

Entrepreneurial Orientation, Innovation and Performance: Unlocking Success for Small Business

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ABSTRACT

This study examines the effect of Entrepreneurial Orientation (EO) on Innovation and Small Business Performance in Indonesia, emphasizing the mediating role of Innovation. Drawing on the Resource-Based View (RBV), this research adopts a quantitative approach using Structural Equation Modeling (SEM-PLS4) with data collected from 100 small business owners across Southern Sumatra. The results demonstrate that EO has a significant positive impact on Innovation and Performance. Innovation also exerts a significant influence on Performance and mediates the relationship between EO and Performance. These findings indicate that EO dimensions serve as critical drivers for enhancing innovation and achieving superior business outcomes. Theoretically, this study contributes to the validation and contextual extension of the RBV framework within Indonesian MSMEs. Empirically, it highlights Innovation as a strategic mechanism linking EO to performance improvement. Practically, the study underscores the importance of developing innovation capabilities to strengthen competitiveness and ensure sustainable growth in emerging economies.

Keywords: Entrepreneurial Orientation, Innovation, Small Business Performance, Resource-Based View, MSMEs

INTRODUCTION

Economic growth is a fundamental element of national development, reflecting a country's overall economic capacity. It is a phenomenon influenced by factors such as technological advancement, capital accumulation, and resource management (Al-Karkhi, 2024; Manansala & Vargas, 2025). High-quality economic development is an inclusive concept that encompasses sustainability, focusing on both societal welfare and environmental well-being (Sun & Waqas, 2024). Scholarly studies further emphasize the importance of SMEs in driving economic growth on a global scale. Even in developed nations, governments persistently advocate for the establishment and expansion of SMEs, recognizing them as pivotal contributors to economic progress and the accumulation of social wealth (Bui et al., 2021; Adiputra et al., 2023; Titalessy et al., 2024).

The Indonesian Economic Report 2023 highlights that in the Micro, Small and Medium Enterprises (MSME) sector, credit growth increased by 8.03% (YoY), partly driven by the rising distribution of People's Business Credit (KUR). MSMEs play a crucial role in Indonesia's economic growth, accounting for 99% of all business units (Bank Indonesia, 2023). In 2023, the number of MSMEs in Indonesia reached approximately 66 million, contributing 61% to the GDP, equivalent to Rp 9,580 Trillion. MSMEs also provide employment for around 117 million workers, or 97% of the total workforce.

The concept of Entrepreneurial Orientation is commonly applied to two distinct phenomena (Covin & Lumpkin, 2011). More specifically, (Lumpkin & Dess, 1996) define Entrepreneurial Orientation as the processes, practices, and decision-making that lead to new ventures, with key dimensions including risk-taking, innovativeness, proactiveness, autonomy, and competitive aggressiveness (Covin & Wales, 2019).

A theoretical gap exists in many studies linking Entrepreneurial Orientation with firm performance, spanning over 40 years of research. (Wales et al., 2023) inductively propose Entrepreneurial Orientation as a Theory of New Value Creation, emphasizing the enhancement of consumer benefits or cost reduction through product-market variations as a new causal mechanism in the literature. Entrepreneurial Orientation continues to draw scholarly attention due to its significant impact on performance (Kuckertz et al., 2024). (Elidjen et al., 2022) suggested that Entrepreneurial Orientation can be the key to improving the performance of technology companies. According to (Ta'Amnha et al., 2023), SMEs with Entrepreneurial Orientation, particularly those focused on innovation, risk-taking, and proactivity, gain a competitive advantage and improved performance (Boso et al., 2013; Agnes et al., 2019; Anwar & Shah, 2021). Studies by (Monferrer et al., 2021; Daradkeh & Mansoor, 2023; Hashmi et al., 2023; Kusa et al., 2023; Huang et al., 2023; Šlogar et al., 2023) confirm that Entrepreneurial Orientation influences SME performance. However, research by (Nguyen et al., 2021) found no effect of Entrepreneurial Orientation on SME performance

Several factors influence SME performance, including capital investment, human resources, and marketing. Among these, innovation is regarded as one of the most crucial drivers. The relationship between innovation and SME performance has been extensively discussed in the literature, with varying results (Le et al., 2023). Innovation is considered a strategy to enhance business performance (Farida & Setiawan, 2022). It is defined as a new product or process that significantly differs from previous versions and has either been made available to potential users or implemented by a production unit (Larios-francia & Ferasso, 2023). Innovation involves the adoption of new ideas, programs, systems, processes, services, or products, and is categorized into three

dimensions: product innovation, process innovation, and business model or management innovation (Rasheed et al., 2021).

(Aisjah et al., 2023) noted that the literature has primarily focused on innovation in large companies, with limited attention given to its impact in the SME sector. Additionally, the effect of innovation on business performance remains a topic of debate, with uncertainty about whether it has a significant or minimal contribution, indicating the need for further research. Research by (Ferrerias-Méndez et al., 2021) found that Business Model Innovation plays a partial mediating role between Entrepreneurial Orientation and New Product Development (NPD) Performance. (Majali et al., 2022) identified a significant mediating role of Green Product Innovation between Green Entrepreneurial Orientation and SME performance, at the 10% significance level.

(Wongsansukcharoen & Thaweepaiboonwong, 2023) argued that a key factor in the success of innovation in human resource management practices indirectly influences SME performance through the mediation of innovation capability and competitive advantage. Research by (Al-Momani et al., 2023) demonstrated that innovation has a significant positive impact on the performance of pharmaceutical SMEs. Open innovation practices positively affect performance, based on a study of 194 manufacturing SME managers in Chile.

This study explores the impact of Entrepreneurial Orientation and Innovation on Small Business Performance in Indonesia. The findings aim to provide theoretical, empirical, and methodological contributions, particularly for MSME development strategies in Indonesia. The article is organized into six sections: Introduction, Literature Review, Research Method, Results, Discussion, and Conclusion, along with Limitations and Future Research.

LITERATURE REVIEW

Resource-Based View Theory (RBVT)

Resource-Based Theory is a widely cited framework in the literature on Strategic Human Resource Management (SHRM). According to (Barney et al., 2001), resources can generate a sustainable competitive advantage if they are Valuable, Rare, Inimitable, and Non-Substitutable (VRIN). These resources can be categorized into physical, human, and organizational resources. The Resource-Based View (RBV) defines resources as physical assets, intangible assets, and organizational capabilities that a company possesses and manages.

According to the Resource-Based View (RBV) approach, an organization's performance is determined not by external factors that are easily accessible to competitors, such as market and industry characteristics, but by its ability to sustain superior internal resources. RBV highlights that organizations can enhance their competitive position through strategies focused on cost efficiency, quality improvement, or differentiation. To achieve this, the organization must utilize resources and capabilities that are valuable, rare, hard to imitate, and irreplaceable. (Ahn et al., 2022).

Entrepreneurial Orientation and Innovation

Entrepreneurial Orientation has been used as a construct in academic research since the early 1980s. It has been operationalized as a construct consisting of three main sub-elements, namely innovativeness, proactiveness and risk-taking (Cadden et al., 2023). Entrepreneurial orientation includes decision-making styles, processes and methods, which shape the entrepreneurial activities of the firm (Mansouri et al., 2022).

Conceptually, the theoretical origins of Entrepreneurial Orientation often describe of entrepreneurial organizations as dominated by an active search for new opportunities to make leaps forward in the face of uncertainty (Wales et al., 2021). Entrepreneurial orientation in the entrepreneurship literature has been positively associated with firm performance (Huang, 2011). Entrepreneurial Orientation represents an opportunity to develop new businesses and drive innovation and is a key concept for understanding whether firms adopt entrepreneurial behavior (Wei et al., 2023). (Lumpkin & Dess, 1996) defined Entrepreneurial Orientation as a set of behaviors, attitudes and strategies that reflect an organization's proactive and innovative approach to business opportunities. Entrepreneurial Orientation is defined as "a firm that undertakes product market innovations, risky ventures and is the first to produce 'proactive' innovations and beat competitors". Three dimensions to characterize and test entrepreneurship according to Miller are: "innovativeness", 'proactiveness' and 'risk-taking' (Rezaei & Ortt, 2018).

(Majali et al., 2022) in their study of 384 small and medium-sized manufacturing firms in Jordan, found a direct relationship between green entrepreneurial orientation and green product innovation at the 10% significance level. (Kraus et al., 2023) demonstrated that Entrepreneurial Orientation significantly promotes disruptive innovation, with digitalization strategies serving as a metaphorical barrier to disruptive innovation in highly entrepreneurially oriented companies. Perlins et al., (2024) confirmed that both entrepreneurial orientation and absorptive capacity are key factors influencing innovation capacity, with entrepreneurial orientation having a stronger impact than absorptive capacity.

H₁. Entrepreneurial Orientation drives Innovation

Entrepreneurial Orientation and Performance

(Ibidunni et al., 2018) found that entrepreneurial orientation significantly impacts SME performance in Nigeria, with Proactiveness, Risk-taking, and Autonomy being key contributors. (Ferreras-Méndez et al., 2021) showed that Entrepreneurial Orientation, particularly the dimensions of Innovation, Proactiveness, and Risk-taking, positively affects new product development performance in Spanish SMEs. (Huang et al., 2023) explored how these same dimensions Innovation, Risk-taking, and Proactiveness enhance firm performance and how industry context shapes SME strategies.

H₂. Entrepreneurial Orientation drives Performance

Innovation and Performance

(Le et al., 2023) found that innovation significantly influences SME performance in Vietnam, with 2SLS regression analysis showing that improving existing products has a strong positive impact. Similarly. Research by (Al-Momani et al., 2023) highlighted the importance of innovation and entrepreneurial orientation in enhancing SME performance in Jordan's pharmaceutical sector. Their findings show that innovation plays a key role in achieving both financial and non-financial success in a developing economy.

H₃. Innovation drives Performance

The Mediating Role of Innovation

(Hashmi et al., 2023) focused on Entrepreneurial Orientation at the firm level, revealing partial mediation by reverse innovation between entrepreneurial orientation and international performance.. Research by (Daradkeh & Mansoor, 2023) using survey data from 273 startups, found that exploitative innovation mediates the relationship between entrepreneurial orientation, network orientation, and startup performance. (Majali et al., 2022) identified green product innovation as a significant mediator at the 10% level.

(Ferreras-Méndez et al., 2021) studying 400 Spanish SMEs with Structural Model Analysis and Partial Least Squares, showed that business model innovation partially mediates the link between entrepreneurial orientation and new product development (NPD) performance, highlighting its dual impact directly and through business model innovation.

H₄. Innovation plays a mediating role in the impact of Entrepreneurial Orientation on Performance

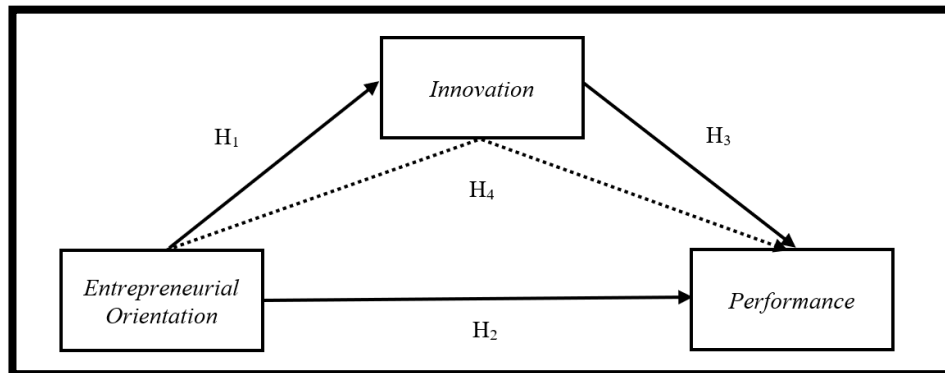


Figure 1. Proposed Research Model

This research includes three variables: Entrepreneurial Orientation, Innovation and Performance. Entrepreneurial Orientation has dimensions such as Innovativeness, Proactiveness, Autonomy, Competitiveness, Risk-taking and Persistence. Innovation as a mediating variable, includes Product, Process, and Market Innovation. Performance, the dependent variable covers Financial and Non-Financial Performance. The arrows between the variables represent the relationships examined in this study.

Table 1. The variables measurement

Variables Function	Symbols	Variables Names/Sources	Measurements
Dependent (Endogen) Variable	EO	Entrepreneurial Orientation , adopted from Ref. (Rukiko & Mambali, 2024) consists of five dimensions with thirteen items	1. Self-determination autonomy (EO1) 2. Program selection autonomy (EO2) 3. Innovative ability in setting study plan (EO3) 4. Innovative ability in aligning goal with plan (EO4) 5. Innovative ability to measure progress of the set goals (EO5) 6. Being proactive to achieve reward (EO6) 7. Being proactive to face background disadvantages (EO7) 8. Being proactive to face the current setbacks (EO8)

Variables Function	Symbols	Variables Names/Sources	Measurements
			9. Competing with others (EO9) 10. Self-Competition (EO10) 11. Taking risk during program entry (EO11) 12. Taking risk during the undertaking of a program (EO12) 13. Persistence - Not giving up (EO13)
Independent (Exogen) Variable	PRF	Performance , adopted from Ref. (Srimulyani et al., 2023) consists of two dimensions with five items	1. Sales volume (PRF1) 2. Production result (PRF2) 3. Operating profit (PRF3) 4. Business growth (PRF4) 5. Business development (PRF5)
Mediating Variable	INV	Innovation , adopted from Ref. (Issau et al., 2022) consists of three dimensions with nine items	1. We place strong emphasis on the development of new products (INV1) 2. Our business frequently tries out new ideas (INV2) 3. We have been able to come up with new products to remain competitive (INV3) 4. Our business makes major improvements on the existing products to suit customer requirements (INV4) 5. Our business seeks out new ways to do things (INV5) 6. Our business is creative in its methods of operation (INV6) 7. We constantly upgrade our technology to improve our production processes (INV7) 8. We have initiated new production process within our firm (INV8) 9. Our business is often the first to market with new products and services (INV9)

RESEARCH METHOD

This research adopts a quantitative approach, using an online questionnaire distributed via Google Forms. The sample was selected based on the number of small industries in Indonesia in 2023 using the Multistage Cluster Sampling method. Indonesia, as the world's largest archipelago is divided into 38 provinces across seven islands: Sumatra, Java, Nusa Tenggara, Kalimantan, Sulawesi, Maluku and Papua. Sumatra has the second-highest number of small industries after Java and the largest number of provinces among the islands. Given that most previous studies focus on Java and Bali, this research centers on Southern Sumatra, which includes the provinces of Lampung, South Sumatra, Bangka Belitung Islands, Bengkulu, and Jambi. Southern Sumatra was chosen as it accounts for 43% of small industry output, the highest among Sumatra provinces (BPS, 2024).

Out of 108 questionnaire responses, 100 were valid for data analysis. The questionnaire used a 5-point Likert scale, and all instruments were tested for validity and reliability. Statistical analysis was conducted using Structural Equation Modeling (SEM) with SmartPLS4, employing a two-step process: Measurement Model Evaluation (Outer Model) and Structural Model Testing (Inner Model).

RESULTS

Before presenting the empirical findings, it is essential to outline the analytical procedures undertaken to ensure the robustness and accuracy of the model tested in this study. Following data collection, the dataset was screened to confirm completeness and suitability for multivariate analysis. All measurement items were assessed for validity and reliability using the outer model evaluation in SmartPLS4, including tests of convergent validity, discriminant validity, and internal consistency reliability. Once the measurement model met the recommended thresholds, the structural model was examined to evaluate the hypothesized relationships among Entrepreneurial Orientation, Innovation, and Performance. This stage involved assessing path coefficients, t-statistics, p-values, and mediating effects using bootstrapping procedures. The following section presents the results of these analyses, beginning with respondent characteristics and continuing with the evaluation of the measurement and structural models to test the proposed hypotheses.

Respondents' characteristics

The respondents in this study are categorized by gender, age, education level, number of workers and annual turnover.

Table 2. Respondents' characteristics

Respondents' characteristics	Classification	Percentage (%)
Gender	a. Male	35
	b. Female	65
Age	a. < 30 Years Old	33
	b. 30-35 Years Old	23
	c. 35-40 Years Old	11
	d. >40 Years Old	33
Education	a. Senior High School Graduates	30
	b. Diploma	32
	c. Bachelor's Degree	7

Respondents' characteristics	Classification	Percentage (%)
	d. Master's Degree	25
	e. Others	6
Number of Employees Owned	a. 1-5 Employees	74
	b. 5-10 Employees	19
	c. >10 Employees	7
Company's annual income average	a. 300-500 Million	84
	b. 500-700 Million	6
	c. 700-900 Million	5
	d. >900 Million	5

Sources: Primary data processed, 2025

Table 2 shows that most respondents (65%) are women. The largest age groups are under 30 and over 40, each representing 33%. In terms of education, respondents are mostly Diploma holders or Senior High School graduates. Most businesses have 1-5 employees (74%) and an annual turnover of Rp 300-500 million (84%).

Evaluation of the Measurement Model (Outer Model)

The convergent validity of the measurement model with reflective indicators is demonstrated by the correlation between the item/indicator scores and the construct scores. Individual indicators are deemed reliable if their correlation value exceeds 0.70. However, during the research phase of scale development, loadings between 0.50 and 0.60 are still considered acceptable.

Table 3. Outer loading

Variable	Outer loading
EO1 <- EO	0.832
EO2 <- EO	0.808
EO3 <- EO	0.915
EO4 <- EO	0.888
EO5 <- EO	0.895
EO6 <- EO	0.696
EO7 <- EO	0.861
EO8 <- EO	0.802
EO9 <- EO	0.796
EO10 <- EO	0.811
EO11 <- EO	0.883
EO12 <- EO	0.880
EO13 <- EO	0.890
INV1 <- INV	0.851
INV2 <- INV	0.885
INV3 <- INV	0.886
INV4 <- INV	0.852
INV5 <- INV	0.919
INV6 <- INV	0.889
INV7 <- INV	0.905
INV8 <- INV	0.867
INV9 <- INV	0.761
PRF1 <- PRF	0.858
PRF2 <- PRF	0.909
PRF3 <- PRF	0.903
PRF4 <- PRF	0.941

Variable	Outer loading
PRF5 <- PRF	0.838

Sources: SmartPLS4 Output (2025)

According to Table 3 above, all indicators have a loading factor value greater than 0.70, indicating that they satisfy convergent validity. The construct's validity is assessed by examining the Average Variance Extracted (AVE) value. For a model to be considered good, each construct should have an AVE value exceeding 0.50.

Table 4. Average Variance Extracted (AVE)

Variable	AVE
EO	0.714
INV	0.756
PRF	0.793

Sources: SmartPLS4 Output (2025)

As shown in Table 4 above, each construct Entrepreneurial Orientation (EO), Innovation (INV), and Performance (PRF) has a value greater than 0.50, indicating that the model in this study meets the criteria for a good model. In addition to the construct validity test, a reliability test is conducted for the construct, measured by two criteria: Cronbach's Alpha and Composite Reliability of the indicator block measuring the construct. The construct is considered reliable if both the Cronbach's Alpha and Composite Reliability values exceed 0.70.

Table 5. Cronbach's Alpha and Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
EO	0.966	0.968
INV	0.959	0.962
PRF	0.935	0.956

Sources: SmartPLS4 Output (2025)

The results indicate that the Cronbach's Alpha and Composite Reliability values for all constructs in this study are above 0.70, confirming that the constructs exhibit good reliability.

Structural Model Testing (Inner Model)

Structural model testing involves examining the parameter coefficient value, t-statistic significance or p-value.

Table 6. Inner Model

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics	P values
EO -> INV	0.813	0.813	0.054	15.046	0.000
EO -> PRF	0.224	0.231	0.112	1.993	0.046
INV -> PRF	0.573	0.568	0.114	5.013	0.000

Sources: SmartPLS4 Output (2025)

The parameter coefficient value indicates a positive impact of Entrepreneurial Orientation (EO) on both Innovation and Performance. Additionally, the Innovation variable positively influences Performance. In this test, exogenous variables are considered to have a significant effect on endogenous variables, as their p-value is less than 0.05 and their statistical t-value exceeds the t-table value of 1.96.

Mediation Test

The role of the mediating variable in this study is analyzed by examining the t-statistic and p-value. If the p-value is less than 0.05, the mediating variable is considered significant.

Table 7. Mediating Variable

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics	P values
EO -> INV -> PRF	0.466	0.461	0.097	4.826	0.000

Sources: SmartPLS4 Output (2025)

The results show a statistical t-value of 4.826, which is greater than the t-table value of 1.96, and a p-value of 0.000, which is less than 0.05. Therefore, it can be concluded that Innovation mediates the impact of Entrepreneurial Orientation on Performance in Small Businesses.

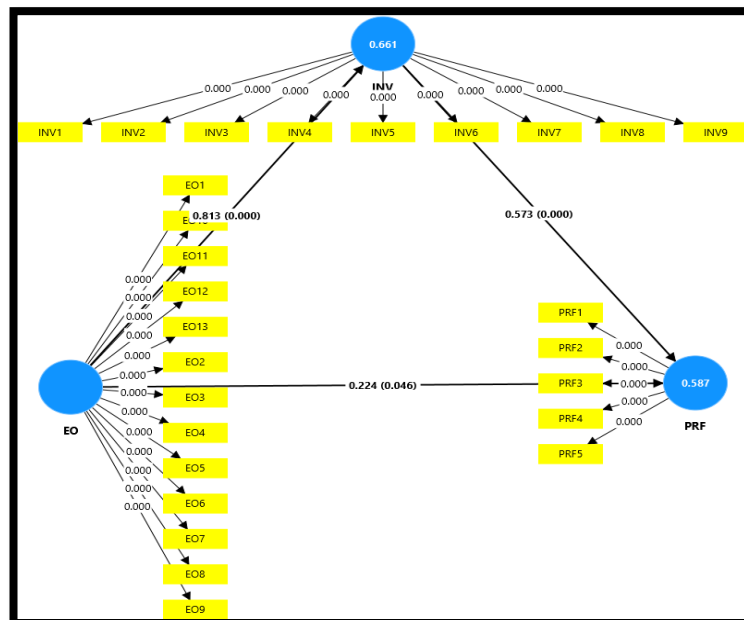


Figure 2. SEM estimates results based on SmartPLS4

Sources: SmartPLS4 Output (2025)

The estimation results obtained using the SmartPLS4 statistical software, are presented in Table 8 below, which provides the answers to the hypothesis formulation in this study.

Table 8. The SEM estimate Results

Hypothesis	Path Coefficients	T statistics	P values	Hypothesis Decision
H ₁ . EO -> INV	0.813	15.046	0.000	Supported
H ₂ . EO -> PRF	0.224	1.993	0.046	Supported
H ₃ . INV -> PRF	0.573	5.013	0.000	Supported
H ₄ . EO -> INV -> PRF	0.466	4.826	0.000	Supported

Sources: SmartPLS4 Output (2025)

The analysis results indicate that all hypotheses proposed in this study are supported, as evidenced by the Path Coefficients, T statistics, and P values.

DISCUSSION

The objective of this study was to examine the role of Entrepreneurial Orientation (EO) in shaping innovation and business performance among small enterprises in Indonesia, while also assessing the mediating effect of innovation. The findings offer meaningful theoretical and empirical insights, particularly within the context of Indonesian MSMEs, which play a dominant role in national economic development. The results of the structural model demonstrate that all hypothesized relationships are statistically significant, reinforcing much of the prior literature while also revealing unique contextual nuances.

The first major finding confirms that Entrepreneurial Orientation comprising autonomy, innovativeness, proactiveness, competitive aggressiveness, risk-taking, and persistence significantly drives innovation. This result is consistent with studies showing EO as a powerful antecedent of innovation capability (Kraus et al., 2023; Perlina et al., 2024). EO fosters an internal culture that encourages opportunity exploration and experimentation, enabling small firms to overcome constraints such as limited market access, inadequate capital, and resource scarcity. The strong path coefficient (0.813) and high t-value (15.046) indicate that EO is not merely a complementary factor, but a central strategic driver in enabling small Indonesian firms to implement product innovations, improve operational processes, and explore creative market approaches. In line with this study's results, (Mahrinasari et al., 2024) emphasize that EO enables firms to develop strategies to improve service quality and enhance consumer value, particularly in dynamic sectors such as the creative industry. This underscores the importance of EO as a foundational behavioral orientation rather than an optional strategic attribute.

The second major finding reveals that Entrepreneurial Orientation has a positive effect on business performance, encompassing financial performance (sales growth, production outcomes, profitability) and non-financial performance (customer satisfaction, market expansion). This outcome supports previous research (Daradkeh & Mansoor, 2023; Kusa et al., 2023; Huang et al., 2023; Šlogar et al., 2023) affirming that EO enables firms to be more adaptive and opportunity-driven in uncertain environments, which ultimately enhances performance outcomes. However, the coefficient between EO and performance (0.224) is smaller compared to that between innovation and performance (0.573), indicating that the effect of EO on performance may not be as direct or as strong as its influence on innovation. This aligns with (Nguyen et al., 2021), who found no significant direct impact of EO on SME performance, suggesting that contextual factors industry turbulence, market maturity, and firm resource endowments may moderate these relationships. Therefore, while EO is important, its true value emerges when it enables and fuels innovation activities.

The third major finding shows that innovation significantly influences small business performance in Indonesia. Innovation across product, process, and market dimensions allows small firms to adapt to consumer needs, differentiate from competitors, and maintain operational efficiency. This finding aligns strongly with (Al-Momani et al., 2023) and (Le et al., 2023) who emphasize that innovation is a key determinant of SME competitiveness in developing economies. In Indonesia, where consumer preferences evolve rapidly and competitive pressures are high, the ability to develop new products or enhance existing ones becomes essential. The strong coefficient (0.573) suggests

that innovative practices directly translate into improved sales volume, higher production efficiency, and sustainable business growth. This reinforces the argument that innovation is not simply a supporting activity but a strategic core for competitive advantage.

The fourth finding highlights the mediating role of innovation in the relationship between Entrepreneurial Orientation and performance, which is supported by the mediation coefficient (0.466) and significant t-value (4.826). This confirms that EO enhances performance primarily through its ability to stimulate innovation. This is consistent with the findings of (Daradkeh & Mansoor, 2023); (Hashmi et al., 2023) and (Majali et al., 2022) who identified innovation as a partial mediator in various entrepreneurial contexts. Conceptually, firms with strong EO are more likely to take risks, explore new opportunities, and proactively respond to market changes, but the performance payoffs materialize only when these orientations translate into concrete innovative actions. Without innovation, entrepreneurial tendencies may not generate measurable business outcomes. Thus, innovation serves as a strategic pathway connecting entrepreneurial behaviors with tangible performance improvements.

From a theoretical standpoint, the results reinforce the fundamentals of the Resource-Based View (RBV), which argues that intangible strategic resources such as entrepreneurial capabilities, innovativeness, and organizational learning drive sustainable competitive advantage. EO and innovation fit the VRIN criteria (valuable, rare, inimitable, and non-substitutable), especially within the context of small businesses that often lack large-scale physical resources. The findings further support (Wales et al., 2023), who conceptualize EO as a mechanism for new value creation. Through innovation, EO enables firms to develop unique value propositions, optimize internal efficiency, and improve market positioning. Therefore, this research strengthens the understanding that EO and innovation are intertwined strategic resources that jointly shape firm competitiveness.

From a practical standpoint, the findings provide several implications for small business owners and policymakers. First, fostering an entrepreneurial mindset among small business managers is essential. Training programs focusing on proactive decision-making, opportunity recognition, and risk management could strengthen EO. Second, local governments and business development agencies should support innovation activities by providing access to technology training, digital tools, and market intelligence. Third, innovation incentives such as grants, tax benefits, or innovation incubators could significantly accelerate performance outcomes. Since innovation was shown to be the strongest driver of performance, strengthening innovation ecosystems at the regional and national levels becomes crucial for MSME competitiveness.

Another practical insight relates to the demographic characteristics of the respondents, which show that many small businesses are operated by women and individuals with diploma or high-school educational backgrounds. This suggests the need for accessible, non-complex training modules on innovation management, digital marketing, financial literacy, and low-cost process improvement. Supporting these groups could amplify the economic contribution of MSMEs nationwide.

Overall, the findings contribute to the literature by empirically demonstrating how EO and innovation interact to influence small business performance within the Indonesian context. This expands the understanding of entrepreneurial behavior in emerging economies and highlights innovation as a crucial mechanism for translating entrepreneurial tendencies into real business outcomes.

CONCLUSION

This study concludes that Entrepreneurial Orientation significantly enhances innovation and small business performance in Indonesia, reinforcing its role as a strategic driver of firm development. The results demonstrate that EO positively influences innovation, and both EO and innovation individually affect business performance. Among these relationships, innovation shows the strongest effect on performance, highlighting its central role as the main engine of growth for small enterprises. Firms that actively develop new products, adopt new production processes, and creatively approach market opportunities tend to achieve superior financial and non-financial outcomes.

A key conclusion of this research is that innovation mediates the relationship between EO and performance. This means that EO does not directly translate into higher performance unless it is accompanied by innovative actions. Entrepreneurial small business owners must therefore cultivate not only proactive attitudes and risk-taking behaviors but must also transform these orientations into concrete innovation activities that enhance competitiveness. Within the framework of the Resource-Based View, EO and innovation serve as strategic intangible resources that help small businesses differentiate themselves and sustain long-term competitive advantage in dynamic market environments.

The findings of this study contribute to the theoretical development of entrepreneurial and innovation literature in several important ways. First, the results strengthen the Resource-Based View (RBV) by demonstrating that Entrepreneurial Orientation (EO) and innovation serve as strategic intangible resources that function as VRIN (valuable, rare, inimitable, and non-substitutable) capabilities that enhance firm performance. The empirical evidence confirms that EO alone is not sufficient to improve performance unless it is transformed into innovative actions, thereby reinforcing the RBV assumption that internal capabilities not external conditions are the main drivers of sustainable competitive advantage. This study adds contextual theoretical insights to the entrepreneurship literature in emerging economies. The research demonstrates that, even under conditions of resource scarcity and environmental turbulence, EO remains a robust predictor of innovation and performance. This reinforces the argument that EO is context-sensitive, and that its effects may be stronger in environments characterized by instability, where strategic adaptiveness is essential for survival. Finally, the study enriches theoretical dialogues on innovation typologies by providing evidence that product, process, and market innovation each play a role in shaping small business performance.

The results of this research offer several actionable recommendations for policymakers, small business owners, government agencies and entrepreneurship development institutions. First, the findings highlight the need for strengthening Entrepreneurial Orientation among small business owners. Capacity-building programs should therefore focus on cultivating proactive behavior, risk-taking abilities, competitive aggressiveness, and opportunity-seeking attitudes. This can be achieved through structured entrepreneurship training, business coaching, and mentorship programs provided by local governments, universities, and business development centers.

Second, because innovation emerged as the strongest predictor of performance, MSMEs should prioritize innovation as a core strategy for competitiveness. Business owners must be encouraged to adopt continuous product improvement, creative market approaches, and incremental process enhancements. Policymakers can

support these efforts by providing innovation grants, simplifying access to technology, and establishing local innovation hubs or creative industry centers where small firms can collaborate and learn.

Third, the study suggests that governments should develop supportive ecosystems for innovation, including access to digital tools, market intelligence, and technology-based production methods. Digital literacy programs, e-commerce training, and support for automation or digital payment systems can help accelerate process innovation among SMEs.

Fourth, considering that many respondents are women and individuals with mid-level education, entrepreneurship training should adopt inclusive, easy-to-understand, and practical modules. Training materials should focus on hands-on innovation methods, low-cost product development, branding, and creative marketing strategies that match small business contexts.

Fifth, business associations, cooperatives, and local chambers of commerce should encourage collaborative innovation, such as shared production facilities, joint marketing initiatives, and cooperative purchasing of raw materials. Such collaboration reduces the burden of resource scarcity and stimulates knowledge exchange among small businesses.

Sixth, for small business owners, the findings imply that EO must be intentionally developed and integrated into daily business decision-making. This includes setting innovation targets, conducting customer feedback analysis, encouraging employee creativity, and being open to experimentation. Small firms should systematically document and evaluate innovative practices to determine which strategies generate the highest impact.

Lastly, given the mediating role of innovation, policymakers and entrepreneurship educators should emphasize that entrepreneurial behavior alone is insufficient. Small businesses must be equipped with concrete innovation skills such as product redesign, digital marketing, packaging improvement, and process standardization to fully benefit from their entrepreneurial orientation.

LIMITATION

This study has some limitations, including a small sample size and a focus on general business sectors. Future research could expand the sample to include specific sectors like culinary, services, or creative industries. Researchers could also explore innovation as an antecedent or investigate other mediating variables. Moderating variables, such as organizational size or entrepreneurial motivation, could be analyzed to strengthen the understanding of entrepreneurial orientation's impact on performance. Future studies might also consider cultural contexts in both developed and developing countries. Using advanced methods like Confirmatory Factor Analysis (CFA) or Structural Equation Modeling (SEM) with tools like AMOS or Lisrel could further validate the findings.

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DECLARATION OF CONFLICTING INTERESTS

The authors confirm that they have no financial or personal relationships that could have affected, or been perceived to influence, the research presented in this article.

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