which says " : Ambidexterity has a positive influence on profitability. "received.

Discussion

SMEs must have behavior with an entrepreneurial orientation. Entrepreneurial orientation refers to the strategic postures that explain the behavior of a company. Innovation is the main source for companies to gain competitive advantage (Kim et al., 2012). Many experts think that organizations need to simultaneously pursue exploration and exploitation innovation activities to achieve maximum business results. The research results of Wales et al., (2015), show that entrepreneurial orientation has a positive effect on exploratory innovation where companies will continue to look for opportunities based on market changes. Ultimately, EO embodies the managerial desire to spearhead the development of new market spaces or both exploit and explore (Zhang et al., 2016). This is in accordance with the results of this study which showed a positive influence between entrepreneurial orientation and exploratory innovation. In addition, this study also found a positive influence between entrepreneurial orientation on exploitative innovation. Both, exploration and exploitation are behaviors that are essential for the survival of the company both in the long term and in the short term (Chen, 2017). The findings show that exploration and exploitation coexist in owner-manager behavior. The results are consistent with the literature showing that business.

Owners-managers who tend to be ambidextrous tend to grow (Koryak et al., 2018, in other words, entrepreneurial orientation has a positive effect on Ambidexterity. This supports this study which says that Entrepreneurial Orientation has a positive effect on Ambidexterity. Several studies have also found that ambidexterity has a positive effect on profitability (Alpkan & Gemici, 2016; Zhang et al., 2016; Huang et al., 2014), this study supports research hypothesis 4 which explains that Ambidexterity has a positive effect on profitability.

Entrepreneurial orientation really needs to be owned by an entrepreneur so that the business he runs continues to grow rapidly. In this orientation, innovation will certainly grow and opportunities that will increase the profitability of a business. In entrepreneurship, the orientation to move forward or adapt to the times is very important, so that the business or business can meet the target market and innovations developed for future needs by adjusting existing trends or times can increase sales targets.

Conclusion

The conclusions obtained from the results of this study are as follows:

1. Entrepreneurial orientation has a positive and significant influence on exploratory innovation.
2. Entrepreneurial orientation has a positive and significant influence on exploitative innovation.
3. Entrepreneurial orientation has a positive and significant influence on Ambidexterity.
4. Ambidexterity has a positive and significant effect on profitability.

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