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Competitive Advantage as a Catalyst Aligning Entrepreneurial and Market Orientations in Sumbawa MSMEs

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ABSTRAK

Penelitian ini meneliti pengaruh orientasi pasar (MO) dan orientasi kewirausahaan (EO) terhadap kinerja usaha mikro, kecil, dan menengah (UMKM), dengan penekanan khusus pada efek mediasi dari keunggulan kompetitif (CA). Berlandaskan pada prinsip-prinsip Teori Sumber Daya dan Teori Kapasitas Dinamis, studi ini berpendapat bahwa orientasi strategis hanya dapat meningkatkan hasil perusahaan setelah berhasil diubah menjadi kekuatan kompetitif yang berkelanjutan. Pendekatan kausal kuantitatif digunakan melalui survei terstruktur yang dilakukan kepada manajer dan pemilik bisnis UMKM di Wilayah Sumbawa. Data diproses menggunakan Pemodelan Persamaan Struktural dengan Kuadrat Terkecil Parsial (SEM-PLS). Analisis menunjukkan bahwa EO memiliki efek langsung yang signifikan terhadap kinerja MSME, sementara MO berkontribusi secara tidak langsung melalui CA. Kedua orientasi strategis menunjukkan asosiasi positif dengan keunggulan kompetitif, yang kemudian mengarah pada hasil kinerja yang lebih baik. Model ini menunjukkan kemampuan penjelasan dan prediksi yang kuat, tercermin dalam nilai R^2 sebesar 0,591 untuk CA dan 0,706 untuk kinerja, didukung oleh nilai Q^2 yang substansial. Secara umum, hasilnya menunjukkan bahwa MO dan EO menghasilkan peningkatan signifikan dalam kinerja hanya ketika dimanfaatkan secara strategis untuk membangun keunggulan kompetitif yang berkelanjutan. Studi ini memperkaya wacana teoretis tentang perilaku strategis UKM dan menawarkan ide-ide praktis untuk memperkuat kemampuan inovasi, responsivitas, dan adaptabilitas.

Keywords: Competitive Advantage, Entrepreneurial Orientation, Market Orientation, MSME Performance

ABSTRACT

This research examines the influence of market orientation (MO) and entrepreneurial orientation (EO) on the performance of micro, small, and medium enterprises (MSMEs), with particular emphasis on the mediating effect of competitive advantage (CA). Anchored in the principles of the Resource-Based View and Dynamic Capabilities Theory, the study argues that strategic orientations can only enhance firm outcomes once they are effectively transformed into durable competitive strengths.A quantitative causal approach was employed

through a structured survey administered to MSME managers and business owners in Sumbawa Regency. Data were processed using Partial Least Squares Structural Equation Modeling (SEM–PLS). The analysis demonstrates that EO exerts a significant direct effect on MSME performance, whereas MO contributes indirectly via CA. Both strategic orientations show positive associations with competitive advantage, which subsequently leads to improved performance outcomes. The model demonstrates strong explanatory and predictive capability, reflected in R^2 values of 0.591 for CA and 0.706 for performance, supported by substantial Q^2 values. Overall, the results suggest that MO and EO generate meaningful performance improvements only when strategically leveraged to build sustainable competitive advantage. The study enriches theoretical discourse on MSME strategic behavior and offers practical insights to strengthen innovation capacity, responsiveness, and adaptability.

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a profoundly strategic role in accelerating economic development within emerging economies, particularly through the facilitation of job creation, integration into local supply networks, and the enhancement of regional competitiveness. In an increasingly interconnected and volatile business environment, achieving superior performance requires MSME managers to adopt robust strategic orientations that can simultaneously respond to market pressures and stimulate innovation-driven entrepreneurial initiatives. Navigating these complexities is heavily dependent on the firm's strategic posture. In this regard, market orientation (MO) and entrepreneurial orientation (EO) are widely acknowledged as fundamental strategic constructs that support the development of organizational resilience and sustainable competitive advantage (Al-Zubaidi et al., 2025; Fernandes et al., 2025).

Market orientation functions as the bedrock of a firm's ability to align its offerings with the external environment. Theoretically, MO entails a business culture and an integrated system focused on gathering, disseminating, and responding to market intelligence, thereby prioritizing customer needs and tracking competitor behavior (Narver & Slater, 1990; Jaworski & Kohli, 1993). By maintaining a strong customer focus and competitor awareness, firms can proactively anticipate shifts in demand and make collaborative, cross-functional decisions. Petzold et al. (2019) emphasize that such responsive and proactive market orientations are essential in securing market positions that are difficult to replicate, enhancing a firm’s ability to survive and thrive even during periods of economic uncertainty and shifting consumer paradigms.

Complementary to market orientation is entrepreneurial orientation, which is widely regarded as a core strategic element driving organizational growth and transformation. EO is fundamentally characterized by an organizational disposition toward innovativeness,

proactiveness, and calculated risk-taking (Covin & Slevin, 1991; Lumpkin & Dess, 1996). This orientation encourages firms to actively seek new market opportunities, develop creative product offerings, and undertake decisive strategic actions even when operating under conditions of ambiguity. Empirical findings confirm that EO plays a significant role in driving business growth and profitability among MSMEs, as it strengthens a firm's ability to differentiate strategically and respond effectively to external market fluctuations (Pham, 2023; Lim & Kim, 2022).

Despite the theoretical significance of both MO and EO, empirical findings regarding their direct impact on MSME performance remain notably inconsistent. While some literature posits a direct and positive relationship between these strategic orientations and business outcomes, a growing body of meta-analytic evidence suggests a more complex dynamic. Studies indicate that the impact of MO and EO on performance frequently manifests indirectly, heavily relying on intermediate mechanisms such as functional performances, innovation capability, and organizational efficiency (Länsiluoto et al., 2019; Rezaei & Ortt, 2018). This inconsistency highlights a critical research gap, suggesting that possessing market knowledge and an entrepreneurial mindset is insufficient unless these orientations are effectively operationalized into tangible organizational strengths.

To address this gap, the Resource-Based View (RBV) provides a robust theoretical lens. From the perspective of the RBV, superior organizational performance is attainable only when firms possess and exploit resources that are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney & Hesterly, 2019). Within this framework, MO and EO are conceptualized as critical intangible strategic inputs. However, as Grant (2018) argues, merely possessing strategic orientations or resources is inadequate. Firms must be capable of integrating, reconfiguring, and deploying these strategic enablers strategically in response to market dynamics. Thus, MO and EO are not end states themselves, but rather the foundational inputs required to drive the development of a unique competitive positioning (Lonial & Carter, 2015).

Complementing the RBV, the Dynamic Capabilities Theory further elucidates how strategic orientations translate into sustained success, particularly in turbulent business environments. The dynamic capabilities framework emphasizes a firm's capacity to identify (sensing), capitalize on (seizing), and continually modify (transforming) its resource base to maintain competitiveness (Teece, 2009). Recent literature highlights that dynamic capabilities serve as the vital mechanism that allows firms to refresh their competitive strengths, essentially linking strategic orientations like MO and EO to long-term performance outcomes (Correia et al., 2021; Fernandes et al., 2025). This implies that entrepreneurial and market-driven behaviors must be continuously adapted to generate meaningful value.

Consequently, competitive advantage emerges as the crucial mediating variable in the relationship between strategic orientations and firm performance. Competitive advantage represents a firm's ability to create value that is exceedingly difficult for competitors to replicate, typically achieved through either distinct differentiation or cost leadership (Porter,

2011; Wheelen, 2018). Recent empirical investigations demonstrate that competitive advantage acts as a strategic conduit, effectively bridging the gap between strategic orientations (MO and EO) and ultimate business performance (Correia et al., 2020; Otache, 2024). This mediation suggests that MO and EO deliver optimal financial and operational results only when they are successfully converted into tangible competitive strengths, whether through innovative business models, superior products, or enhanced processes.

Against this theoretical backdrop, the present study investigates the interplay between MO, EO, and MSME performance, explicitly introducing competitive advantage as a mediating variable. This investigation is particularly relevant in the context of rural MSMEs in Sumbawa District, Indonesia. These enterprises face significant structural constraints, including limited access to capital, technological deficits, and intense local competition, which mark a stark contrast to MSMEs in urban business ecosystems. By anchoring the analysis in the RBV and dynamic capabilities frameworks, this research aims to evaluate both the direct and indirect effects of strategic orientations, thereby providing empirical evidence on how resource-constrained MSMEs can strategically leverage MO and EO to build sustainable competitive advantage and achieve superior performance.

RESEARCH METHOD

This study employs a quantitative research methodology anchored in a causal research design to systematically investigate the structural relationships between market orientation (MO), entrepreneurial orientation (EO), competitive advantage (CA), and MSME performance. A causal approach was deemed highly appropriate as it facilitates the examination of cause-and-effect dynamics among the specified latent constructs. The empirical investigation is contextually situated within Sumbawa Regency, a region where MSMEs confront persistent challenges, including limited technological adoption, constrained financial resources, and intense market competition. By adopting this rigorous design, the research aims to provide empirical validation for the theoretical tenets of the Resource-Based View (RBV) and dynamic capabilities framework in peripheral economic settings.

The target population for this study comprised 1,250 active MSMEs officially affiliated with the Sumbawa MSME Forum, based on the registry provided by the local Department of Cooperatives (2024). To select a representative and relevant subset of this population, a purposive sampling technique was implemented based on specific inclusion criteria as recommended by Ferdinand (2014). The criteria mandated that participating enterprises must have been in continuous operation for a minimum of two years, maintain active registration with the MSME Forum, and express voluntary consent to participate. To determine the optimal sample size, the study adhered to the guidelines proposed by Chin and Newsted (1999) for Partial Least Squares Structural Equation Modeling (PLS-SEM), which yielded a final

analytical sample of 155 respondents, a size deemed robust for the complexity of the specified structural paths.

Primary data collection was executed through the administration of a structured, self-administered questionnaire distributed directly to the owners or senior managers of the selected MSMEs. These individuals were targeted as key informants due to their comprehensive understanding of their respective firms' strategic orientations, operational capabilities, and overall financial and non-financial performance. The survey instrument utilized a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), to quantify respondents' perceptions regarding the underlying constructs. Prior to the main data collection phase, the questionnaire underwent content validation to ensure the clarity, relevance, and contextual appropriateness of the measurement items for the local business environment.

The measurement scales for the latent constructs were adapted from established literature to ensure strong theoretical grounding and construct validity. Market orientation was assessed using indicators reflecting customer focus, competitor intelligence, and interfunctional coordination, drawing upon the foundational framework established by Jaworski and Kohli (1993). Entrepreneurial orientation was operationalized through dimensions of innovativeness, proactiveness, and risk-taking, aligning with the conceptualization by Lumpkin and Dess (1996). Furthermore, competitive advantage was measured through indicators of differentiation and cost efficiency as posited by Porter (2011), while MSME performance was evaluated using multi-dimensional metrics encompassing growth, profitability, and market responsiveness, consistent with contemporary performance assessment paradigms (Länsiluoto et al., 2019).

For the purpose of inferential statistical analysis, this study utilized Partial Least Squares Structural Equation Modeling (PLS-SEM). As articulated by Hair et al. (2017) and Ghozali (2021), PLS-SEM is a variance-based technique that is particularly advantageous for exploratory research and for evaluating complex models that incorporate mediating variables. Furthermore, PLS-SEM does not demand stringent assumptions regarding data normality, making it highly suitable for survey-based MSME research where empirical data distributions frequently deviate from the normal curve. The analytical software was deployed to simultaneously estimate the measurement parameters and the structural paths, thereby providing a comprehensive assessment of the hypothesized conceptual framework.

The analytical procedure was systematically executed in two sequential stages: the evaluation of the outer (measurement) model and the inner (structural) model. Following the rigorous criteria outlined by Hair et al. (2017), the outer model was assessed to establish indicator reliability, internal consistency through Cronbach's Alpha and Composite Reliability (CR), and convergent validity via the Average Variance Extracted (AVE). Upon validating the psychometric properties of the measurement model, the inner model was subsequently evaluated to test the proposed hypotheses. This involved the assessment of the coefficient of determination (R^2), predictive relevance (Q^2), and the statistical significance of the direct and

indirect path coefficients, which were computed utilizing a bootstrapping resampling procedure to ensure robust standard errors and confidence intervals (Ghozali, 2021).

RESULTS AND DISCUSSION

Outer Model

To ensure the reliability and validity of the reflective measurement model, a series of statistical assessments were conducted. The analysis revealed that all outer loadings exceeded the recommended threshold of 0.70, confirming strong indicator reliability and demonstrating that each observed variable accurately represented its respective latent construct. Moreover, the results for Cronbach's Alpha and Composite Reliability (CR) were consistently above 0.70, indicating satisfactory internal consistency and that the items within each construct were cohesively interrelated.

Evidence of convergent validity was established through the Average Variance Extracted (AVE), with all constructs exhibiting values greater than 0.50. This suggests that more than half of the variance in each latent variable was captured by its indicators, thereby confirming the adequacy of construct representation. Collectively, these diagnostic results affirm that the measurement model is both psychometrically reliable and theoretically coherent, providing a solid foundation for subsequent structural path analysis within this study (Ghozali, 2021; Hair et al., 2017).

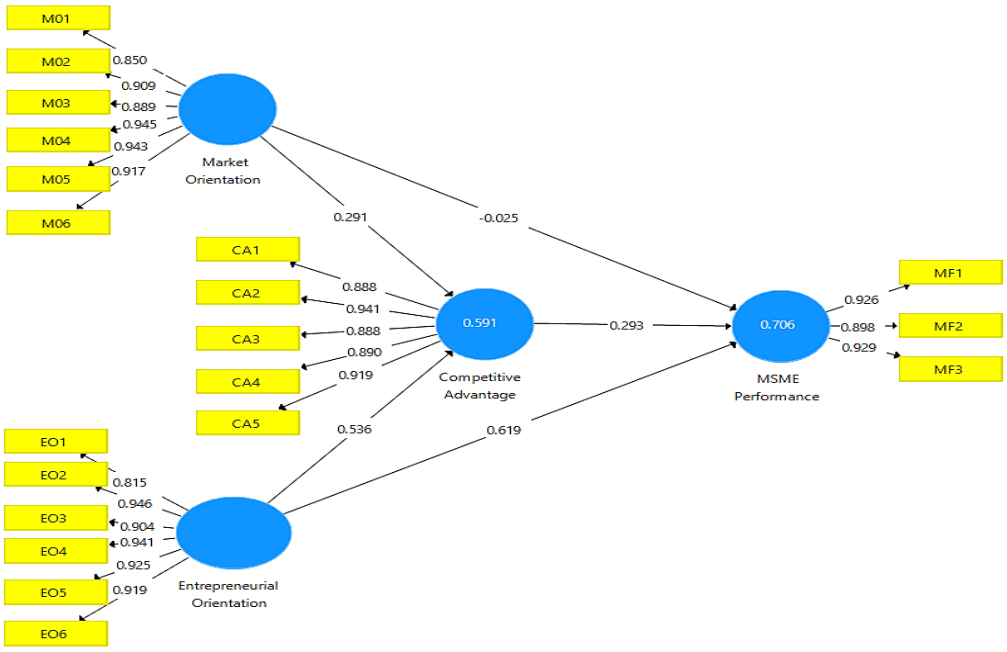

Figure 1. Outer Loadings

The results of the SEM–PLS analysis indicate that all constructs are measured reliably and validly through their respective indicators. The Market Orientation (MO) construct is

represented by five indicators (MO1–MO5), each showing strong outer loading values ranging from 0.850 to 0.945, which are well above the recommended threshold of 0.70. This confirms that all items effectively capture the latent construct. Similarly, Entrepreneurial Orientation (EO) is reflected by six indicators (EO1–EO6), with outer loadings between 0.815 and 0.946, demonstrating consistent and satisfactory indicator reliability. For the Competitive Advantage (CA) construct, the five indicators (CA1–CA5) display outer loadings between 0.888 and 0.941, reinforcing the validity and strength of the construct measurement.

Finally, the MSME Performance construct is measured using three indicators (MF1–MF3), each exhibiting high outer loading values within the range of 0.898 to 0.926, confirming that these items accurately represent the performance dimension. Overall, the results demonstrate that all constructs meet the criteria for acceptable reliability and validity, providing strong support for the measurement model and confirming its suitability for further structural model testing.

Tabel 1. Summary of Measurement Model Results

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE	Remarks
MO	0.958	0.960	0.827	Construct reliable, convergent validity achieved.
EO	0.958	0.958	0.827	
CA	0.945	0.946	0.820	
MF	0.907	0.913	0.842	

Source: Researcher processed data, 2026

All constructs Market Orientation (MO), Entrepreneurial Orientation (EO), Competitive Advantage (CA), and MSME Performance (MF) demonstrated strong reliability, as evidenced by Cronbach's Alpha and Composite Reliability (CR) values exceeding 0.70, which meets the accepted threshold for internal consistency. In addition, Average Variance Extracted (AVE) values for all constructs were greater than 0.50, indicating that each construct captures more than half of the variance of its indicators and thereby confirming convergent validity.

Inner Model

Within the framework of Partial Least Squares Structural Equation Modeling (PLS–SEM), the inner (structural) model is employed to analyze the causal relationships among latent variables based on the theoretical foundations of the study. The evaluation of this model incorporates several statistical criteria that reflect both the explanatory and predictive capabilities of the research framework.

First, the coefficient of determination (R^2) indicates the extent to which endogenous variables are explained by the exogenous constructs. As outlined by Chin and Newsted (1999), R^2 values of 0.67, 0.33, and 0.19 are categorized as substantial, moderate, and weak, respectively. Second, path coefficients are examined to determine the magnitude and direction of the hypothesized relationships among constructs. These coefficients are evaluated through bootstrapping, enabling statistical inference based on repeated resampling.

Third, predictive relevance (Q^2) is assessed using the blindfolding procedure to evaluate the model's ability to predict the indicators of endogenous constructs. In line with the Stone–

Geisser criterion, Q^2 values above 0.35 indicate high predictive relevance, while values of 0.15 and 0.02 represent moderate and small predictive power, respectively.

Table 2. R Square

Construct	R Square
Competitive Advantage	0.591
MSME performance	0.706

Source: Researcher processed data, 2026

The R-square results shown in Table II indicate that the research model demonstrates strong explanatory capability. The competitive advantage construct produced an R^2 value of 0.591, meaning that 59.1% of its variance is explained by market orientation and entrepreneurial orientation. This value falls within the moderate category, suggesting that strategic orientation contributes substantially to enhancing MSME competitiveness. Furthermore, the MSME performance construct recorded an R^2 value of 0.706, implying that 70.6% of the variation in performance is explained by market orientation, entrepreneurial orientation, and competitive advantage. This result is categorized as substantial, confirming that the proposed structural model exhibits strong predictive ability in explaining MSME performance outcomes.

Table 3. Direct and indirect effect

	Original Sampel	T Statistic	P Values
MO → CA	0.291	2.953	0.003
EO → CA	0.536	5.988	0.000
MO → MF	-0.025	0.321	0.748
EO → MF	0.619	7.636	0.000
CA→ MF	0.293	2.969	0.003
MO → CA→ MF	0.085	2.138	0.033
EO → CA→ MF	0.157	2.527	0.012

Source : Researcher processed data, 2026

Table 3 summarizes the results of both direct and indirect effects among the latent constructs in the structural model. The analysis shows that market orientation (MO) has a positive and significant influence on competitive advantage (CA), with a path coefficient of 0.291, t-statistic of 2.953, and p-value of 0.003. Likewise, entrepreneurial orientation (EO) significantly strengthens competitive advantage, as indicated by a coefficient of 0.536, t-statistic of 5.988, and p-value of 0.000. In contrast, the direct effect of MO on MSME performance (MF) is statistically insignificant (coefficient = 0.025; t = 0.321; p = 0.748), suggesting that MO does not directly drive performance outcomes. Conversely, EO exhibits a strong and significant direct impact on MSME performance (coefficient = 0.619; t = 7.636; p = 0.000), indicating its central role in enhancing business results. Furthermore, competitive advantage significantly contributes to MSME performance, with a coefficient of 0.293, t-statistic of 2.969, and p-value of 0.003. Mediation analysis confirms that MO indirectly influences MSME performance through CA (indirect effect = 0.085; t = 2.138; p = 0.033), while EO also has a significant indirect effect via CA (indirect effect = 0.157; t = 2.527; p = 0.012).

The Q^2 value, also known as predictive relevance, is employed to evaluate the model's ability to predict endogenous latent variables. Based on the calculation displayed in the figure, the Q^2 value is derived using the following formula:

$$Q^2 = 1 - (1-R1^2)(1-R2^2)$$
$$= 1 - (1-0.591)(1-0,706)$$
$$= 0,880\ (88\%)$$

This result indicates that the structural model possesses a high level of predictive accuracy, explaining 88% of the variation in the endogenous constructs namely, competitive advantage and SME performance based on the exogenous constructs: market orientation and entrepreneurial orientation. Following the criteria established by Stone-Geisser, a Q^2 value greater than 0.35 is considered strong, thereby confirming the model's predictive robustness. Thus, it can be concluded that the research model not only offers substantial explanatory power but also demonstrates strong predictive capability within the context of strategic orientation and performance outcomes in MSME.

Market Orientation and the Foundation of Competitive Advantage in MSME

Conceptually, *market orientation (MO)* functions as a strategic mechanism enabling firms to build competitive advantage through a deep understanding of customers and competitors. According to Jaworski and Kohli (1993), MO entails a structured process of generating, disseminating, and responding to market intelligence, which allows organizations to anticipate customer needs and effectively react to competitor strategies. This strategic capability supports the development of adaptive differentiation efforts that are essential in dynamic market environments.

Within the context of MSMEs in Sumbawa, MO becomes particularly critical, as many enterprises continue to operate with limited financial capacity and restricted access to technology. Consequently, leveraging MO as a cost-efficient and information-based strategy offers substantial potential for improving competitiveness despite structural constraints. Empirical evidence reinforces this theoretical premise. Al-Zubaidi et al. (2025) reported that MO positively contributes to SME competitiveness by stimulating product innovation and enhancing service quality. Similarly, Petzold et al. (2019) found that customer and competitor orientation support the formation of distinctive and hard-to-replicate market positions.

However, implementation challenges persist in Sumbawa—most notably low digital marketing literacy and weak market information dissemination systems among MSMEs. These limitations suggest that while MO significantly contributes to competitive advantage, its effectiveness depends on firms' ability to access, interpret, and apply market information. Therefore, beyond confirming the MO–CA relationship, this study highlights the importance of strengthening the *market information ecosystem* to enable MO to function as a strategic catalyst for enhancing MSME competitiveness in peripheral regions.

Entrepreneurial Orientation as a Strategic Driver of Competitive Advantage in MSME

Entrepreneurial orientation (EO) is recognized as a vital driver of competitive advantage due to its emphasis on innovation, proactiveness, and risk-taking. According to Lumpkin and Dess (1996), EO reflects a strategic orientation that motivates firms to explore novel ideas, anticipate market shifts, and pursue emerging opportunities despite uncertainty. These entrepreneurial behaviors enable organizations to develop innovative products, services, and business models that support strategic differentiation.

In the context of MSMEs in Sumbawa, EO becomes especially relevant given the region's intense market competition and limited external support systems. Adopting a proactive and risk-embracing mindset not only enhances adaptability but also acts as a catalyst for strengthening innovation and building business resilience. Empirical evidence reinforces this conceptual foundation. Pham (2023) found that EO positively drives business growth and profitability among SMEs in Vietnam. Lonial and Carter (2015) further demonstrated that EO enhances strategic differentiation and accelerates market responsiveness. Similarly, Lim and Kim (2022) highlighted innovation and proactiveness as key enablers of sustainable competitive advantage.

However, the practical application of EO in Sumbawa faces structural challenges, including limited technological infrastructure, capital constraints, and fragmented market access, which can impede the conversion of entrepreneurial intent into tangible competitive gains. Thus, while EO is theoretically and empirically validated as a source of competitive strength, its effectiveness ultimately depends on internal firm capabilities and the robustness of the surrounding business ecosystem in enabling innovation and market expansion.

Market Orientation and MSME Performance

Market orientation (MO) is theoretically positioned to enhance business performance by deepening customer understanding, monitoring competitor behavior, and promoting coordinated decision-making across organizational functions. Narver and Slater (1990) argue that market-oriented firms tend to achieve higher profitability because their value propositions are better aligned with customer expectations. From the Resource-Based View (RBV) perspective, market intelligence acquired via MO is considered a strategic resource, which—when effectively utilized—strengthens competitive positioning and supports superior performance outcomes (Barney & Hesterly, 2019).

However, empirical results from this study indicate that MO does not significantly influence MSME performance directly, suggesting that its impact manifests only through mediating mechanisms. This aligns with prior research. Rezaei et al. (2018) found that MO contributes to performance primarily via innovation capabilities. Similarly, Länsiluoto et al. (2019) observed that performance improvements occur when MO is accompanied by new product development and greater organizational efficiency. Supporting this, Correia et al. (2020) state that MO affects business outcomes through dynamic capabilities and competitive advantage rather than through direct pathways.

In the case of MSMEs in Sumbawa, this result is understandable. While firms may recognize customer preferences and observe competitor strategies, limited access to resources, technology, and market networks restricts their ability to translate these insights into improved performance. Therefore, although MO remains a crucial strategic orientation, its effectiveness is contingent upon the presence of intermediary capabilities—particularly competitive advantage that can convert market intelligence into actionable and performance-enhancing strategies.

Entrepreneurial Orientation as a Strategic Driver of MSME Performance

Entrepreneurial Orientation (EO) has been widely acknowledged as a critical determinant of firm performance, primarily due to its influence on opportunity identification, innovation, and adaptive strategic behavior. As conceptualized by Covin and Slevin (1991), EO—defined through innovativeness, proactiveness, and risk-taking enables firms to actively pursue emerging market opportunities and embrace strategic actions in uncertain conditions. This orientation not only strengthens competitive positioning but also directly contributes to improved business outcomes. The relevance of EO is particularly pronounced for MSMEs in dynamic environments such as Sumbawa, where agility and willingness to take calculated risks are crucial amid limited resources and volatile market dynamics.

Empirical evidence supports this theoretical foundation. Lonial and Carter (2015) confirmed that EO significantly enhances business growth through stronger strategic differentiation and market responsiveness. Additionally, Lim et al. (2020) demonstrated a positive relationship between EO and financial performance, emphasizing that innovative and proactive behaviors promote profitability and long-term sustainability. EO is also recognized as an enabler of strategic agility, allowing firms to adapt swiftly and capitalize on emerging opportunities.

In peripheral regions like Sumbawa—where institutional support is often limited EO becomes a vital capability for overcoming uncertainty and strengthening local economic resilience. Thus, this study reaffirms that EO plays a central role in advancing MSME performance, particularly through innovation-led entrepreneurial initiatives that accelerate regional competitiveness.

Competitive Advantage as a Strategic Determinant of MSME Performance

Competitive advantage is widely regarded as a fundamental prerequisite for achieving superior organizational performance. Based on the Resource-Based View (RBV), sustained performance can only be achieved when a firm controls resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney & Hesterly, 2019). This perspective positions competitive advantage not merely as an outcome of strategic orientation, but as a strategic lever that supports long-term success. For Micro, Small, and Medium Enterprises (MSMEs), the ability to deliver distinctive products, enhance service quality, or

operate efficiently provides a key foundation for competitive positioning in local and regional markets.

Empirical research reinforces this theoretical viewpoint. Porter (2011) argues that differentiation and cost leadership strategies increase profitability and strengthen customer retention. Similarly, Correia et al. (2020, 2022) demonstrated that competitive advantage mediates the effects of market orientation and entrepreneurial orientation on firm performance. In addition, Otache (2024) highlighted that in dynamic market settings, competitive advantage is a critical predictor of SME success, helping firms adapt to environmental changes while sustaining operational effectiveness.

Mediating Role of Competitive Advantage in Linking Strategic Orientations to Performance

The findings indicate that market orientation (MO) does not directly impact MSME performance, but instead exerts its influence indirectly through competitive advantage. This result is consistent with Rezaei and Ortt (2018), who observed that MO contributes more significantly to performance when mediated by innovation and strategic market positioning. Although MO provides firms with valuable customer and competitor insights, these resources yield performance benefits only when translated into concrete competitive strengths, such as differentiation, enhanced service quality, or cost efficiency. Thus, competitive advantage functions as a strategic conduit linking MO to performance outcomes. This pattern aligns with the dynamic capabilities framework (Teece, 2009), which asserts that firms must engage in *sensing, seizing, and transforming* activities to convert strategic orientations into measurable performance improvements.

Similarly, entrepreneurial orientation (EO) exhibits an indirect effect on performance via competitive advantage. EO driven by innovativeness, proactiveness, and risk-taking supports the creation of unique strategic differentiation, which in turn enhances performance. This mediation pathway is corroborated by Correia et al. (2022), who emphasize the role of competitive advantage as an intermediary connecting EO to organizational performance, particularly in fast-changing environments. Viewed through a dynamic capabilities perspective, EO enables firms to identify opportunities, act with agility, and reconfigure resources, ensuring ongoing competitiveness.

CONCLUSION AND SUGGESTIONS

This study empirically validates the premise that strategic orientations must be operationalized into tangible competitive advantages to substantially elevate MSME performance. The findings reveal a bifurcated pathway to organizational success: while Entrepreneurial Orientation (EO) possesses the intrinsic momentum to directly propel business outcomes through innovative and proactive behaviors, Market Orientation (MO) fundamentally relies on the intermediary mechanism of competitive advantage to materialize its economic benefits. Consequently, possessing market intelligence and customer insights is inherently

insufficient for performance enhancement unless these assets are actively deployed to construct a distinct, durable market position.

From a critical perspective, the absence of a direct relationship between MO and performance highlights a systemic execution barrier prevalent in resource-constrained environments like Sumbawa. It can be argued that rural MSMEs often succeed in sensing market shifts but lack the technical, financial, or digital agility to capitalize on them seamlessly. Thus, competitive advantage functions not merely as a statistical mediator, but as a strategic absolute a vital catalyst that converts latent market knowledge and entrepreneurial intent into quantifiable organizational success.

The implications of this research are both theoretically and practically significant. Theoretically, it enriches the intersection of the Resource-Based View (RBV) and Dynamic Capabilities Theory by positioning competitive advantage as the critical transformational node for market-oriented strategies within emerging, peripheral economies. Practically, the findings urge MSME managers, business incubators, and local policymakers to pivot their focus from merely encouraging market research to actively fostering capability-building. Interventions should be designed to help MSMEs translate their strategic postures into concrete competitive strengths, such as product differentiation, cost efficiency, or improved service delivery mechanisms.

Despite its contributions, this study is subject to several limitations that warrant acknowledgment. Methodologically, the cross-sectional causal design captures only a specific temporal snapshot, restricting the ability to establish definitive longitudinal causality between the evolution of strategic orientations and long-term performance. Furthermore, the generalizability of the results is constrained by the geographical and socio-economic specificities of the Sumbawa Regency; MSMEs in more urbanized or digitally integrated regions may exhibit different strategic dynamics. Theoretically, while the model demonstrates robust explanatory power, the unexamined variance suggests that other significant mechanisms remain unexplored.

To address these limitations, future research should employ longitudinal methodologies to track how competitive advantage and MSME performance evolve in response to sustained strategic orientations over time. Furthermore, subsequent studies should expand the theoretical framework by incorporating variables that reflect the contemporary business landscape. Investigating the moderating or mediating roles of digital orientation, technology adoption, and strategic networking capabilities would be highly beneficial. Understanding how digital business integration—a critical frontier for modern MSMEs—interacts with traditional market and entrepreneurial orientations will provide a more holistic and applicable model for fostering resilience and competitiveness in the digital era.

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