

THE IMPACT OF ENTREPRENEURIAL ORIENTATION ON SME PERFORMANCE: THE MEDIATING ROLE OF INNOVATION AMBIDEXTERITY AND CONTEXTUAL AMBIDEXTERITY

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Abstract

Although in recent decades, entrepreneurial orientation has been widely explored, recent studies in knowledge and innovation management studies have focused on its effect on entrepreneurial orientation business outcomes tied to entrepreneurial orientation, yet the mechanisms through which it influences performance remain unclear. There is a lack of consensus when it comes to explaining how entrepreneurial orientation is related to Micro, Small, and Medium Enterprises (MSME) performance. This study explores the connection by looking at the mediating influence of innovation ambidexterity and contextual ambidexterity. Through a study on a sample of 52 MSME owners in Semarang City, Indonesia, and by using partial least squares structural equation modeling (PLS-SEM), we found that entrepreneurial orientation does indeed affect MSME performance indirectly. Innovation ambidexterity fully mediates the relationship between entrepreneurial orientation and MSME performance, whereas contextual ambidexterity does not mediate this effect. This research contributes significantly to the broader understanding of how MSME can thrive in rapid market fluctuations, offering valuable implications for both academics and practitioners in the realms of knowledge and innovation management.

Keywords: Micro, Small, and Medium Enterprises; MSME Performance; Entrepreneurial Orientation; Innovation Ambidexterity; Contextual Ambidexterity

INTRODUCTION

Micro, Small, and Medium Enterprises (MSME) in developing countries, especially in Asia, have contributed significantly to job creation (Rafiki et al., 2023). In Indonesia, MSME are the largest business sector that absorbs a significant amount of labour, so MSME play an important role in driving economic growth and reducing unemployment rates in various regions in Indonesia (Digdowiseiso & Sugiyanto, 2021). Rapid economic growth will trigger intense competition among companies, including MSME because the business environment will become increasingly complex and dynamic (Rafiki et al., 2023). To survive and thrive amid this competition, MSME owners need to formulate strategies that can effectively increase MP (Milovanović et al., 2021).

In response to increasing competition, the business environment demands that small and medium enterprises MSME adapt to survive and thrive. Gupta et al., (2020) emphasize that changing business conditions compel firms to adjust their strategies to ensure business continuity. MSME owners must seek new opportunities and develop innovative strategies to remain competitive in a dynamic business landscape (Milovanović et al., 2021). While some MSME have successfully navigated this competitive environment, many still face stagnation or struggle to overcome these challenges (Nofiani et al., 2021). The success in implementing new strategies reflects the consistency of the firm in executing entrepreneurial values, which is particularly relevant for MSME (Nofiani et al., 2021).

The literature on corporate entrepreneurship and EO is considered one of the most prominent research domains. EO is also a widely used measure in assessing the entrepreneurial activities of organizations (Lee & Kreiser, 2018). MSME owners with high EO can build strong networks, managing internal and external resources more effectively (Ferreras-Méndez et al., 2021). EO proactive, innovative, and risk-taking behaviours (Nofiani et al., 2021) are crucial factors that drive MSME to enhance their business performance in local and international markets (Dwumah et al., 2024).

Several factors enhance EO by supporting adaptation, strategic decision-making, and the effective fulfilment of market needs. Innovation drives MSME to develop new ideas, experiment, and create superior products, services, or processes to enhance competitiveness (Nofiani et al., 2021). Proactive behaviour allows MSME to lead in technology development and introduce new products or services to the market (Nofiani et al., 2021). Calculated risk-taking enables MSME to back projects with uncertain outcomes, opening up more significant opportunities for business growth (Nofiani et al., 2021). Furthermore, decisiveness in entrepreneurship helps MSME owners respond actively to interpersonal conflicts, which contributes to business success (Baciu et al., 2020).

However, it is important to note that EO may not directly influence MSME performance (MP), as this relationship likely requires mediating other variables, such as ambidexterity. Empirical findings suggest that the direct effect between EO and MP is insignificant, while the indirect effect through ambidexterity has been proven significant (Nofiani et al., 2021). The theoretical argument proposed by Cui et al., (2018) reinforces that the relationship between EO and MP is indirect, particularly in the context of developing countries, highlighting the crucial role of mediating variables. Based on these assumptions, exploring ambidexterity as a linking factor that can strengthen the relationship between EO and MP is essential.

MSME owners need to develop, combine, and balance their specific capabilities due to the limited allocation of resources, making ambidexterity crucial in managing and positioning these capabilities within the appropriate context (Zhang et al., 2016). Innovation capabilities depend on exploring and exploiting new opportunities, enabling firms to develop superior products and processes (Dunlap et al., 2016). Meanwhile, contextual capabilities allow individuals to assess and balance the owner's time between the demands of alignment and adaptation in business operations (Aftab et al., 2022). Based on the literature review, the researchers aim to confirm the role of innovation ambidexterity (IA) and contextual ambidexterity (CA) as parallel mediating variables, as both play a crucial role in bridging the relationship between EO and MP by enabling exploration and exploitation in response to the dynamic business environment.

Parallel and serial mediation offer distinct approaches to analysing mediation effects within research models. Serial mediation assumes a strict sequence where one mediator influences another before affecting the dependent variable, requiring a fixed path to yield results (Jones et al., 2015). In contrast, parallel mediation allows for the simultaneous analysis of multiple mediators, thereby providing a clearer understanding of their unique contributions to the relationship between EO and MP (Kim et al., 2022). This study favours parallel mediation because it can explore multiple pathways concurrently, offering a more comprehensive cause-and-effect analysis (Kim et al., 2022). While serial mediation restricts variable relationships to a linear sequence, parallel mediation acknowledges that different mediators can operate independently yet simultaneously, increasing the model's explanatory power (Arasli et al., 2020). This approach is particularly suitable for exploring the multiple factors influencing MP, offering a more holistic view of the effects of mediation (Jones et al., 2015).

This study contributes to the literature on knowledge and innovation management by showing how EO acts as a key driver of performance in MSME, particularly when considering the mediating roles of IA and CA. The inclusion of these two mediating effects seeks to draw the inconclusive results concerning the effect of EO on MSME performance. The paper is structured as follows. After this introduction, Section 2 contains the literature review and proposes the hypotheses development. Section 3 describes the research method, the variables and model to test the hypotheses. In Section

4, the results are provided. Finally, Section 5 shows the main results and consequences and presents the conclusions.

LITERATURE REVIEW AND HYPOTHESIS

A. Effect of EO on MP

MSME that utilize unique resources are difficult to imitate, cannot be substituted, and are not easily distributed between companies, MSME can achieve a competitive advantage, as described in the theory of resources (Cuervo-Cazurra et al., 2021). Nofiani et al., (2021) define EO as the tendency of companies to be proactive, innovative, and dare to take risks in doing business. Meanwhile, MP refers to the extent to which MSME can achieve their desired goals or results effectively and efficiently (Nofiani et al., 2021).

Research shows that EO directly affects MP because it encourages innovation, accelerates decision-making, and improves exploitation capabilities in a dynamic business environment (Dwumah et al., 2024). Gupta et al., (2020) state that MSME with high EO promote entrepreneurial aspects in decision-making. Moreover, managerial tendencies are associated with better performance compared to more conservative MSME. Lee & Kreiser, (2018) asserted that MSME with high EO tend to more quickly adapt to changes in the business environment, find new opportunities, and create innovative products or services that meet market needs. Considering this, the connection between EO and MSME performance is influenced by IA and CA, which suggests that we should not anticipate a direct link between EO and MSME performance, leading us to propose the subsequent hypothesis:

H1: EO has positive effects on MP.

B. Effect of EO on IA

Resource-based theory states that MSME that utilize IA can strengthen core capabilities, which allows MSME owners to adopt EO sustainably (Cuervo-Cazurra et al., 2021). IA refers to MSME owners' ability to manage exploratory and exploitative innovation simultaneously (Dunlap et al., 2016). Balancing these two types of innovation allows MSME owners to develop an innovative mindset, proactivity, risk-taking, and decisiveness in dealing with market dynamics (Nofiani et al., 2021).

MSME with high EO tend to have a better level of IA because a proactive attitude encourages companies to seek innovation opportunities, an innovative attitude allows the creation of new products or services, and the courage to take risks allows companies to explore uncertain opportunities (Zhang et al., 2016). Nofiani et al., (2021) assert that IA allows MSME to respond quickly to market changes without sacrificing operational efficiency. Based on these arguments, we argue that the effect of EO on MSME performance is not direct, but rather IA and CA, therefore, the following hypothesis:

H2: EO has positive effects on IA.

C. Effect of EO on CA

Dynamic capability theory explains that firms can integrate, build, and reconfigure internal and external capabilities to respond to environmental changes (Ramdan et al., 2022). Ramdan & Abdullah, (2021) define CA as a firm's ability to simultaneously utilize exploration and exploitation capabilities to create value that supports long-term success. Previous studies show that the relationship between EO and CA is positive, where companies with high EO tend to be more capable of simultaneously developing exploration and exploitation capabilities (Aftab et al., 2022).

CA capability is important in supporting EO as it enables organizations to leverage existing resources while seeking new opportunities. Furthermore, CA enables MSME owners to adapt to changing market dynamics (Aftab et al., 2022). In addition, balanced exploration and exploitation capabilities enable companies to maintain long-term business continuity by dynamically responding

to market needs (Shafique et al., 2021). Our framework suggests that the relationship between EO and MSME performance is fully channeled through IA and CA. As such, we do not anticipate any direct effect of EO on MSME performance, which underlies the formulation of the following hypothesis:

H3: EO has positive effects on CA.

D. Effect of IA on MP

Resource-based theory states that successful innovation depends on the ability of MSME to manage internal resources that are valuable, rare, and not easily imitated to gain a competitive advantage (Cuervo-Cazurra et al., 2021). IA is the ability of firms to simultaneously execute two types of innovation, namely exploratory innovation and exploitation innovation (Nofiani et al., 2021), where exploratory innovation focuses on the development and application of new knowledge or skills, while exploitation innovation refers to the refinement and optimization of existing resources (Zhang et al., 2016).

Studies show that MSME implementing IA tend to perform better than those focusing only on one innovation activity (Dunlap et al., 2016). MSME that can carry out exploratory innovation and exploitation innovation simultaneously allow MSME to balance the creation of new high-risk innovations and the efficient utilization of existing assets, which increases MP (Zhang et al., 2016). IA and CA are crucial mediating variables bridging the relationship between EO and MSME performance. This conception negates the expectation of a direct relationship path, so we formulate the following hypothesis:

H4: IA has positive effects MP.

E. Effect of CA on MP

Dynamic capability theory posits that organizations must combine, develop, and reorganize both internal and external resources to sustain competitiveness in a changing business landscape (Ramdan et al., 2022). CA is individuals' ability to simultaneously balance and divide time between exploration and exploitation capabilities, enabling firms to adapt to environmental changes and drive innovation to improve performance (Aftab et al., 2022; Ramdan & Abdullah, 2021).

MSME with CA capabilities will play an important role in maintaining a balance between operational efficiency and strategic exploration capabilities, positively impacting MP financially and non-financially (Ramdan & Abdullah, 2021). CA supports this process by enabling MSME to effectively manage resources (Wang & Rafiq, 2014), build new capabilities, and respond to evolving market opportunities, thereby strengthening competitiveness and long-term performance (Ramdan et al., 2022). We do not anticipate a direct cause-and-effect link between EO and the performance of MSME. This is founded on the assumption that the effect of EO on performance must first be mediated by the roles of IA and CA, leading to the formulation of the following hypothesis:

H5: CA has positive effects MP.

F. IA mediates the effect of EO on MP

Resource-based theory explains that competitive advantage and EO depend on an organization's ability to manage and utilize unique, difficult-to-imitate resources (Cuervo-Cazurra et al., 2021). The relationship between EO and MP is not always direct but can be mediated by specific factors, including IA (Cui et al., 2018). IA acts as a mediator that allows MSME to manage exploration innovation and exploitation innovation simultaneously (Dunlap et al., 2016).

IA plays an important role in mediating the relationship between EO and MP in the creative industry sector in Indonesia (Nofiani et al., 2021). MSME that can carry out innovation exploration and exploitation simultaneously have better performance than those that only focus on one aspect (Nofiani et al., 2021). (Aloulou, 2024) research shows that EO does not directly improve MP, but rather through IA that allows companies to balance short-term needs with long-term opportunity creation. The higher the level of EO in an MSME, the more adaptive and complex the resulting IA

capabilities, which in turn contribute significantly to MP (Nofiani et al., 2021). Backed by existing research, we can demonstrate a distinct positive correlation between EO and MSME performance, as outlined in the subsequent hypothesis:

H6: EO indirectly affect MSME performance through IA.

G. CA mediates Effect of IA on MP

According to dynamic capability theory, CA serves as a tool that enables organizations to combine, develop, and reorganize both internal and external capabilities to enhance performance (Ramdan et al., 2022). EO, which includes innovation, proactivity, and risk-taking, is a significant factor in driving MP (Nofiani et al., 2021). However, to maximize the positive impact of EO on MP, CA is required as the organization's ability to explore and exploit existing capabilities simultaneously (Ikhsan et al., 2017).

Research shows that CA mediates the relationship between EO and MP by strengthening the balance between innovation and operational efficiency, especially in a dynamic business environment (Ramdan et al., 2022). Ikhsan et al., (2017) stated that MSME that can integrate exploration and exploitation capabilities through CA tend to have better performance than MSME that only focus on one aspect. (Ramdan & Abdullah, 2021) asserted that the higher the level of EO in an MSME, the more complex and adaptive the CA capabilities generated, significantly increasing MP. Supported by the literature, it can be affirmed that there is a clear positive relationship between EO and MSME performance. This situation is described in the following hypothesis:

H7: : EO indirectly affect MSME performance through CA.

RESEARCH METHODS

In this study, a quantitative approach with a focus on the relationship between MSME performance (MP), entrepreneurial orientation (EO), innovation ambidexterity (IA), and contextual ambidexterity (CA) as parallel mediators. Data were collected using primary sources, specifically structured questionnaires, which were distributed to MSME managers or owners in Semarang. The sampling technique was purposive sampling to ensure that all relevant participants (52 MSME owners) were included. In order to reduce the social acceptance bias, the anonymity of the responses was ensured at all times.

A five-point Likert scale, ranging from "Strongly disagree" (1) to "Strongly agree" (5), was used to measure the four constructs assessing attitudes and perceptions. The proposed research model was subsequently analyzed using Smart-PLS software version 4.1.

The survey results indicate that most respondents are female (67%), with a significant portion (81%) aged between 21 and 40 years, suggesting a relatively young workforce with fresh perspectives. Most respondents are involved in businesses within the industrial sector (60%), with a large proportion (81%) having private ownership. Additionally, most businesses have assets under 1 billion IDR and generate annual revenue below 300 million IDR. These findings provide valuable insights into the demographic and business profile of the participants.

RESULTS AND DISCUSSION

1. Feasibility Test of Research Instruments

a. Instrument Validity

The instrument has been proven to be convergently valid, and it can be measured using the outer loading value and AVE value. Factor loading with a value of more than 0.7 is considered acceptable, while values above 0.5 are still considered acceptable if they have an Average Variance Extracted (AVE) value of more than 0.50 (Hair et al., 2018). Discriminant validity is obtained through cross-loading, where each item in a variable must have a higher cross-loading value than its squared correlation with other variable items (Hair et al., 2014).

b. Instrument Reliability

Reliability in PLS is assessed using Cronbach's alpha and composite reliability. Composite Reliability and Cronbach's Alpha are techniques commonly applied in reliability (Hair et al., 2018). According to Hair et al., (2014), a variable is considered reliable if the Cronbach's alpha and Composite Reliability value exceeds 0.7.

c. Coefficient of Determination

Determination Coefficient is used to show how much the independent variable can explain the dependent variable in the structural model, this value reflects the strength of the relationship between latent variables (Latan, 2017). The rule of thumb for the Determination Coefficient value in structural models is 0.70 (substantial), 0.50 (medium), and 0.25 (weak) (Hair et al., 2018).

2. Hypothesis Test

Hypothesis testing in this study uses the Structural Equation Model - Partial Least Square (SEM-PLS) method with the SmartPLS 4.1. This hypothesis test uses a significance measure by looking at the value at the p-value with a significance level of 5%. If the p-value < 0.05 , then the hypothesis is accepted; otherwise, if the p-value > 0.05 , then the hypothesis is rejected (Hair et al., 2018).

a. Effect of EO on MP

There is no significant effect of EO on MP with path coefficient (0.218) and p-value (0.108 > 0.05), which means any change in EO will not increase MP. Within the 95% confidence interval, the effect of EO in improving MP lies between -0.021 and 0.565.

b. Effect of EO on IA

The significant effect of EO on IA with path coefficient (0.675) and p-value (0.000 < 0.05), which means that any change in EO will increase IA. In the 95% confidence interval, the effect of EO in increasing IA lies between 0.569 and 0.793.

c. Effect of EO on AK

The significant effect of EO on CA with path coefficient (0.695) and p-value (0.000 < 0.05), which means that any change in EO will increase AK. In the 95% confidence interval, the effect of EO in increasing CA lies between 0.576 and 0.841.

d. Effect of IA on MP

The significant effect of IA on MP with path path coefficient (0.375) and p-value (0.012 < 0.05), which means that any change in IA will increase MP. In the 95% confidence interval, the effect of IA in increasing MP lies between 0.125 and 0.660.

e. Effect of CA on MP

The significant effect of CA on MP with path coefficient (0.237) and p-value (0.127 > 0.05), which means that any change in CA will not increase MP. Within the 95% confidence interval, the effect of CA in increasing MP lies between -0.166 and 0.511.

f. IA mediates the effect of EO on MP

IA mediating role was successful in the relationship between EO and MP, with a path coefficient of 0.165 and p-value (0.015 < 0.05). This means that any increase in EO will increase IA, which in turn has a positive impact on MP. With a 95% confidence level, the influence of IA in the relationship between EO and MP is within the range of 0.086 to 0.368.

g. CA mediates the effect of EO on MP

CA mediating role was unsuccessful in the relationship between EO and MP, with a path coefficient of 0.253 and p-value (0.137 > 0.05). This means that an increase in EO does not directly increase AK, so it does not have a significant impact on MP. With a 95% confidence level, the effect of CA in the relationship between EO and MP is within the range of -0.129 to 0.466.

CONCLUSION

This study aims to examine the impact of entrepreneurial orientation on MSME performance in Semarang City, focusing on innovation ambidexterity and contextual ambidexterity as parallel mediating variables. Based on the research results, the findings show that entrepreneurial

orientation (EO) has no significant effect on MSME performance (MP), but has a positive effect on innovation ambidexterity (IA) and contextual ambidexterity (CA). In addition, IA has a significant effect on MP, while CA has no direct impact. The study also found that IA mediates the effect of EO on MP, while CA has no mediating role.

This study also has significant consequences for MSME managers and policymakers in this field. From a practical perspective, it has demonstrated that EO focused on enhancing IA and CA not only helps to enhance their ability but also allows companies to boost their performance (Aftab et al., 2022). Practically speaking, MSME owners in Semarang City should focus on developing exploration and exploitation innovations and utilizing ROI indicators to improve business efficiency and competitiveness. Improving dynamic mindset, risk readiness, and network expansion are crucial to supporting sustainable growth.

This article has limitations that serve as a basis for future research directions. This study is based solely on results obtained from a sample of MSME in Semarang City, Indonesia. Consequently, the results might not apply to other areas since factors like culture, ethics, legal frameworks, and the economic landscape strongly influence EO. Thus, upcoming studies could utilize a bigger sample size and explore additional areas. Moreover, this article relies solely on cross-sectional data, meaning the findings might vary over time. Therefore, utilizing longitudinal data in future research would be advantageous for evaluating potential changes over time.

1. Figures and Tables

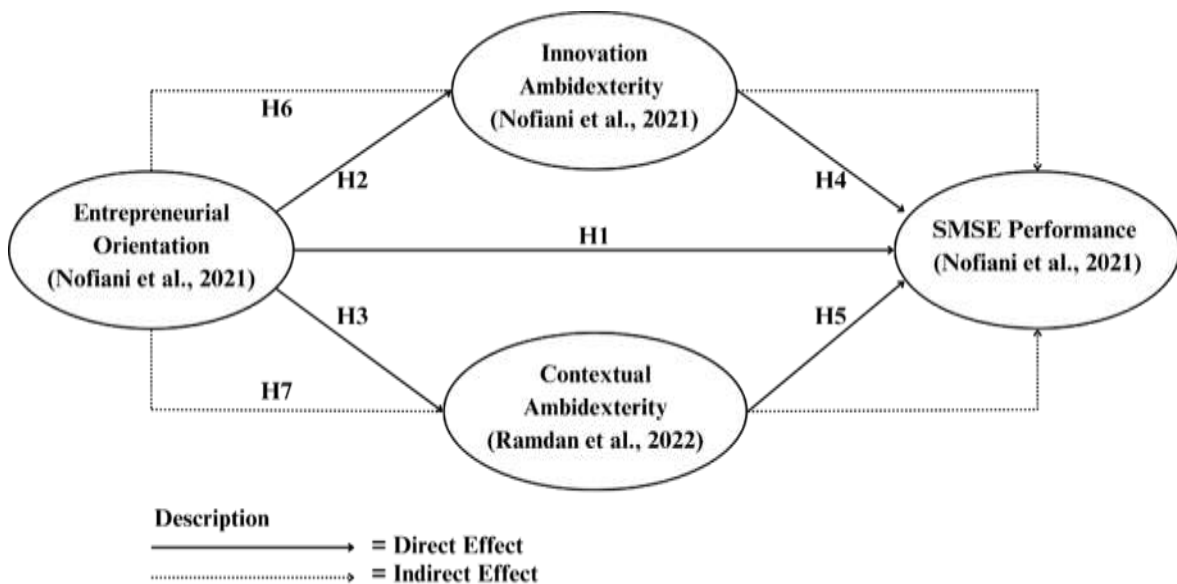


Figure 1 Framework Research

Tabel 1 Characteristics of Respondents

Characteristics	Total	(%)	Characteristics	Total	(%)
Profile of MSME owners					
Gender			Last education		
Male	17	33	Elementary or junior high school	1	2

Characteristics	Total	(%)	Characteristics	Total	(%)
Female	35	67	High school	11	21
Age			Diploma	4	8
≤ 20 years	3	6	Bachelor	35	67
21–40 years	42	81	Master or Doctoral	1	2
41–60 years	7	13			
≥ 61 years	0	0			

MSME Profile

Business Type	First Investor				
Agriculture and Fisheries	1	2	Private	42	81
Processing Industry	31	60	Family	8	15
Trade	11	21	Friend	1	2
Services	9	17	Bank	0	0
Age of business			Government assistance	1	2
2-6 years	44	85	Private Assistance	0	0
7-11 years	5	10	Asset Value		
12-16 years	3	6	< 1 billion rupiah	48	92
> 16 years	0	0	1-1,5 billion rupiah	4	8

Number of employees	Gross Revenue Per Year				
< 5 people	43	83	< 300 million rupiah	42	81
5-9 people	7	13	300 – 2,5 billion rupiah	10	19
> 9 people	2	4	Net Profit Per year		

Characteristics	Total	(%)	Characteristics	Total	(%)
Marketing Place			< 50 million rupiah	47	80
Domestic	51	98	50 – 100 million rupiah	4	8
Ekspor/ overseas	1	2	> 100 million rupiah	1	2

Tabel 2 Scale and Measurements

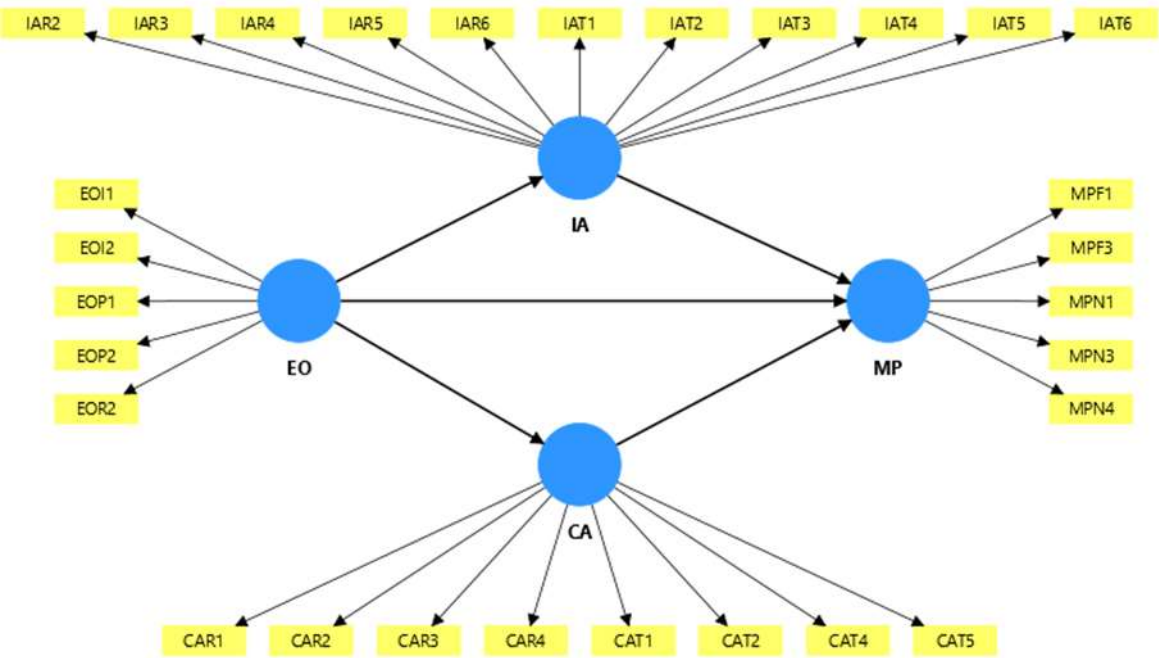
Variable	Indicator	Item Code	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
MP	Financial Performance	MPF1	0.645	0.753	0.834	0.502
		MPF3	0.701			
	Non-Financial Performance	MPN1	0.771			
		MPN3	0.703			
		MPN4	0.718			
EO	Proactive	EOP1	0.783	0.704	0.817	0.530
		EOP2	0.611			
	Innovation	EOI1	0.766			
		EOI2	0.556			
	Risk Taking	EOR2	0.740			
IA	Exploratory Innovation	IAR2	0.771	0.910	0.924	0.527
		IAR3	0.627			
		IAR4	0.715			
		IAR5	0.778			
		IAR6	0.659			
		IAT1	0.730			
	Exploitation Innovation	IAT2	0.712			
		IAT3	0.762			
		IAT4	0.820			
		IAT5	0.701			
CA	Exploration Ability	IAT6	0.688	0.900	0.920	0.593
		CAR1	0.768			
		CAR2	0.858			
		CAR3	0.848			
		CAR4	0.670			
		CAT1	0.819			
	Exploitation Ability	CAT2	0.811			
		CAT4	0.701			
		CAT5	0.659			

Source: Research data processed (2025)

Tabel 3 Value of R-Square (r²)

Variable	r-square
MP	0.572
IA	0.455
CA	0.483

Source: Research data processed (2025)



Tabel 4 Hypothesis Testing Results

Hypothesis	Path Coefficient	p-value	95% Interval Trust Path		Result
			Coefficient		
			Lower Limit	Upper Limit	
H1. EO → MP	0.218	0.108	-0.021	0.565	Not Significant
H2. EO → IA	0.675	0.000	0.569	0.793	Significant
H3. EO → CA	0.695	0.000	0.576	0.841	Significant
H4. IA → MP	0.375	0.012	0.125	0.660	Significant
H5. CA → MP	0.237	0.127	-0.166	0.511	Not Significant
H2. EO → IA → MP	0.165	0.015	0.086	0.368	Mediate
H3. EO → CA → MP	0.253	0.137	-0.129	0.466	Not mediate

Source: Research data processed (2025)

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