

## THE EFFECT OF ENTREPRENEURIAL LEADERSHIP AND ENTREPRENEURIAL ORIENTATION ON BUSINESS PERFORMANCE OF BAKERY AT MEDAN: THE MEDIATING ROLE OF INNOVATION CAPABILITY

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### ABSTRACT

This research analyzes the influence of entrepreneurial leadership and entrepreneurial orientation on business performance, with innovation capability serving as a mediating variable. The study focuses on bakery micro, small, and medium enterprises (MSMEs) in Medan, which face challenges related to limited innovation resources and leadership practices. Using a quantitative research method, data were collected from 100 bakery entrepreneurs through structured questionnaires and interviews. The variables Entrepreneurial Leadership, Entrepreneurial Orientation, Innovation Capability, and Business Performance were analyzed using Structural Equation Modeling–Partial Least Squares (SEM–PLS) to test both direct and indirect relationships. The findings demonstrate that entrepreneurial leadership and entrepreneurial orientation have significant positive effects on business performance, both directly and indirectly through innovation capability. Entrepreneurs who display visionary, proactive, and risk-taking behaviors tend to enhance their firm’s innovation capacity, which in turn improves productivity, customer satisfaction, and financial outcomes. The study confirms that innovation capability acts as a strategic bridge, translating entrepreneurial traits into sustainable performance. Bakeries that adopt participative leadership, continuous product innovation, and modern marketing (e.g., influencer collaborations, natural ingredients, proofing technologies) achieve higher competitiveness and long-term success.

**Keywords:** Entrepreneurial Leadership, Entrepreneurial Orientation, Innovation Capability, Business Performance, Bakery

### 1. INTRODUCTION

In recent years, food products such as snacks, bread, and desserts have increasingly contributed to emotional comfort in modern, fast-paced life. The food and beverage industry in Medan has shown significant growth, particularly in the bakery sector, which is dominated by SMEs and characterized by rapid expansion (Alda et al., 2025). This growth is supported by digital platforms, shifting consumer preferences, and increasing demand for premium and artisanal products. At the same time, economic growth in North Sumatra further strengthens the development of local SMEs, including bakery businesses (Sari, 2024).

The bakery industry in Medan reflects a blend of global and local influences, where entrepreneurs adopt international trends such as Korean-style pastries while maintaining traditional Indonesian desserts. This trend highlights increasing consumer demand for innovation, quality, and uniqueness. However, despite these opportunities, bakery businesses face persistent challenges, including inconsistent product quality, low operational efficiency, unstable financial performance, declining customer satisfaction, and low employee productivity, which hinder sustainable growth.

These issues are closely related to weak innovation capability, which acts as a key mediating factor linking entrepreneurial leadership and entrepreneurial orientation to business performance. Innovation capability refers to the ability to develop and implement new products, processes, marketing strategies, and organizational practices. However, many bakeries in Medan still struggle with limited product innovation, manual production processes, ineffective marketing, and lack of technological adoption, reducing their competitiveness in a dynamic market.

Entrepreneurial leadership plays an important role in guiding businesses through uncertainty by fostering motivation, adaptability, and innovation. However, many bakery owners in Medan demonstrate limitations such as low risk-taking, lack of employee involvement, weak digital adoption, and limited strategic vision, which restrict innovation outcomes. Similarly, entrepreneurial orientation in the sector remains conservative, with low levels of innovativeness, proactiveness, and risk-taking. This cautious approach prevents businesses from responding quickly to trends and leveraging market opportunities.

Based on these conditions, this study examines the effect of entrepreneurial leadership and entrepreneurial orientation on business performance, with innovation capability as a mediating variable in the bakery industry in Medan.

## 2. LITERATURE REVIEW

Entrepreneurship plays a significant role in driving economic growth and business sustainability. It enables firms to identify opportunities, create value, and adapt to environmental changes.

Entrepreneurial leadership refers to the ability of leaders to influence and guide organizations by fostering innovation, encouraging risk-taking, and promoting proactive behavior. According to Jundulloh & Nasution (2024) describe entrepreneurial leadership more specifically through the mechanisms of scenario enactment and cast enactment, in which leaders articulate a clear vision and assemble capable teams to realize strategic goals, particularly within micro, small, and medium enterprises (MSMEs).

Entrepreneurial orientation is widely regarded as a strategic framework that reflects how firms make entrepreneurial decisions and pursue opportunities to build competitiveness. Suryono et al. (2024) conceptualize entrepreneurial orientation as an organizational posture that integrates innovativeness, proactiveness, and risk-taking with local wisdom values, enabling small and medium-sized enterprises to strengthen market orientation and sustain competitive advantage.

Innovation capability is defined as the ability of a firm to transform ideas and knowledge into new products, processes, or services. It plays a crucial role in enhancing competitiveness and achieving sustainable growth (Bekata and Kero, 2025).

Business performance in the MSME context is commonly defined as the extent to which firms achieve financial and non-financial outcomes that ensure sustainability and competitiveness. Financial outcomes typically refer to measurable indicators such as profit growth, sales growth, or return on investment, while non-financial outcomes capture broader aspects like customer satisfaction, employee productivity, innovation, and market share. Rumijati & Hakim (2023) describe business performance as the measurable results of entrepreneurial leadership, innovative work behavior, and self-efficacy, emphasizing improvements in productivity, growth, and long-term viability of MSMEs.

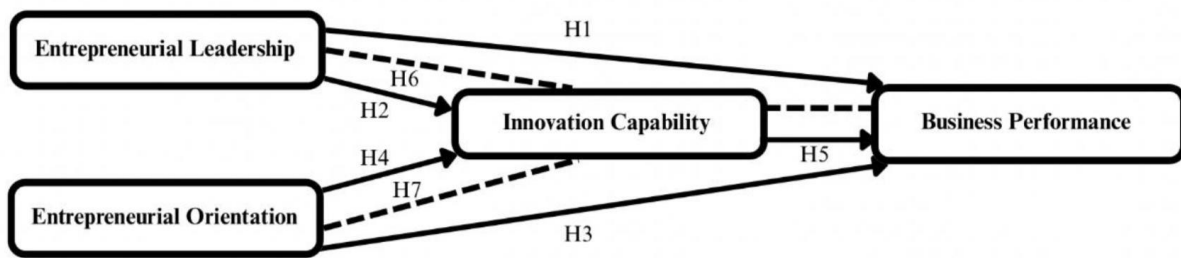


Figure 1. Theoretical Framework

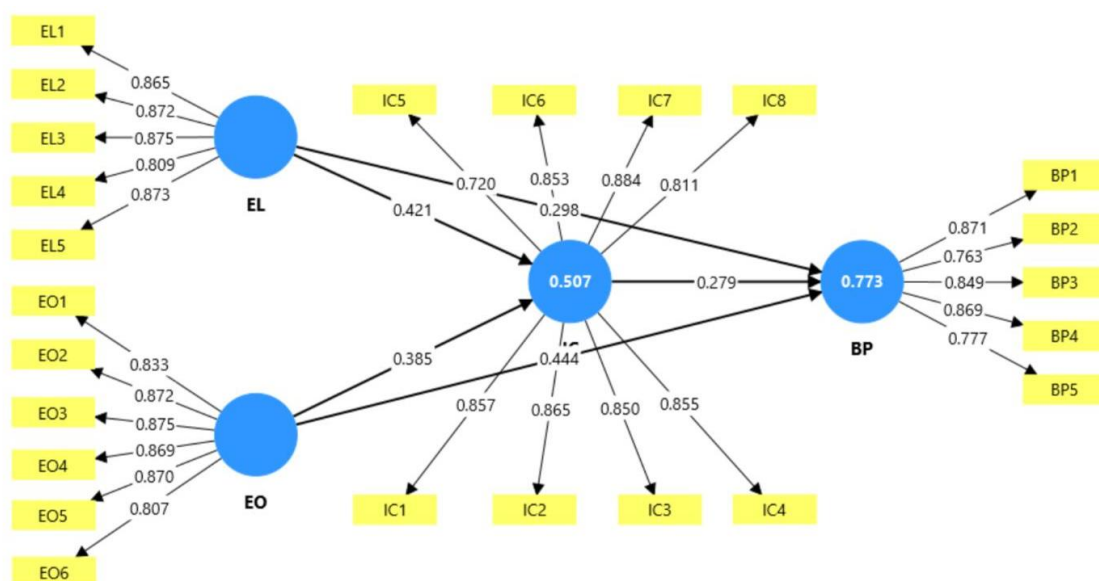
### 3. RESEARCH METHOD

This study uses a quantitative research approach to examine the relationships among entrepreneurial leadership, entrepreneurial orientation, innovation capability, and business performance. Data were collected through structured questionnaires distributed to bakery MSME owners and managers in Medan. A total of 100 respondents were selected using purposive sampling, ensuring that participants had relevant experience in managing bakery businesses. The data analysis technique employed is Structural Equation Modeling (SEM) using Partial Least Square (PLS). This method is used to evaluate the measurement model (validity and reliability) and the structural model (hypothesis testing). Descriptive analysis is applied to describe respondent characteristics and general perceptions, while inferential analysis is used to examine causal relationships between variables.

### 4. RESULTS AND DISCUSSION

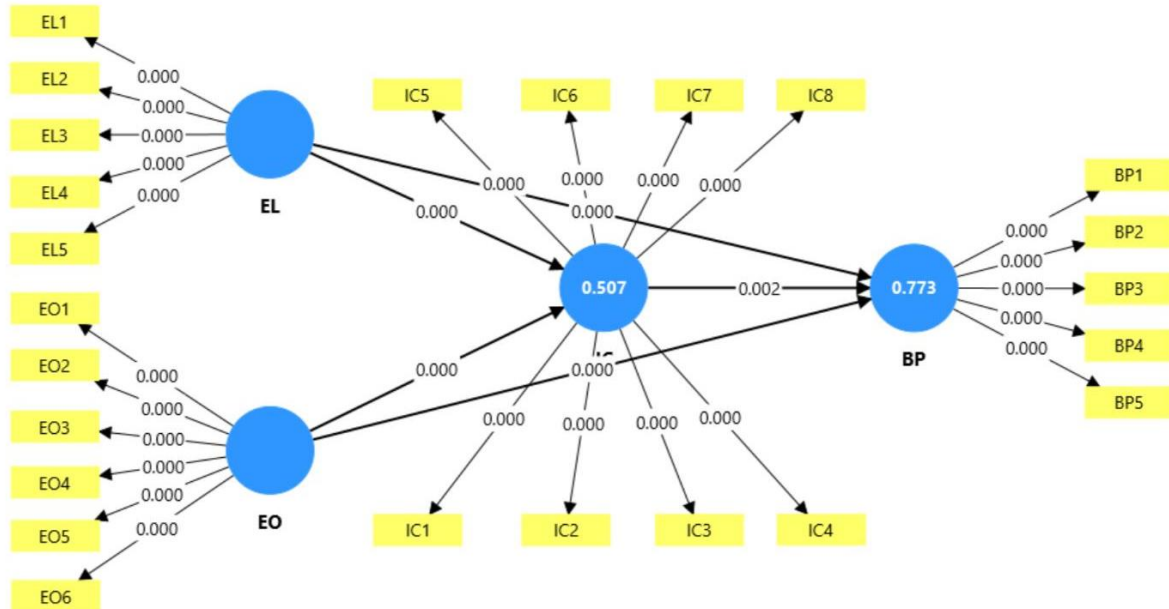
The respondents in this study are predominantly within the productive age group (20–40 years), mostly hold a bachelor’s degree, have 1–5 years of business experience, operate small-scale bakery MSMEs with 5–10 employees and 8–12 working hours per day, earn moderate annual income, are mainly managers, and have all participated in business-related training, indicating a relatively educated, experienced, and actively engaged sample in business operations.

Confirmatory factor analysis (CFA) is the measurement model (outer model) that tests the reliability and validity of latent components. The findings of this study's evaluation of the outer model are as follows:



**Figure 2. Outer Model**

Inner model evaluation can be seen from several indicators which include the coefficient of determination (R<sup>2</sup>), and Model Fit. The results of the structural model displayed by Smart PLS in this study are as follows.



Source: Data processed with SEM-PLS (2025)

**Figure 3. Inner Model**

**Table 1. Partial T Test Statistics**

|          | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics ( O/STDEV ) | P values | Result      |
|----------|---------------------|-----------------|----------------------------|--------------------------|----------|-------------|
| EL -> BP | 0.298               | 0.284           | 0.077                      | 3.877                    | 0.000    | Significant |
| EL -> IC | 0.421               | 0.422           | 0.076                      | 5.549                    | 0.000    | Significant |
| EO -> BP | 0.444               | 0.437           | 0.076                      | 5.824                    | 0.000    | Significant |
| EO -> IC | 0.385               | 0.382           | 0.094                      | 4.081                    | 0.000    | Significant |
| IC -> BP | 0.279               | 0.297           | 0.090                      | 3.096                    | 0.002    | Significant |

Source: Data processed with SEM-PLS (2025)

The coefficient value for the relationship between EL and BP is 0.298 (T = 3.877, p = 0.000), indicating a significant positive effect. Leaders who are brave to take initiative, sociable, open-minded, generous in sharing knowledge, and self-confident can enhance bakery performance through improved quality, timeliness, and productivity. Their

leadership behavior strengthens teamwork, customer trust, and operational efficiency, leading to better overall outcomes.

The relationship between EL and IC shows a coefficient of 0.421 ( $T = 5.549$ ,  $p = 0.000$ ), reflecting a strong and significant effect. Such leadership promotes creativity and experimentation, encouraging innovation in product, process, marketing, and organization. Leaders who support new ideas and continuous learning enable employees to develop unique recipes, adopt new baking technologies, and implement updated business systems that boost innovation capability.

The coefficient for EO and BP is 0.444 ( $T = 5.824$ ,  $p = 0.000$ ), indicating a strong positive influence. Entrepreneurs who are innovative, proactive, and risk-taking tend to achieve higher performance by introducing new menu trends, managing waste efficiently, and pursuing creative promotions, which enhance financial growth and customer satisfaction.

The relationship between EO and IC has a coefficient of 0.385 ( $T = 4.081$ ,  $p = 0.000$ ), showing a significant positive relationship. Entrepreneurs with strong orientation continuously seek knowledge, develop new ideas, and form external collaborations, improving innovation in products, processes, and marketing.

Finally, the relationship between IC and BP shows a coefficient of 0.279 ( $T = 3.096$ ,  $p = 0.002$ ), confirming a significant positive effect. Bakeries that implement innovation such as using natural ingredients, efficient technology, influencer marketing, and regular staff training achieve better quality, customer satisfaction, and financial results.

**Table 2. Mediation Test**

|                             | <b>Original sample (O)</b> | <b>Sample mean (M)</b> | <b>Standard deviation (STDEV)</b> | <b>T statistics ( O/STDEV )</b> | <b>P values</b> | <b>Result</b> |
|-----------------------------|----------------------------|------------------------|-----------------------------------|---------------------------------|-----------------|---------------|
| <b>EL -&gt; IC -&gt; BP</b> | 0.118                      | 0.128                  | 0.054                             | 2.174                           | 0.030           | Significant   |
| <b>EO -&gt; IC -&gt; BP</b> | 0.107                      | 0.116                  | 0.051                             | 2.090                           | 0.037           | Significant   |

Source: Data processed with SEM-PLS (2025)

The mediation test results show that IC significantly mediates the relationship between both EL and EO on BP. The indirect effect of  $EL \rightarrow IC \rightarrow BP$  has a coefficient of 0.118, with a T-statistic of 2.174 and a p-value of 0.030, indicating a significant mediating effect. This means that entrepreneurial leadership enhances business performance not only directly but also indirectly through improved innovation capability. Leaders who are open, proactive, and supportive encourage creativity and experimentation, which strengthen innovation in products, processes, and marketing ultimately improving overall performance.

Similarly, the indirect path of  $EO \rightarrow IC \rightarrow BP$  has a coefficient of 0.107, a T-statistic of 2.090, and a p-value of 0.037, also indicating a significant mediating effect. This suggests that entrepreneurial orientation influences business performance through innovation capability. Entrepreneurs who are innovative, proactive, and willing to take risks build a stronger capacity for innovation, allowing their businesses to create new products, adapt to market changes, and achieve better operational and financial outcomes. Hence, innovation

capability serves as a key mediating variable that links entrepreneurial traits to improved business performance.

## **Discussion**

### **1. Influence of Entrepreneurial Leadership on Business Performance**

The results reveal that entrepreneurial leadership has a positive and significant relationship with business performance, particularly among bakery enterprises in Medan, indicating that stronger entrepreneurial leadership contributes to superior business outcomes. Observations show that bakery owners in Medan commonly exhibit several EL dimensions, including being brave to act, sociable, broad-minded, big-hearted, and self-confident. The bravery to act is reflected in their willingness to initiate innovation, such as being among the first to introduce matcha-based bakery products, demonstrating courage and proactiveness in creating market trends. Their sociability is evident in the ability to build connections with culinary event organizers and local business communities, which enhances market visibility and customer engagement. Broad-mindedness appears through openness to feedback from both customers and employees, enabling continuous improvement in product and service quality. The big-hearted trait is manifested in their willingness to share knowledge and experience through baking workshops or community training, contributing to social value and reputation. Meanwhile, self-confidence is reflected in their professional and decisive attitude when interacting with customers and managing teams, which fosters trust and credibility.

This finding aligns with the explanation of Kebede et al. (2024), who argue that entrepreneurial leadership combines innovative thinking, risk-taking, and proactive behavior to foster organizational effectiveness and quality performance. This finding is consistent with Al-Sharif et al. (2023), who found that entrepreneurial leadership has a positive influence on innovation performance in SMEs.

### **2. Influence of Entrepreneurial Leadership on Innovation Capability**

The findings indicate that entrepreneurial leadership has a significant and positive relationship with innovation capability, showing that bakery entrepreneurs in Medan generally display leadership behaviors that influence their ability to innovate. In the current context, many bakery owners demonstrate bravery to act by introducing new product variations and experimenting with unique ingredients or flavors such as matcha or taro, although these innovations often emerge from imitation or trend-following rather than strategic innovation. Their sociability is reflected in active participation in culinary events and informal collaborations with local suppliers or organizers, mainly to promote their products rather than to develop joint innovations. The broad-mindedness of bakery owners can be seen in their openness to customer feedback, yet such feedback is usually applied to short-term adjustments in recipes or packaging rather than to systematic improvement or business model innovation. The big-hearted attitude is evident as some entrepreneurs share baking knowledge through workshops or training, but these activities are often conducted to strengthen business reputation rather than to build collective innovation networks. Meanwhile, self-confidence is reflected in their professional demeanor when dealing with customers and managing their teams, though it tends to focus on maintaining consistency and control rather than encouraging creative risk-taking.

According to Annur et al. (2025), entrepreneurial leadership plays a critical role in building innovation capability. This result supports the findings of Jundulloh and Nasution

(2024), who demonstrated that entrepreneurial leadership significantly contributes to strengthening innovation capability within MSMEs.

### **3. Influence of Entrepreneurial Orientation on Business Performance**

The analysis shows that entrepreneurial orientation significantly and positively affects business performance, indicating that bakery entrepreneurs in Medan who adopt entrepreneurial orientations namely innovativeness, proactiveness, and risk-taking tend to achieve superior performance outcomes. In the current context, many bakery businesses in Medan have begun to exhibit entrepreneurial behaviors through the introduction of trendy menu items, seasonal product variations, and the utilization of digital marketing platforms to attract and retain customers. Their innovativeness is reflected in the continuous effort to modify recipes, develop new flavors, and enhance product presentation in response to market trends. Proactiveness appears in their responsiveness to emerging customer preferences and their initiative in engaging with online marketplaces or social media campaigns to maintain competitiveness. Meanwhile, risk-taking remains relatively limited, as some small-scale bakeries continue to act cautiously in allocating resources for innovation or expansion due to financial constraints and uncertainty regarding market acceptance.

According to Andriani et al. (2024), entrepreneurial orientation acts as a strategic behavioral framework that drives firms toward superior performance by enhancing their adaptability, innovation, and responsiveness. This result aligns with Kyal et al. (2022), who found that entrepreneurial orientation significantly improves MSME performance through increased motivation, creativity, and adaptability.

### **4. Influence of Entrepreneurial Orientation on Innovation Capability**

The findings indicate that entrepreneurial orientation has a significant and positive influence on innovation capability, suggesting that bakery entrepreneurs in Medan who demonstrate greater innovativeness, proactiveness, and risk-taking tendencies are more likely to develop stronger innovation capacity. In the current business landscape, many bakery owners have started to introduce trend-based products, such as seasonal pastries or flavor innovations, and to utilize online platforms for marketing and customer engagement. Their innovativeness is reflected in the adaptation of new recipes, product variations, and creative presentation styles inspired by consumer trends. Proactiveness is observed in their efforts to anticipate customer preferences and respond quickly to shifts in market demand, often through social media campaigns or participation in local culinary events. Meanwhile, risk-taking remains relatively restrained, as smaller bakery enterprises tend to be cautious about investing in new technologies or expanding operations due to financial limitations and uncertain consumer reactions.

According to Pusparini et al. (2024), entrepreneurial orientation serves as a strategic foundation for building innovation capability within SMEs. The results are consistent with Makhoulfi et al. (2021), who found that entrepreneurial orientation positively influences innovation capability through the development of learning and absorptive capacities.

### **5. Influence of Innovation Capability on Business Performance**

The findings show that innovation capability has a positive and significant relationship with business performance, indicating that bakery MSMEs in Medan that actively engage in innovation tend to achieve superior performance outcomes. In the current business context, bakery owners have increasingly adopted new ideas and technologies aimed at

improving production efficiency and product quality. Innovation efforts are predominantly concentrated on product development and process improvement, such as the use of natural ingredients, the application of proofing and temperature-control technologies, and the refinement of baking techniques to maintain consistency and freshness. However, marketing and organizational innovations remain less systematically implemented, as many bakeries continue to rely on conventional promotional methods and informal management structures. This pattern suggests that while innovation capability among bakery enterprises in Medan is developing, its application is still uneven across different functional areas, reflecting a focus on operational improvements rather than comprehensive innovation strategies.

According to Isa et al. (2024), innovation capability is a crucial determinant of business success because it reflects a firm’s ability to transform resources, ideas, and knowledge into superior products and processes. These findings are consistent with the study by Rumanti et al. (2022), which demonstrated that innovation capability significantly enhances both financial and operational performance in SMEs.

## **6. Influence of Innovation Capability Mediates the Relationship between Entrepreneurial Leadership on Business Performance**

The results reveal that innovation capability significantly mediates the relationship between entrepreneurial leadership and business performance, indicating that bakery entrepreneurs in Medan who exhibit strong entrepreneurial leadership tend to enhance business performance both directly and indirectly through the development of innovation capability. In practice, bakery leaders who demonstrate confidence, openness to new ideas, and the ability to motivate their teams are more likely to foster an environment that supports creativity and experimentation. Field observations show that many bakery owners in Medan are beginning to adopt participative leadership approaches by encouraging employee involvement in product development and decision-making processes, which contributes to improved innovation outcomes. Nevertheless, some small-scale bakeries continue to rely heavily on owner-centered management, where innovation initiatives are driven primarily by the leader’s individual efforts rather than collaborative teamwork. This condition suggests that although entrepreneurial leadership within the bakery sector is developing, the degree to which it translates into collective innovation and sustained business performance remains varied, highlighting the need for stronger empowerment and innovation culture within these enterprises.

According to Purwati et al. (2020), entrepreneurial leadership acts as a strategic driver that enhances innovation capability, which then leads to improved business performance. This result is supported by Annur et al. (2025), who found that innovation capability mediates the relationship between entrepreneurial leadership and MSME performance in the culinary sector.

## **7. Influence of Innovation Capability Mediates the Relationship between Entrepreneurial Orientation and the Business Performance**

The mediation analysis reveals that innovation capability significantly mediates the relationship between entrepreneurial orientation and business performance, indicating that bakery entrepreneurs in Medan who demonstrate strong entrepreneurial orientation particularly in innovativeness, proactiveness, and risk-taking tend to enhance their innovation capabilities, which in turn lead to improved business performance. In practice, many bakery owners have become increasingly proactive in developing trend-based products, introducing seasonal menu items, and utilizing digital marketing platforms to

expand their customer reach. Their innovativeness is reflected in continuous efforts to adapt new recipes and modernize product presentation, while their proactiveness is evident in the ability to anticipate consumer preferences and market shifts. However, risk-taking remains relatively limited among small-scale bakeries, as many entrepreneurs are still cautious in allocating resources for innovation due to financial constraints and market uncertainties. These conditions suggest that although entrepreneurial orientation among bakery MSMEs in Medan is growing, its translation into sustained innovation and long-term performance improvement remains uneven, largely influenced by differences in resources, managerial capability, and business maturity.

According to Bekata and Kero (2024), entrepreneurial orientation serves as a strategic behavioral framework that drives the development of innovation capability, which subsequently enhances firm performance. Furthermore, Ngo (2023) supports this conclusion by demonstrating that innovation capability mediates the relationship between entrepreneurial orientation and firm performance among SMEs in transitional economies.

## 5. CONCLUSION

The conclusion of this research as follows:

- a. Entrepreneurial leadership significantly effect business performance of bakery at Medan
- b. Entrepreneurial leadership significantly effect innovation capability of bakery at Medan
- c. Entrepreneurial orientation significantly effect business performance of bakery at Medan
- d. Entrepreneurial orientation significantly effect innovation capability of bakery at Medan
- e. Innovation capability significantly effect business performance of bakery at Medan
- f. Innovation capability significantly mediating entrepreneurial leadership on business performance of bakery at Medan
- g. Innovation capability significantly mediating the effect of entrepreneurial orientation on business performance of bakery at Medan

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