

DOES ENTREPRENEURIAL ORIENTATION AFFECT THE SUSTAINABILITY OF SMES?

Evidence from SMEs in East Java Indonesia

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ABSTRACT

Entrepreneurial orientation (EO), dynamic capabilities (DC), and competitive advantage (CA) have become interesting research subjects related to small and medium enterprises (SMEs) in dealing with external environmental uncertainties. This study investigated the effect of EO on firm performance by considering the roles of DC and CA. We proposed that DC and CA mediate the relationship between EO and performance (P). The study adopted a survey research design. Data were collected using a cluster random sampling selected sample of 248 SMEs in Surabaya, East Java, Indonesia, and the research framework was assessed using structural equation modelling (SEM). The results showed that EO positively affects SME performance, but CA and DC do not mediate the relationship between EO and SME performance. To the best of the authors' knowledge, in the context of emerging economies like Indonesia, this study is the first to offer empirical evidence of the mediating role of competitive advantage and dynamic skills in the relationship between EO and SME performance.

Keywords: Entrepreneurial Orientation, Dynamic Capability, Competitive Advantage, Small and Medium Enterprises (SMEs)

JEL classification: B16, M12, M13

1. Introduction

According to Statistics Indonesia (2022), SMEs constitute the foundation of the Indonesian economy. Of all businesses, 98.68% fall into the medium-

small-microenterprise category, and 75.33% of the workforce is employed in this sector. As a result, the percentage contribution of SMEs is probably higher. While small and medium-sized enterprises (SMEs) make significant contributions to the Indonesian economy (Dirgiatmo et al., 2019; Wiwoho, Suroso & Wulandari, 2020), their share of the GDP decreased somewhat from 61.41% in 2017 to 61.07% in 2020 (Indonesian Ministry of Finance, 2019; Liputan6.com, 2021). Their contributions are trending downward, which concerns industry and the economy. Numerous significant elements, such as entrepreneurial characteristics, may have had a role in this circumstance. Additionally, changing social and demographic trends influence the entrepreneurial landscape, and SMEs must contend with the difficulties of a technology-driven, fast-paced business environment. Furthermore, Indonesia has a distinct environment due to its status as a developing economy (Bruton et al., 2008; Njoroge et al., 2020). Therefore, it is imperative to do further research and gain a deeper comprehension of EO and SMEs performance in Indonesia.

Smaller enterprises have the lowest rates of firm survival, thus, creating successful strategies is essential to the ongoing operation of companies (Thornhill & Amit, 2003). The current literature indicates that strengthening the competitive position of businesses, especially SMEs, is critical to the growth and revitalization of national economies (O'Cass & Sok, 2014). Even though SMEs are acknowledged as significant contributors to contemporary economies, little is known about how they manage to expand and prosper in a setting that is becoming more and more competitive (Anderson & Eshima, 2013). Therefore, it is critical to comprehend what influences the success of SMEs.

According to Arend (2014), two strong arguments help influence the success of SMEs during a strategic transition: entrepreneurship and dynamic skills. As a "nexus", entrepreneurship is defined as "the study of the processes of discovery, evaluation, and exploitation of opportunities and the set of individuals who discover, evaluate, and exploit them" (Shane & Venkataraman, 2000). This definition demonstrates how ventures produce transient rents by employing innovative insights and risky strategies to adapt to changing environments (Arend, 2014). The two main components of entrepreneurial leadership and entrepreneurial orientation that significantly

impact the success of SMEs are the subject of this study (Nguyen et al., 2021). Apart from being entrepreneurial, dynamic talents also favourably impact how quickly SMEs react, allowing them to create and capture value and ultimately adapt, survive, and prosper in shifting circumstances (Teece, 2018).

Entrepreneurial orientation (EO) can enable a company win the competition. According to Covin & Slevin (1989), EO is a company's tendency to innovate, take risks, and be proactive. EO can contribute to a company's performance by allowing it to take advantage of potential new opportunities (Rezaei & Ortt, 2018). Entrepreneurial orientation has long been a study focus. Miller (1983) proposed that EO can influence SME performance, and Covin & Slevin (1989) refined it further, adopting a conceptualization method. Most of the studies on EO have been addressed in an organizational context (Wales et al., 2021). Entrepreneurial orientation is a critical resource for the success of enterprises. It is a well-established antecedent of firms' performance, particularly for SMEs (Rauch et al., 2009).

To address the critical role of capacities to develop, integrate, and reconfigure resources to deal with the extremely dynamic environment, Teece, Pisano & Shuen (1997) offered the notion of DCs. Nonetheless, competitive foundations have changed due to the evolving industry environment (Eisenhardt & Martin, 2000). Therefore, the presence of DCs describes firm competitiveness more efficiently than the resource-based view (RBV) in scenarios involving dynamic and quickly-changing environments. The majority of researchers conclude that DCs raise CA. DCs are also thought of as transformers that transform resources into better performance. Entrepreneurial orientation will affect CA (Bhandari et al., 2022). So, companies need to maintain uniqueness and be differentiators from competitors. Successful entrepreneurs in business are determined by utilizing entrepreneurial motivation in a dynamic environment that interacts with companies to obtain sustainable business performance and competitive advantage.

Nonetheless, there are still disparities in the research findings on entrepreneurs' dynamic orientation and potential for company performance across several earlier studies. Research by Frank et al. (2010) and Killa, (2017) concluded that entrepreneurial orientation has no positive influence on

business performance. In contrast, findings from studies by Herlinawati et al. (2019) and Darmanto et al. (2022) demonstrated that entrepreneurial orientation significantly influences business performance—the findings of Rehman & Saeed's research (Rehman & Saeed, 2015). While research by Rahmat (2024) indicated that dynamic ability has no significant effect on company competitiveness, Nyachanchu et al. (2017) concluded that dynamic capabilities have a significant influence on SME performance.

It is unclear, nevertheless, how to describe the processes by which EO might be translated into business performance. CA and DC are the linking mechanisms in the EO–performance relationship. This is based on earlier research showing that EO reflects a disposition toward entrepreneurship rather than actual entrepreneurial activity (Wiklund, 1998; Wiklund & Shepherd, 2003; Zahra, 1991), as well as an orientation–behaviour gap inferred by the resource-based view (RBV) (Kollmann & Stöckmann, 2014). We contend that comprehending these mechanisms is essential to realizing the true impact of EO on performance. Therefore, we investigate how EO affects the performance of small and medium-sized businesses (SMEs) through CE and whether DC helps or hinders this process. Small and medium enterprises are essential to the South Korean economy and the global economy.

Competitive advantage is anticipated to close the current gap by bridging organizational (dynamic capabilities) and strategic (entrepreneurship orientation) factors to produce innovative business performance. The competitive advantage in products will promote better company performance in the creative industry. The idea is a combination of the ideas of product excellence and entrepreneurship focus. According to earlier research, product and process innovation positively correlate with organizational knowledge-based dynamic capacities (Nieves et al., 2015). Additionally, Hameed & Hasan studies from 2021 showed that a firm's open innovation performance positively impacts business performance and service innovation. Prior studies by Mulyana & Hendar (2023), Khin & Ho (2020), and Killa (2017) demonstrated that product innovation can mediate the impact on business success.

The provincial capital of East Java, Surabaya, Indonesia, is a hub for services and trade. Numerous creative industries in East Java are multiplying,

yet the industry's potential, business climate, and challenges have not been thoroughly mapped. To expand, according to Nurchayati (2017), the creative industry needs support from various sources, including human resources, industry, technology, institutions, and financing. Research is required to understand the elements that affect the business performance of creative firms in Surabaya, considering the reality gap phenomenon and research gaps on these issues; the absence of a database necessitates further investigation into the creative sectors, focusing on motivation, demographics, and business models. To overcome the problem of research gaps, research is needed to discuss this topic; the notion of product excellence that has been put forth is a combination of resource theory, relational capacities, and entrepreneurial orientation. It is the foundation for the highly competitive nature of the creative business. Benefits for resource-based academic contributions to value theory are anticipated from this study, along with a useful contribution that includes future suggestions for SMEs and governments.

2. Literature Review and Hypothesis Statement

2.1 Entrepreneurial orientation and dynamic capability

Entrepreneurial orientation is one of entrepreneurship's most promising research areas (Montiel-Campos, 2018). It is demonstrated by policies and practices that provide a basis for entrepreneurial decisions and actions—one manifestation. Entrepreneurship is a "new entry" or an organizational creation (Lumpkin & Dess, 1996). Entrepreneurship also occurs in organizations through formal or informal activities to create new businesses in established companies through product and process innovation and market development (Kusa, Duda & Suder, 2021). Innovation drives entrepreneurially-oriented businesses, which frequently have a sharing and learning culture. This allows people to take advantage of new chances by leveraging their knowledge and acquiring unique skills (Keh, Nguyen & Ng, 2007). As a result, students develop the ability to recognize value-generating entrepreneurial possibilities quickly, which strengthens their sensing capacity — a fundamental component of dynamic capacities (Liu, Jia & Geng, 2021). Small and medium enterprises with a strong entrepreneurial mindset are better equipped to develop pertinent business models, foster innovation, and foresee changes in technology and market demands. Hence, it is believed that an important

determinant of SMEs' dynamic capabilities is their entrepreneurial orientation. From this vantage point, we put up the following theory:

H1: Entrepreneurial orientation has positively significant effect on dynamic capabilities.

2.2 Dynamic capabilities and SME performance

Dynamic capabilities are important in their capacity to alter the resource base of a company in response to changing surroundings, as opposed to operational capabilities, which allow a company to continue essential business operations (Wohlgemuth et al., 2019). A company's ability to maintain a competitive edge in a turbulent market depends on its internal processes and practices, which allow it to grow and refresh its capabilities and provide clients with a steady supply of new and innovative goods and services (Teece et al., 1997). To adjust current operational mechanisms to meet changing customer demands and boost performance, a company with high dynamic capabilities may prioritize developing managerial competencies and hard-to-replicate combinations of organizational, functional, and technological skills (Jiao et al., 2011).

Since SMEs have fewer options than their larger counterparts regarding development and competitiveness, dynamic capabilities are especially crucial for the growth and viability of SMEs. An empirical study of SMEs found that 198 SME had limited resources and market power and struggled to constantly replenish their resource base in response to a continually shifting environment (Hernández-Linares et al., 2021). With the help of dynamic capabilities, SMEs may better anticipate changes in the market, take advantage of new possibilities, and innovate by bringing new ideas and resources to bear on their current capabilities and resources. Additionally, dynamic capabilities always investigate, integrate, and analyse information and preferences related to markets, operations, and clients. This gives SMEs' decision-makers the ability to act quickly and wisely, which offers SMEs new competitive advantages and improved company performance (Wilden et al., 2019). Consequently, the following theory is put forth:

H2: Dynamic capabilities has positively significant affect SME performance.

2.3 Entrepreneurial orientation and SME performance

For more than a decade, EO has been acknowledged as a crucial component of entrepreneurial activity that has a positive relationship with and an impact on both competitive advantage (Semrau et al., 2016) and firm performance (Naldi et al., 2007; Runyan, Droge & Swinney, 2008; Baker & Sinkula, 2009; Rauch et al., 2009; Kraus et al., 2012; Wales et al., 2013). In contrast, Covin et al. (1994) and George et al., (2001) did not discover any beneficial relationship between EO and business performance in various circumstances. The literature review thus emphasizes the contradictory findings regarding EO and performance. Nonetheless, a positive EO-performance link, or EO-performance association, has been reported in most studies conducted in emerging economies (Njoroge et al., 2020; Vaitoonkiat & Charoensukmongkol, 2020). Entrepreneurial spirit and a willingness to take risks enable people to weather crises and seize new possibilities (Rashid & Ratten, 2021).

H3: Entrepreneurial orientation significantly affects SME performance.

2.4 Entrepreneurial orientation and competitive advantages

The particular entity that puts EO into practice is the entrepreneur. The ability of a company to adapt to environmental change depends on entrepreneurial tendencies, including innovative ideas, personal preferences, capabilities, experience, and the ability to endure change. The businessman and keys to addressing change include the top management team (Sirmon and Hitt 2003). EO affects CA (Zeebaree & Siron, 2017; Kiyabo & Isaga, 2020; Fatikha, Rahayu & Sumiati, 2021). Companies with EO will be able to make their employees innovate so that they can create products that are unique or attractive compared to their competitors and increase the value of the company's competitive advantage.

H4: Entrepreneurial orientation has a significant competitive advantage.

2.5 Competitive advantage and SME performance

Competitive advantage (CA) describes a company as having an advantage over competitors (Sinaga et al., 2021). Research by Budiastuti & Versia, (2011) shows that CA affects company performance. So, companies must

maintain their uniqueness and be a differentiator from competitors. Most previous research findings show that competitive advantage and firm performance are positively correlated (Kamboj et al., 2015; Rua et al., 2018; Zou et al., 2003). Chelliah et al. (2010) also found that competitive advantage does not significantly impact SME performance. Additionally, prior research has shown that competitive advantage has a favourable and significant impact on a firm's performance (e.g., Majeed, 2011; Ismail et al., 2010; Wijetunge, 2016; Zhou et al., 2009). Therefore, more research is needed to confirm the relationship between competitive advantage and SMEs.

H5: Competitive advantage has a significant effect on SME performance.

2.6 Mediating effect of dynamic capability and competitive advantages on SME performance

This mediation is supported by a resource-based view that suggests that a company's CA and superior performance come from company-specific resources and capabilities that are expensive to imitate by competitors, are valuable and rare, and cannot be replicated perfectly. It cannot be replaced (Barney, 1991) based on research conducted by Kiyabo & Isaga (2020) which shows that CA mediates the relationship between entrepreneurial orientation and SME performance.

Dynamic capabilities increase the innovation and performance of small and medium enterprises (Kurnia Fitriati et al., 2020). SMEs in Indonesia need a comprehensive and integrated approach to improve business development and maintain customer loyalty to improve organizational performance. Kurnia Fitriati et al. (2020) show that EO positively affects SME performance through dynamic capabilities. Although the resource-based view emphasizes the significance of competitive advantage in enhancing firm performance, prior research has not focused extensively on examining its mediating role in the relationship between entrepreneurial orientation and company performance (Rosli Mahmood et al., 2013). Rosli Mahmood et al., (2013) discovered partial mediation between the performance of SMEs and entrepreneurial orientation in another investigation. This study makes the following hypotheses based on these results and the resource-based view's hypothesis.

H6: Dynamic capability has a mediating effect on entrepreneurial orientation and SME performance.

H7: Competitive advantage has a mediating effect on entrepreneurial orientation and SME performance.

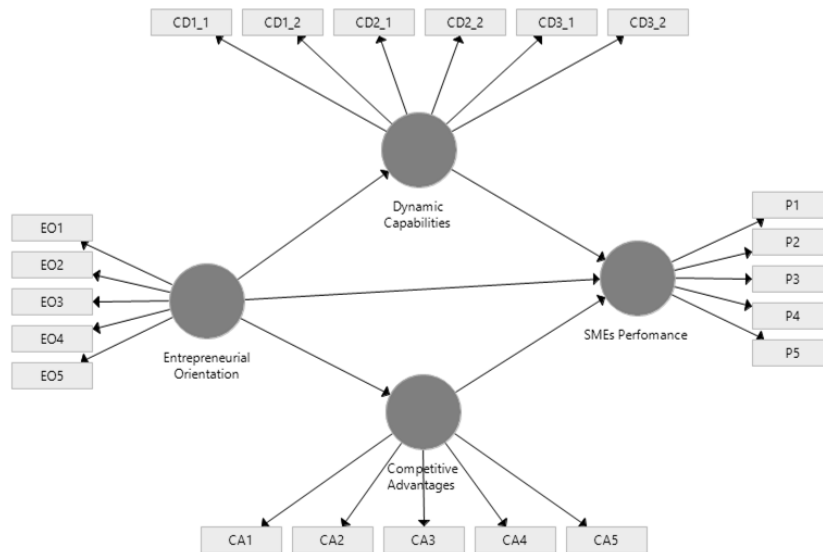


Figure 1: Conceptual framework.

3. Methodology

3.1 Population and sample

This study used a closed-question design and is a survey-based quantitative research. The study participants were managers or owners of SMEs in the East Java Province of Indonesia; in the Surabaya area, there were 858 SMEs. The organizational level, namely SMEs, is the analytical unit. Random cluster sampling was the method used for sampling in this study. The population was divided into groups according to regions or clusters using the cluster random sampling approach. The Metode cluster was adopted considering that Surabaya is a large area, so it needed to be clustered in sampling consisting of Surabaya in the north, east, south, and west. The criteria for SMEs refer to Government Regulation of the Republic of

Indonesia Number 7 of 2021 concerning Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises. Sample data used in this study came from 248 owners of SMEs in Surabaya East Java, Indonesia. The sample fraction formula was used to determine the number of samples for each region (see Table 1). The test sample's chosen features are displayed in Table 2.

Table 1: Sample

Cluster	Total SMEs	Sample
West Surabaya	157	45
Central Surabaya	143	41
South Surabaya	223	65
East Surabaya	244	71
North Surabaya	91	26
Total	858	248

Table 2: Sample Characteristics

	Characteristic	N	%
Gender	Female	152	61
	Male	96	39
Age	< 35 years	61	24.5
	36 – 45 years	109	44
	> 46 years	78	31.5
Education	Elementary school	6	2
	junior high school	14	6
	high school	209	84
	Bachelor's degree	19	8
Business sector	Accessories	14	6
	Fashion	11	4
	Handcrafting	17	7
	Food and beverage	194	78
	Furniture	9	4
	Others	3	1

4. Measurement Items

A five-point scale with an anchoring system of "strongly disagree (1) to strongly agree (5)" was utilized for measurements in the study. As opposed to an open-ended inquiry, which took more thought and time to complete, the five-point scale was chosen since it was simple for responders to answer (Churchill, 1979). Measuring validity and reliability were ensured by adapting all measuring items from similar prior research conducted in the context of SMEs and testing them in developing economies.

Entrepreneurial orientation was measured using a five-item scale developed by Lumpkin & Dess (1996), aligning with previous research investigating leadership in SMEs (Strobl et al., 2023). Dynamic capabilities were assessed using a 5-item scale from Wilden et al. (2013). This is one of the few dynamic capabilities scales developed based on a systematic and rigorous scale development procedure (Kump et al., 2019). The scale encompasses three distinct dimensions (sensing, seizing, and reconfiguring) with four items each. Firm performance was measured using a five-item scale from Arend (2014). To assess the overall effectiveness of a firm, respondents were asked to rate five performance indicators compared with their organizational financial and non-financial objectives. A subjective measure was used because this is a common approach in assessing firm performance in SMEs, where financial data is often unavailable for academic research (Zulkiffli & Perera, 2011). Moreover, SME literature has also reported a strong correlation and concurrent validity between objective and subjective measures (Hernandez-Linares et al., 2021). Consequently, the employment of a subjective measure in this research not only ensures the project's validity, but also its viability. Any characteristics or elements that give SMEs an advantage over their rivals were operationalized as forms of competitive advantage. The competitive advantage scale, which was derived from Abeysekara, Wang & Kurupparachchi (2019), had five elements, such as "We have a strong reputation for quality."

5. Empirical Estimations and Results

We used SEM-PLS to run a reflecting measurement model (algorithm) and a structural model (bootstrapping) following the research by Hair et al. (2019).

We employed the two-step estimation as a higher-order variable in the study model, social media usage. The concurrent validity test in PLS with reflective indicators was assessed based on the loading factor (correlation between item scores and constructs) of the indicators that measure the construct. The rule of thumb usually used to make an initial check of the factor matrix is ± 0.70 , which is considered to have met the minimum level (Abdillah & Hartono, 2015; Hair et al., 2006). In addition, the data were reanalyzed to confirm the measurement model's validity after eliminating all incorrect items from the variables. Table 3 displays the outcomes of the measurement assessment.

To produce internal consistency (Cronbach's alpha, composite reliability), convergent validity (factor loadings, average variance extracted), and discriminant validity (e.g., Fornell-Lacker Criterion and Heterotrait-Monotrait Ratio/HTMT) for the measurement model, we used PLS-SEM algorithms, as recommended by Hair et al. (2019). The measurement model satisfied the requirements, as Table 5 demonstrates. Each construct's composite reliability and Cronbach's alpha was above 0.70 regarding internal consistency, indicating that the construct's internal reliability was consistent. Furthermore, the convergent validity fulfilled the threshold value since the average variance extracted (AVE) was above 0.50. Lastly, Table 2 illustrates that concerning discriminant validity, the square root of the AVE value was greater than the construct correlation. As the ratio was less than the 0.90 criterion, as indicated by the data in Table 3, discriminant validity was attained.

The structural model evaluation process follows Hair et al. (2019) in that there are consecutive steps: r-square assessment (R^2), the significance of path coefficients, collinearity assessment, and predictive relevance (Q^2). The DC (0.48), CA (0.46) and SMEs performance (0.54) all show a moderate degree of prediction accuracy, according to the coefficient of determination (R^2). R^2 values greater than 0.50, in the opinion of Hair et al. (2019) and (Henseler et al., 2015) indicate considerable predictive behaviour. A sample's predictive potential is indicated by the R^2 value (Sarstedt et al., 2019). Using a cross-validated redundancy technique, we were also blinded to examine the significance of Q^2 predictions or out-of-sample predictive power (Hair et al., 2019). Furthermore, the findings demonstrate that the exogenous constructions (EO) have predictive relevance for the endogenous constructs

(firm performance and marketing capabilities) because the Q^2 values (0.226) are greater than zero. In conclusion, the structural model has met every evaluation criterion.

Table 3: Outcomes of the measurement assessment

Construct	Indicators	Outer Loading	CA	CR	AVE
EO	EO1	0.761	0.768	0.754	0.599
	EO2	0.766			
	EO3	0.721			
	EO4	0.777			
	EO5	0.753			
D	CD1_1	0.712	0.784	0.839	0.567
	CD1_2	0.754			
	CD2_1	0.717			
	CD2_2	0.706			
	CD3_1	0.730			
	CD3_2	0.764			
CA	CA1	0.794	0.764	0.760	0.502
	CA2	0.764			
	CA3	0.776			
	CA4	0.757			
	CA5	0.783			
P	P1	0.784	0.790	0.802	0.548
	P2	0.779			
	P3	0.754			
	P4	0.721			
	P5	0.701			

To ascertain the significance of the route coefficients, we used PLS-SEM bootstrapping with a subsample of 5,000, taking into account the two-tailed

and bias-corrected accelerated (BCa) bootstrap methods. We employed a significance level of 5% in the present investigation, with a p-value of no more than 0.05. Table 4 presents the three forms of path coefficients that can be distinguished: direct and indirect (mediation).

6. Hypothesis Testing

The results for testing Hypotheses 1-5 are presented in Table 4.

Table 4: Hypothesis Testing

	Coefficient	P value	t-value	Hypothesis
H1: Entrepreneurial orientation – dynamic capabilities	2.953	0.002	3.152	Accepted
H2: Dynamic capabilities – SMEs performance	1.285	0.196	1.296	Rejected
H3: Entrepreneurial orientation – SME performance	3.985	0.000	3.915	Accepted
H4: Entrepreneurial orientation – Competitive advantages	2.812	0.004	2.894	Accepted
H5: Competitive advantage – SMEs performance	1.982	0.041	2.074	accepted

First, in Table 4, the results for Hypotheses 1 and 2 – that EO has a positive effect on firm performance via DC in firms – show that the effect of EO is positive and significant ($p < 0.001$). In contrast, the impact of DC was not statistically significant ($p > 0.05$). Accordingly, Hypothesis 1 was supported, while Hypothesis 2 was rejected. Next, regarding Hypotheses 3–5 on the relationship between EO, CA, and firm performance, the effect of EO on CA was statistically significant ($p < 0.001$). In contrast, CA's impact on firm performance was positive and statistically significant ($p < 0.001$). Accordingly, Hypotheses 3–5 were all accepted.

The results for the mediation effects of EO and CA on EO's impact on firm performance are shown in Table 5.

Table 5: Indirect effect

	Coefficient	P Value	t-value	Hypothesis
H6: EO – DC – P	2.953	0.265	1.116	Rejected
H7: EO – CA – P	1.285	0.109	1.606	Rejected

These findings imply that SMEs with higher levels of EO can generate dynamic capabilities. These findings are in line with the RBV theory and previous research; the result is in line with research which states that entrepreneurial orientation influences dynamic capabilities (Ibrahim Aminu, 2016; Lim & Kim, 2020; Kurnia Fitriati et al., 2020; Liu et al., 2021; Abdelkareem, Battour & Al-Awlaqi, 2022). Firms possessing a strong entrepreneurial spirit are better able to create relevant business models, encourage creativity, and anticipate shifts in the market and technology. Thus, it is thought that an essential factor in determining SMEs' dynamic potential is their entrepreneurial focus. Dynamic capabilities do not affect the performance of SMEs. This study's results align with previous research by Lim & Kim (2020) and Rehman & Saeed (2015), showing that dynamic capabilities do not directly affect the performance of SMEs. It was found that the majority of SMEs in Surabaya cannot innovate to keep up with changing times as a form of dynamic capability.

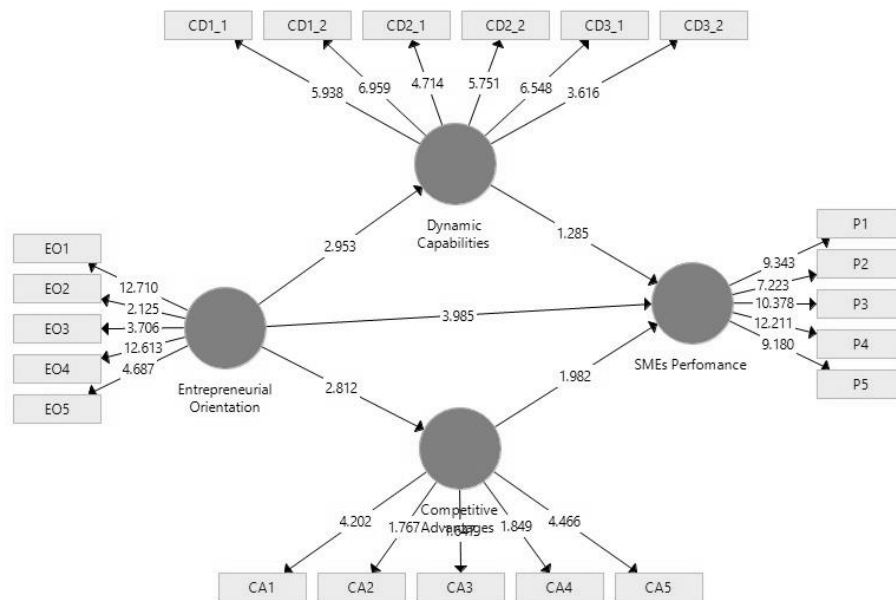


Figure 2: Output Bootstrapping.

EO was also found to have a positive effect on SMEs so it can be concluded that Hypothesis 3 is accepted. SMEs in Indonesia need a comprehensive and integrated approach to improve business development and maintain customer loyalty to improve organizational performance. This result is consistent with previous research and RBV theory. For instance, research by Wardi et al., (2018) and Omar et al., (2016) revealed that SMEs can greatly improve their performance by acting entrepreneurially. SMEs must therefore take an entrepreneurial stance while seeking solutions that will enable them to creatively accomplish their objectives. They can also spend money on hiring youthful individuals with entrepreneurial abilities to infuse the business with fresh ideas. Employees of SMEs should also be encouraged to contribute innovative ideas to advance the organization's objectives and address its difficulties. Furthermore, previous research (Dimitratos & Plakoyiannaki, 2003; Lumpkin & Dess, 2001;) that found a weak correlation between EO and corporate performance is refuted by our findings. Regarding Hypothesis 4, it was found that EO usage positively affects the competitive advantages of SMEs ($b = 0.389$, $p\text{-value} = 0.000$); and the finding supports hypothesis H4, thus hypothesis 4 is accepted. Concerning Hypothesis 5, the results suggest that CA has a significant positive effect on the SMEs performance Competitive advantage cannot mediate the influence of EO on SME performance. The inability of SMEs to create competitive advantage as mediators means they cannot improve the performance of SMEs in Surabaya. The results of this study do not follow research conducted by Karanja (2015) and Rojas et al. (2015) which shows that CA can mediate EO on SME performance.

7. Conclusion

This study revisits the relationship between EO and SME performance, and considers the mediating role of dynamic capabilities and competitive advantage. The main findings are as follows:

- EO has a positive effect on dynamic capacity, competitive advantage and SME performance;
- Dynamic capabilities and competitive advantage do not mediate in the relationship between EO and performance SMEs

Adding more contextualized concerns offers opportunities to expand our comprehension of entrepreneurial theory and practice and obtain fresh insights (Anderson & Ronteau, 2017). To be more precise, this study developed a theory-based mediation model to describe how EO and SME performance are related. Our analysis sheds light on the links between EO and performance by explaining mediation effects (Wales et al., 2021). Additionally, the present study adds to the body of literature by providing fresh data on the serial mediation of EO-SME performance correlations, particularly in reference to the research conducted by Wiwoho et al. (2020) and Dirgiatmo et al. (2019).

These results may also help explain previous research showing that the influence of DC on performance is inconsistent. For example, the result of the insignificant influence of DC on SME performance may be due to the possibility that companies pursue SME performance but do not carry out related activities in enhancing dynamic capabilities. The findings of this research indicate that EO is an important way to achieve these goals of promoting DC to achieve superior performance. In addition, the findings of this study show that DC does not directly affect SME performance.

Future studies should take into account additional elements like work-life balance, the supervisory role of the owner, and governmental assistance that could help SMEs perform better so they can survive in the fiercely competitive and quickly-evolving business landscape. In the future, research may also look into other SMEs' specialty categories in order to provide more detailed insight into the particular elements—like cost factors—that might be essential for the sustainability of each category of SMEs. Managers that represent SMEs or owners may provide the information. Moreover, interviews with SMEs may be conducted by researchers in the future. Therefore, testing the mode with a longitudinal design will be fascinating. Furthermore, since the Indonesian market was the focus of our study, future research may concentrate on other emerging countries, making it easier to compare and contrast SME behaviour in emerging markets.

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