

ABSTRACT

The existence of SMEs in Indonesia to support the state economy can not be ignored. SMEs become the government's attention because the business is widespread and can open up potential employment opportunities. Contribution that can be provided by MSEs, among others, by creating jobs, employment for urbanization, and provide the flexibility of needs and innovation in the economy as a whole. Even so, MSEs is the most dynamic business but also the most vulnerable among business competition.

Tight competition makes every businessman is required to know and understand what is going on in the market and what the consumer wants. Competitive pressures can affect business performance, including in small and medium scale restaurant industries. This is indicated by the increasing number of restaurants in the city of Semarang as much as 52% of the year 2005-2014 but also found indication of decrease in restaurant performance as much as 8%.

The purpose of this study is to find out how to improve the performance of small and medium scale restaurants in Semarang City so that they can compete in the industry. Improved business performance is judged by the entrepreneurial orientation and the capability of the business environment adaptability and mediated by innovation. The number of respondents used were 110 respondents who are owners or managers of restaurant businesses.

The output estimation results showed that the research model is feasible to use. Hypothesis test results showed that business performance can be improved by entrepreneurship orientation, either directly or by mediated by innovation.

Keywords: *Entrepreneurship Orientation, Business Environment Adaptability, Innovation, Business Performance.*