Entrepreneurial Orientation Towards MSME Performance: Role of Resource Dimensions

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Abstract

The effect of innovativeness, proactiveness, and risk-taking on firm performance was researched. Previous studies had shown that Indonesian MSMEs had problems with resources, especially access to finance and managerial skills. This study included the availability of financial resources and flexibility of resources as moderating variables. Purposive sampling method is used to collect data from 149 microenterprise owners in the "Tangan Di Atas" (TDA) community in Indonesia. SEM-PLS was used to analyse the data. Innovativeness and proactiveness were found to have a positive effect on firm performance. In addition, resource flexibility moderated the relationship between innovativeness and performance. Risk-taking variable showed a positive relationship with firm performance only in the presence of financial resources as moderators. This study serves as a reference for MSMEs actors in choosing strategic orientation to improve businesses' sustainability by adding empirical evidence on multidimensional EO and resource constraints on microenterprises in Indonesia, which is the pillar of the Indonesian economy.

Keyword: Entrepreneurship Orientation; Innovation; Proactiveness; Risk-Taking; Firm Performance; Micro Enterprise; Financial Resource Availability; Resource Flexibility

1. Introduction

Micro and small enterprises (MSME) play a vital role in many developing economies by being the backbone of social-economic progress amidst weak institutions, fragile business environments, socioeconomic complexity, unemployment, and low per-capita income (Banwo, Du, & Onokala, 2017). According to The Coordinating Ministry for Economic Affairs of the Republic of Indonesia (2022), MSME account for 99 per cent of enterprises in Indonesia and contribute to 61.07 per cent of the Indonesian national economy. With a large contribution to the national economy, the continued existence and sustainability of MSME have become Indonesia's economic development goals.

The volatile business environment requires entrepreneurs to be more adept at identifying entrepreneurial opportunities as they drive to develop and create sustainable businesses. These opportunities can give them the capital to sustain or expand their business. Firms that possess Entrepreneurial Orientation (EO) are more likely to survive and outperform their competitors, even with relatively limited resources and capabilities (Beliaeva, Shirokova, Wales, & Gafforova, 2020). Oladimeji, Eze, and Akanni (2019) have suggested poor performances result from a lack of EO dimensions (proactiveness, innovativeness, and risk-taking), businesses are therefore obliged to investigate proactive and risk-taking initiatives to seize opportunities in these disruptive and dynamic market settings.

Though widely theorized to increase competitive advantage, pursuing EO dimensions is not cheap. For example, MSME might find it difficult to innovate without sufficient access to finance, as a study has shown financial resources as the main challenge to product innovation (Carvache-Franco, Carvache-Franco, & Carvache-Franco, 2022). Easy access to financial resources can contribute to firm performance, and decision-makers' ability to make these external financial resources available is highly favorable. This research will also explore resources and capabilities complementary to strategic orientation as mediators.

Few studies have shown the effect of EO's dynamic capabilities on helping organizations reconfigure resource bases based on their orientation. In realizing their strategic position in the market, firms use valuable, rare, and inimitable resources (VRIO) to differentiate their products and services and beat competitors. EO manages the configuration, which entails management capabilities to respond to their specific resource allocation capabilities. Thus, this research will configure the role of resource flexibility as a moderator between EO and firm performances in Indonesia's MSMEs. This paper will elaborate on the moderating role of resource dimensions, such as financial resource availability and resource flexibility, as part of the Resource-Based View Theory (RBVT).

This study advances our comprehension of microbusinesses' strategic behavior during the economic recovery period and fills several gaps in the earlier literature. First, while EO has been a mainstream research topic and is attributed as an important driver of firms' performance, the majority of entrepreneurial orientation towards performance research focuses on EO as a whole rather than its dimension (Kreiser & Davis, 2010). Early EO research in Indonesia refers to studies from developed countries and is subjected to larger enterprises. Huang, Huang, and Soetanto (2023) recommend breaking down the EO dimensions because they lead to varying firm performance outcomes depending on the configurations used in

various firm contexts. In addition, compared to small, medium, and large enterprises, microenterprises might not be able to implement strategic EO as a whole and resort to implementing only parts of EO as a resource-saving effort.

Second, the use of finance-related variables has not been widely explored to see how these factors can strengthen or weaken the strategic EO implementation. Studies have suggested the future importance of developing moderators to explore an alternative model for EO and firm performance's relationship (Lumpkin & Dess, 1996) in a volatile industry where customer taste and digitalization disrupt quickly, in particular to gain advantage from entrepreneurial initiatives. Thus, using the moderating effect of financial resource capability and resource flexibility, the researcher will investigate the relationship between firms' performance as a dependent variable and their entrepreneurial orientation as an independent variable.

Overall, this research will raise an important issue on strategic entrepreneurial behavior and help advance how Indonesian firms utilize the economic recovery momentum to further grow their businesses.

2. Literature Review

2.1 Firm Performance

All firms strive to have superior performance. But reaching high performance is not an easy feat, as various efforts and finding the strategies require a tedious process of finding the right efficiency and effectiveness for resources and capabilities. In addition, given the lack of agreement among the factors influencing performance, conceptualizing, and measuring it can be challenging.

Venkatraman and Ramanujam (1986) define firm performance as the firm's capacity to achieve its goals and performance, including both financial and non-financial measures. Smaller firms tend to highlight financial performance as it is easier to quantify the "hard" line measures (Khan, Salamzadeh, Kawamorita, & Rethi, 2021). Quantifiable measures are more concrete in measuring small firm success. especially growth as an economic performance to measure sustainability and development of firms (Rafiki, Nasution, Rossanty, & Sari, 2023). Thus, two sets of growth indicators are used—namely, the sales and profit indicators for growth. While the last indicator measures the overall financial performance of the firms.

2.2 Entrepreneurial Orientation

EO is the basis of an organizational strategy-making mode and pushes businesses to take part in novel and exploratory processes. It involves the business's proclivity to take novel actions, explore risky ventures, or take preemptive measures of improvement for their firm to gain a competitive advantage over their competitors.

The initial EO study authors defined it as the practices, structures, and behavior of companies that stand out for being innovative, proactive, and willing to take risks (Covin & Slevin, 1988). Meanwhile, Lumpkin and Dess (1996) define entrepreneurial orientation as the process of strategy-making, which builds the basis for organizations to make entrepreneurial decisions and actions. EO entails the identification and exploitation of new opportunities to achieve a competitive advantage over competitors.

Research suggests EO dimensions are among the key points that lead to the successful development of new products and high financial business performance (Khan et al., 2021). As sub-dimensions, risk-taking, innovation, and proactivity are regarded as crucial and contribute similarly to the firm's overall level of EO in every circumstance (Vitale et al., 2003; Lumpkin & Dess, 1996; Hakala, 2011).

Lumpkin and Dess (1996) further suggest the contingency of studying EO through its dimension, as it can result in different outcomes, as different dimensions of EO can either help improve or impair performance.

2.3 Innovativeness

Lumpkin and Dess (1996) characterized it as a business inclination to engage in and promote experimentation, creativity, innovation, and new ideas that may result in the creation of innovative products, services, or technological breakthroughs. Innovativeness is highly correlated with the research and development function, as in practical use, innovativeness engages firms with creative ways to improve products, systems, and processes through creative means. Innovativeness variable is indicated by I.

2.4 Proactiveness

Wales (2016) defines proactiveness as a propensity to actively look for new business opportunities and address any threats or issues before they arise. An organization that takes an opportunity-seeking stance is considered proactive. Proactive firms position themselves as leaders and/or fast-followers by taking action ahead of changing consumer demands and are frequently the first to enter new markets as an effort to be the first movers. Proactiveness variable is indicated by P.

2.5 Risk-taking

According to Miller (1983), risk-taking refers to the propensity to act boldly rather than cautiously. This type of firm was able to go beyond its face value and take the risky opportunity to yield better results in the future. Miller and Friesen (1983) defined risk-taking as the degree to which managers are prepared to commit significant and uncertain resources with a plausible possibility of expensive failure. This is known as risk-taking. Risk taking variable is indicated by RT.

2.6 Financial resource availability

Financial resource availability (indicated as FA) is the accessibility and obtainability of funds or monetary assets that individuals or organizations can utilize to meet their financial needs and obligations. Adomako and Ahsan (2022) define financial resource flexibility as the availability of financial capital or the ease with which financial capital can be obtained. It is concerned with the accessibility of capital, liquidity, or financial resources that can be used for various purposes such as investments, operations, expansion, debt repayment, or funding day-to-day expenses. It enables businesses to invest, expand, and sustain their operations effectively, allowing for the exploration of new opportunities while not diverting resources

from existing product markets and permitting the investigation of novel prospects while preserving resources in the current product markets (Boso, Cadogan, & Story, 2012).

2.7 Resource Flexibility

Resource flexibility (indicated as RF) is defined as the extent to which a company's resources can be used for multiple purposes with little to no difficulty (Sanchez, 1995). In practice, resource flexibility is theorized to allow businesses to hedge against future uncertainty (Sethi & Sethi, 1990). Meanwhile, a study by Combs, Ketchen, Ireland, and Webb (2011) found that resource flexibility enables companies to use resources for a range of purposes, such as breaking into new markets.

2.8 Hypothesis Development and Theoretical Framework

2.8.1 Innovativeness and Firm Performance

Innovativeness is a strategic element for smaller firms to compete by leveraging innovative ideas to achieve superior business performance (Lumpkin & Dess, 1996; Runyan et al., 2006). Innovative activities are essential for stimulating and accelerating the development of unobserved and innovative business methods, identifying new challenges, and practicing new business mechanisms as well as technologies (Runyan, Huddleston, & Swinney, 2006). By continuously innovating and adapting, firms can enhance their market share, profitability, and overall performance.

Studies have consistently discovered positive correlations between innovation and firm performance across various industries and contexts (Rahaman, Fatema, Lin, and Saiyedul, 2021; Wang and Juan, 2016; Zahra and Bogner, 2000). Hence, the hypothesis posits:

H_{1a}: *Innovativeness orientation is positively related to MSME performance.*

2.8.2 Proactiveness and Firm Performance

Proactiveness is the tendency to be dynamic in finding new chances for the firm and handling any pressure from problems before they grow. Indeed, a study by Rahaman *et al*. (2021) posits that the key to sustainable business lies in adapting and responding to change. Hence, organizations that exhibit proactive behaviors are more likely to achieve higher levels of competitiveness, growth, and profitability in their respective industries. Proactive organizations thus anticipate and shape their desired future rather than relying on external forces to dictate their direction (Covin & Slevin, 1989; Wiklund & Shepherd, 2005).

A recent study demonstrates a strong and positive correlation between proactivity and performance (Jalali & Jaafar, 2019; Kiss, Cortes, & Herrmann 2022). Rafiki et al. (2021) suggest a positive relationship between proactiveness and firm growth. This solidifies the study from Lumpkin and Dess (1996) which found positive associations between proactiveness and performance. Thus, the following hypothesis was made:

H_{1b}: *Proactive orientation is positively related to MSME performance.*

2.8.3 Risk Taking and Firm Performance

Risk-taking and entrepreneurship are intertwined, as entrepreneurs are risk-takers by nature. Findings suggest that firms with a certain degree of risk-taking can outperform those with high or very low risk-taking (Kreiser & Davis, 2010). Risk-taking is a pathway to new opportunities and progress. Entrepreneurs can establish themselves as leaders in their respective industries when they are willing to take risks that their competitors are not (Rahaman et al., 2021).

A study suggests risk-taking has a linear relationship with performance, where the positive effect of risk-taking only manifests until a certain point (Begley & Boyd, 1987, p. 89). Other studies have found positive relation (Tsai & Luan, 2016), while others found negative relation (Naldi, Nordqvist, Sjöberg, & Johan, 2007). Thus, the following hypothesis was made:

H_{1c}: Risk-taking orientation is positively related to MSME Performance.

2.8.4 Financial Resource Availability as A Moderator between EO and Firm Performance

The availability of financial resources allows businesses to pursue various strategic orientations or initiatives. Small and medium-sized enterprises (SMEs) have easy access to external resources, which greatly supports their growth (Wiklund and Shepherd, 2011). Previous research indicates that performance (namely financial performance) can be enhanced through financial access (Khan et al., 2021; Lo, Ramos, & Rogo, 2017). Meanwhile, a study by Eggers, Kraus, Hughes, Laraway, and Snycerski (2013) suggests EO practices need financial resources. Firms operating in resource-rich environments have ample resources and opportunities, which facilitate the implementation of their strategic initiatives (Kreiser & Davis, 2010). Thus, the environment in which they realize strategic orientation becomes favorable, firms can experience a relatively smooth acquisition of resources required to achieve organizational goals, and they handle less rivalry, leading to increased firm resilience and performance.

Studies have suggested difficulties in accessing and effectively using financial resources as limiting factors in the innovative process (Claudino, Santos, Cabral, & Pessoa, 2017; Xie & Zeng, 2013). Financial resources enable firms to sustain innovation efforts over time and withstand potential setbacks during the innovation process. Thus, the following hypothesis was made:

H_{2a}: The relationship between risk-taking to MSME performance is positively moderated by financial resource availability.

Sufficient financial resources ensured the development and expansion process and helped the company's resilience (Grozdanovska, Bojkovska, & Jankulovski, 2017). Financial resources facilitate proactiveness by allowing firms to invest in new markets, expand product and service offerings, or respond to emerging trends. Whether entering new markets, establishing strategic partnerships, or undertaking aggressive marketing campaigns, financial resources allow firms to capitalize on proactive initiatives, gaining a competitive edge and enhancing firm performance. Thus, the following hypothesis was made:

H_{2b}: The relationship between proactiveness to MSME performance is positively moderated by financial resource availability.

A study by De Clercq, Lim, and Oh (2013) found that firms with better financial resources were more inclined to engage in entrepreneurial risk-taking. These findings underscore the crucial role of financial resources in enabling firms to embrace and pursue risk-taking activities, ultimately shaping their competitive strategies and performance. Thus, the following hypothesis was made:

H2c: The relationship between risk-taking to MSME performance is positively moderated by financial resource availability.

2.8.5 Resource Flexibility as A Moderator between EO and Firm Performance

Wales, Kraus, Filser, Stöckmann, and Covin (2021) explained that EO, as a skill, helps organizations reconfigure their resource bases into new productive combinations. According to Combs *et al*. (2011), rigid resources are tailored for specific tasks, whereas flexible resources offer versatility for new and distinct endeavors. Resource flexibility, as described by Combs *et al*. (2011), denotes the capacity of a resource to serve a broader array of purposes, enabling firms to transition their resources from one use to another more effortlessly. This enables firms to allocate and reallocate their resources in response to changing market conditions and opportunities. Firms with flexible resources may be motivated to apply their resources to various activities and opportunities (Adomako & Ahsan, 2022). When resource flexibility is high, it allows firms to adapt quickly to environmental changes, exploit new opportunities, and effectively utilize their entrepreneurial orientation. By figuring out how to effectively utilize their potential, resource flexibility lowers the likelihood of financial failure, which mitigates the underinvestment issue (Chod & Zhou, 2012).

Research by Zahra and George (2002) highlights the positive relationship between resource configuration and innovation, emphasizing that firms with greater resource flexibility are better equipped to pursue innovative actions. With that, the following hypothesis was made:

H_{3a}: The relationship between Innovativeness to MSME performance is positively moderated by resource flexibility.

Research by Eisenhardt and Martin (2000) suggests that resource configuration facilitates organizational learning and the development of dynamic capabilities, which are essential for effective long-term planning. These findings underscore the significance of resource flexibility in fostering a proactive orientation, enabling organizations to anticipate and seize opportunities proactively. Thus, the following hypothesis was made:

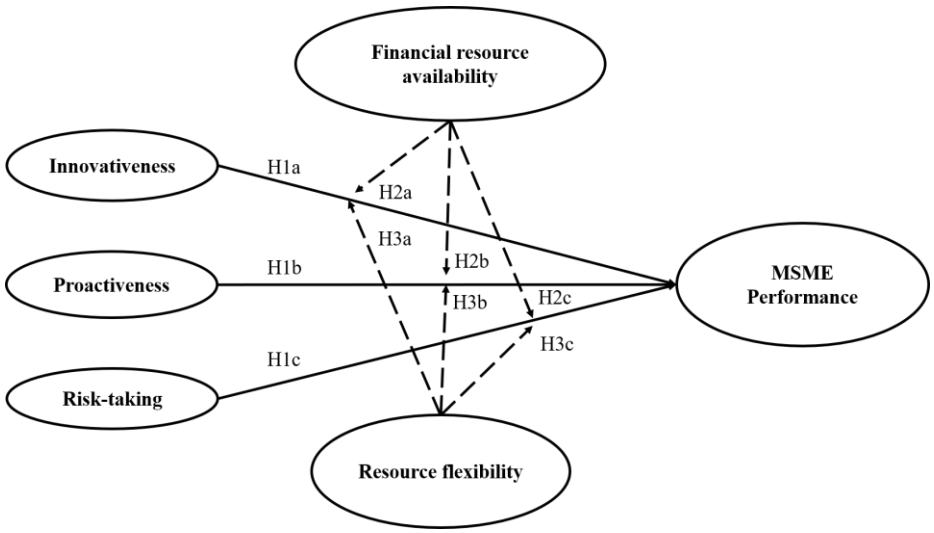
H_{3b}: The relationship between proactiveness to MSME performance is positively moderated by resource flexibility.

McGrath (1999) suggests that resource allocation that encourages experimentation and learning creates an environment conducive to risk-taking. Resource flexibility allows valuable resources to be diverted into new ventures (Adomako & Ahsan, 2022). By aligning resources to support entrepreneurial activities, firms are better equipped to assess and pursue potentially rewarding opportunities, even in the face of uncertainty. With that, the following hypothesis was made:

H_{3c}: The relationship between risk-taking to MSME performance is positively moderated by resource flexibility.

The conceptual framework can be seen in Figure 1. The framework's model was adapted from a research article by Beliaeva et al. (2020) by adding the resource flexibility moderating variable from Adomako and Ahsan (2022) and by dissecting the EO dimension variable as proposed by Kreiser and Davis (2010) in the "EO-environment-structure-performance" model.

Figure 1. Conceptual Model



Source: Kreiser and Davis (2010), Adomako and Ahsan (2022) and Beliaeva et al. (2020)

3. Material and Method

3.1 Questionnaire Development

With extensive review of literature, it was made sure that the questionnaire used for the data collection is easily understandable and relatable to the Indonesian micro-entrepreneurs. The review and trials resulted in the development of 23 main questions with Likert scale as a measurement item. Researchers adopt the one to five (1-5) Likert scale being the level of agreement, with 1 for 'strongly disagree' and 5 for 'strongly disagree'. The initial questionnaire was written in English. The researcher, whose native language is Indonesian, translated it into Indonesian.

To check the face validity before pre-testing, a wording test was held with five individuals. These individuals are owners of microenterprises, are native Indonesian, and are not experts in testing methodologies to check whether the questionnaire items are comprehensive. Finally, the pretest is held with a small sample of 30 respondents to check the proper validity and reliability. Based on the pre-test, some question items are changed to increase the understandability. Table 1 lists items in each construct.

Table 1. Questionnaire Items

Indicators	Items	Reference
I1	My business regularly launches new products	Rafiki *et al*. (2023)
12	The products offered by my business are expanding.	
13	My business is often the first to market new products and services.	Eggers et al. (2013)
P1	My business is ready to expand into new markets and areas	Rafiki *et al*. (2023)
P2	My business is ready to develop new products and renewable technologies	
P3	My business is ready to adopt good business practices or products	
RT1	My business dares to face business risks.	Rafiki *et al*. (2023)
RT2	Products offered are oriented towards business objectives.	
RT3	I am wary of making risky investments to stimulate business growth.	Eggers et al. (2013);
FA1	I am satisfied with the financial capital available for the business operations.	Filser et al. (2014); Beliaeva et al. (2020);
FA2	My business has easy access to financial capital to support its business operations.	Adomako and Ahsan (2022)
FA3	If my business needs more financial assistance for our business operations, I can easily obtain it	
FA4	My business operations are better financed than our key competitors' operations.	
FA5	I am able to obtain financial resources at short notice to support business operations.	
RF1	The main resources are widely used in product development, manufacturing, sales, etc.	Adomako and Ahsan, (2022)
RF2	There is difficulty in switching from one use of the main resources to an alternative use is low.	
RF3	Time of switching from one use of the main resources to an alternative is low	
RF4	Cost of switching from one use of the main resources to an alternative is high	
FP1	In the last three years, my business has experienced an increase in revenue	Rafiki *et al*. (2023)
FP2	In the last three years, my business has experienced an increase in sales.	Adomako and Ahsan (2022)
FP3	My business has achieved overall financial success	

3.2 Sample and Data Collection

The questionnaire will be divided into screening, respondent profile, and the main research questionnaire. The screening stage confirm the eligibility of the respondents by setting criterion questions. Meanwhile, the respondent's profiles are aimed at gaining the respondent's background as purposive sampling was utilized to enable the researcher to gather samples based on relevant criteria. During this part, the question will determine whether the respondents are owners of micro-enterprises in Indonesia.

Tangan Di Atas Community (TDAC) is chosen as a population as they are one of the largest communities of entrepreneurs in Indonesia with active microenterprise's owners as their members. Criteria for respondents include being a microenterprise owner from Indonesia, a member of TDAC, and have operated their business for at least three years. The researcher collected 179 data points, of which only 149 are usable.

3.3 Analytical Method

This statistical method used to measure the multiple independent and a dependent variable is structural equation modelling (or SEM). The SEM variance used in this research is partial least squares (PLS). Regarding to research context, Manley, Hair, Williams, and McDowell (2021) have suggested Partial Least Squares – Structural Equation Modelling (PLS-SEM) as a familiar and advantageous statistical tool in entrepreneurship research. Meanwhile in criteria, the application of PLS-SEM has several applicable criteria, namely: (1) It does not require specific assumption on the distribution to estimate the parameter, (2) the structural model has some complexities and includes constructs with several indicators, (3) sample size is small.

For the tools to measure the PLS-SEM, the researcher will use SmartPLS 4.0.94, a user-friendly statistical tool that is still powerful and gives the best result visualisation. In addition, SmartPLS is a sufficient tool for moderation effect, as it applies two stage approach of latent variable scores of the latent predictor and latent moderator variable from the main effects model (without the interaction term).

4. Result

4.1 Reliability and Validity

In convergent validity testing, the recommended outer loading is > 0.7. The outer loading has fulfilled the recommended threshold, except for two indicators, FA1 (0.643) and FA2 (0.681), which can be retained due to having a valid composite reliability and AVE, are greater than 0.5. Thus, all the indicators are kept to keep content validity.

Under internal consistency testing, both the Cronbach's alpha and the composite reliability (*cr*) values must be > 0.7. The Cronbach's alpha and *cr* values have reached the minimum criteria. The lowest, in particular, are among the items of innovativeness (0.753, *cr* = 0.767) and the highest among risk-taking (0.836, *cr* = 0.879). All variables have exceeded the threshold, are reliable, and have adequate measurement.

The outcome is shown in Table 2. The structural (or outer) model has good convergent validity and performed as expected. In addition, the occurrence of all the resulting factor-level

VIFs has values < 3.3 (as the highest is FP1 = 2.236) and is thus considered free of common method bias.

Table 2. Factor Loadings and Latent Variable Coefficient

Item	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE	VIF
I1	0.869	0.753	0.767	0.671	1.786
I2	0.845				1.775
I3	0.737				1.302
P1	0.816	0.792	0.810	0.706	1.576
P2	0.888				1.881
P3	0.813				1.664
RT1	0.900	0.836	0.879	0.750	1.946
RT2	0.854				1.898
RT3	0.842				2.016
FA1	0.643	0.834	0.854	0.584	1.730
FA2	0.681				1.723
FA3	0.852				2.162
FA4	0.787				1.738
FA5	0.833				1.747
RF1	0.806	0.827	0.837	0.658	1.887
RF2	0.757				1.626
RF3	0.830				1.814
RF4	0.848				2.023
FP1	0.895	0.803	0.810	0.719	2.236
FP2	0.865				2.010
FP3	0.780				1.786

The square root of AVE is represented by the Fornell-Larcker criterion technique. It's correlation with its own variable needs to be bigger than the correlation value with the other latent variables.

Table 3 shows that the AVE square root values result in innovativeness (0.819), proactiveness (0.850), risk-taking (0.866), financial resource availability (0.764), resource flexibility (0.811), and firm performance (0.848). All are bigger than their correlation to other

variables. The result suggests each construct is distinct and does not overlap with the other variable.

Table 2. Discriminant Validity Using Fornell-Larcker Test Results

Construct	I	P	RT	FA	RF	FP
I	**0.81**					
P	0.30	**0.85**				
RT	0.12	0.01	**0.86**			
FA	0.12	0.13	-0.07	**0.76**		
RF	0.29	0.53	0.13	0.16	**0.81**	
FP	0.65	0.33	0.13	0.24	0.27	**0.84**

4.2 Descriptive Statistics

Descriptive analysis in Table 1 shows Innovativeness and Risk-Taking EO, Financial Resource Availability, Resource Flexibility and Firm Performance to have high mean category. Meanwhile, variable Proactiveness EO stands out among the rest, with a very high mean category.

Table 3. Descriptive Analysis of Variables

Variables	Mean	Category
Innovativeness	4.10	High
Proactiveness	4.24	Very high
Risk-Taking	4.19	High
Financial Resource Availability	3.78	High
Resource Flexibility	4.03	High
Firm Performance	4.01	High

The vast majority of those polled are male (55.71 per cent). In terms of educational background, most of the respondents hold a diploma or graduate degree (49.66 per cent). A high percentage of the respondents established businesses in Java (75.5 per cent), which is the most populated island in Indonesia. The majority have established their businesses for 5–10 years and have revenue below Rp10 million.

4.3 Inner Model Analysis

A structural model (the inner model) assessment was carried out to measure the relationship between construct variables by looking at the size of R^2. The test is conducted using the bootstrapping method with 1000 iterations. The result for inner model analysis can

be seen on Table 5.

Table 4. Path Coefficient Results

	Original sample	***T*-stat**	***p***
Direct Effects			
H_{1a}: Innovativeness	0.482	5.780	0.000
H_{1b}: Proactiveness	0.176	2.450	0.007
H_{1c}: Risk-taking	0.091	1.321	0.093
Financial resource availability	0.178	2.551	0.005
Resource Flexibility	0.091	1.321	0.093
Moderating Effects			
H_{2a}: FAxI	-0.071	0.831	0.203
H_{2b}: FAxP	-0.048	0.806	0.210
H_{2c}: FAxRT	0.231	2.687	0.004
H_{3a}: RFxI	0.342	3.224	0.001
H_{3b}: RFxP	0.008	0.116	0.454
H_{3c}: RFxRT	-0.108	1.621	0.053
Model Fit	R^2	R^2 **Adj.**	**SRMR**
Firm Performance	62.5 per cent	58.2 per cent	0.071

The results of the R^2 test show the variation change of the independent variable toward the dependent variable is 0.625, and is classified as having a moderate level of predicting accuracy. The data is processed to prove the significance path coefficient test with a significance level of 0.05 (95 per cent significance) and a one-tailed type. The variable is significant if the *T*-value resulting from the influence of the independent variable on the dependent variable is ≥ 1.645 for the positive influence hypothesis.

The coefficient path result (Table 5) displays all the direct relationship effects of the coefficient path obtained, which are:

- Innovativeness EO has a path coefficient result of 0.482 and a significant *p*-value of 0.000, less than 0.05. Thus, Innovativeness EO has a positive effect on Firm Performance (FP).

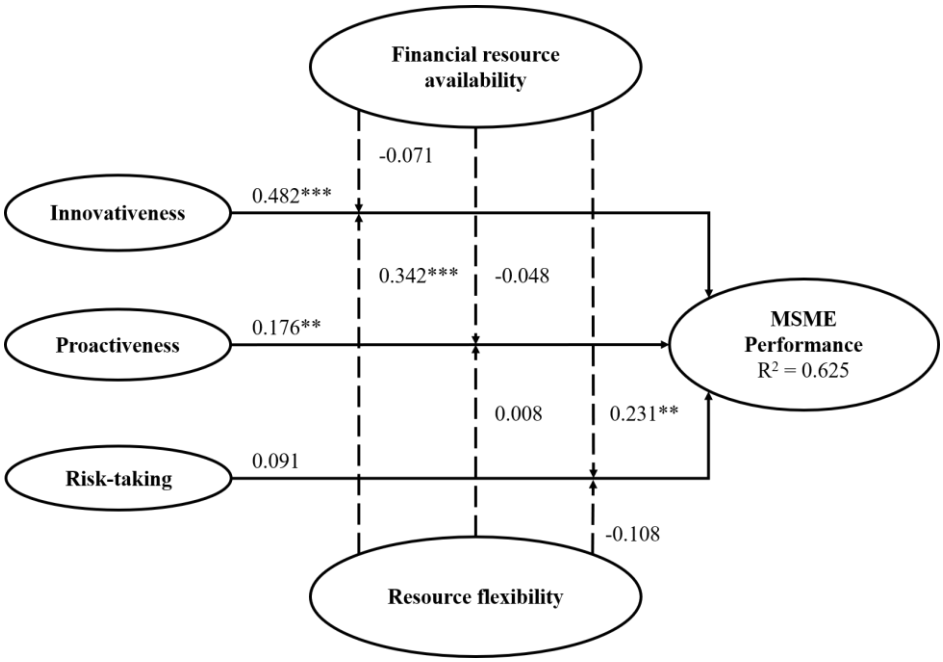
- Proactiveness EO has a path coefficient result of 0.176 and a significant *p*-value of 0.007, less than 0.05. Thus, Proactiveness EO has a positive effect on FP.
- Risk-Taking EO has a path coefficient result of 0.091 and a *p*-value of 0.093, greater than 0.05, thus is Risk-Taking EO on FP is not statistically significant.

The moderating effects obtained (from Table 5) are:

- Financial Resource Availability (FA) insignificantly affects Innovativeness EO to FP relationship with a *p*-value of 0.203 > 0.05. FA insignificantly moderates the relationship between Innovativeness EO and FP.
- Financial Resource Availability (FA) insignificantly affects Proactiveness EO to FP relationship with a *p*-value of 0.210 > 0.05. FA insignificantly moderates the relationship between Proactiveness (EO) and FP.
- Financial Resource Availability (FA) significantly affects Risk-Taking EO to FP relationship with a *p*-value of 0.001 < 0.05. In other words, FA significantly moderates the relationship between Risk-Taking EO and FP.
- Resource Flexibility (RF) significantly affects Innovativeness EO to FP relationship with a *p*-value of 0.001 < 0.05. In other words, RF significantly moderates the relationship between Innovativeness (EO) and FP.
- Resource Flexibility (RF) insignificantly affects Proactiveness EO to FP relationship with a *p*-value of 0.454 > 0.05. FA insignificantly moderates the relationship between Proactiveness EO and FP.
- Resource Flexibility (RF) insignificantly affects Risk-Taking EO to FP relationship with a *p*-value of 0.053 > 0.05. FA insignificantly moderates the relationship between Risk-Taking EO and FP.

The Path Coefficient test results above is summarized in Figure 2.

Figure 2. Path Coefficient Test Results



Note: ******Sig.* $p < 0.001$; ** $p < 0.01$; * $p < 0.05$

The relationship effect is strongest between innovativeness and MSME firm performance, which is positive and significant (0.482). It is followed by the relationship between innovativeness and MSME firm performance, which is moderated by resource flexibility (0.342). While risk-taking and performance are not significant, financial resource availability was able to moderate their relationship (0.231). Lastly, a positive path coefficient is also apparent for proactiveness and MSME firm performance (0.176).

5. Discussion

The current trend in entrepreneurial orientation studies in emerging economies has shown some significant differences from those in developed countries (Saha, Kumar, Dutta, & Tiwari, 2021). Enhancing the knowledge of EO can give pragmatic advice to MSME practitioners in Indonesia, as several EO can foster growth mainly in newly established or smaller firms, which is frequent in Indonesia. While much research has found a positive relationship between EO and firm performance, this study explores different approaches and findings from previous studies on EO and firm performance in Indonesia.

The majority of EO research considered EO to be a one-dimensional construct (Lita, Faisal, & Meuthia, 2020; Rachmawati, Suliyanto, & Suroso, 2022), while only a few treated EO as its three-dimensional construct (Rafiki et al., 2023). The current study extends the dimensional EO research to firm performance by adding the influence of EO dimensions. In addition, none tested the effect of dimensional EO on a sample of microenterprises, only small to medium-sized enterprises. There are also regulatory changes that define a new classification of microenterprises; thus, MSME research requires an update. This study helps to improve understanding and knowledge of the EO concept in emerging economies. The purpose of this

research is to look into the level of true EO dimensions proposed by Miller (1983) in relation to quantifiable financial metrics and to identify the moderating effects of the financial resource dimension and capacity on the link between EO and business performance.

The result finds innovativeness EO to be positively related to firm performance, consistent with studies by Yen and Wang (2012), Fadda (2016), and Rafiki et al. (2021). Firms that demonstrate innovativeness can be creative, original, and resourceful and use knowledge to create or improve products, services, and processes, which can improve unique selling propositions and financial performance. This manifestation of innovative EO was said to be more prevalent in small and agile firms, which, in microenterprise cases, have the advantage of centralized decision-making (Candra, Wiratama, Rahmadi & Cahyadi, 2022). Innovation was thought to be significantly moderated by the number of financial resources available. But the result suggests otherwise, as the sense of abundance in financial resources tends to give either a feeling of redundancy to innovate, "fight" for resources, or divert funds and efforts that could be otherwise used in a more efficient way (Bonanno, Ferrando, & Rossi, 2023; Hoegl, Gibbert, & Mazursky, 2008). On the other hand, the moderating variable of resource flexibility was found to significantly affect the innovative EO-firm performance relationship positively, but it is not greater than its direct relationship. The result shows contrasting results to those of Adomako and Ahsan (2022), which suggests that resource flexibility negatively moderates any inventive and experimental passion or capacity that is negatively moderated by resource flexibility. While that resource flexibility enables firms to adapt and reconfigure their resource base to align with innovative strategies, Acar, Tarakci, and Knippenberg (2019) suggest that embracing certain levels of constraint can affect creativity and innovation positively.

The result finds proactiveness EO to be positively related to firm performance, which is consistent with studies by Yen and Wang (2012) and Priyanto and Sandjojo (2005), but a contrasting result to Rafiki et al. (2020). Al Mamun and Fazal (2018) attributed proactiveness to improving enterprise competencies, with firms that manifest proactive measures affecting learning competencies that likely lead to growth and success. Liem, Khuong, and Khanh (2019) suggest that firms that seek to improve performance resort to proactive strategies because proactive behavior represents beliefs and values of being the first to attain better performance. Proactive firms quickly found opportunities and acted on them ahead of future demand. As a result, they may face less fierce competition due to low barriers and desolate markets and is thus be the market trend-setters rather than followers. Proactiveness alone is sufficient for improving firm performance, but with the presence of moderating variables from both financial resource availability and resource flexibility, the result is rendered insignificant.

At last, it was discovered that the direct effect of risk-taking orientation on firm performance is insignificant. This corresponded to a study by Rafiki et al. (2023) and Rauch, Lumpkin, Wiklund, and Frese (2009), which found risk-taking to have an insignificant relationship to firm performance. Even though the descriptive result shows a high level of risk-taking among the respondents (80.3 per cent), the demographic shows a high number of firms over five years old. Meanwhile, research shows risk-taking might be more important or prevalent in new businesses (Kreiser & Davis, 2010; Rafiki et al., 2023). Such as when making initial business loans or investments in their first operation facilities. Aragon-Sanchez and

Sanchez-Marin (2005) suggest that smaller firms' inability to take high-risk, high-return investments makes them slow in return on investment, which ultimately affects their performance. Microenterprise owners become susceptible to risk, and entrepreneurs look for other alternatives to improve their business without taking risks, such as adopting a safer, minimum-risk investment instrument because their main ventures risk their personal livelihoods (Bank of Indonesia, 2015).

The research findings suggest a significant and positive result for risk-taking EO towards performance when moderated by an ample number of financial resources. This can be explained by a study from Bosch-Domènech and Silvestre (2006), who suggest that, by nature, the more a person perceives they have an abundance of financial resources, the more likely they are to have the means to support and fund their risk-taking initiatives. Meanwhile, Bank Indonesia (2015) characterizes microenterprises as having difficulties accessing formal financing. If these financial resources were abundant and coming from external financial resources (such as those not coming from MSME's owners' pockets), MSME might be more daring in taking risks.

Overall, the EO to firm performance in this study suggests adequate strategic orientation that entrepreneurs can implement to achieve a sustainable and growing business. The findings of this study are hoped to enable MSME entrepreneurs to understand how to improve their business performance through entrepreneurial orientation, as well as the importance of financial resource availability and flexibility in fostering this relationship.

6. Conclusion, Implication, and Recommendation

6.1 Conclusions

Entrepreneurial orientation encompasses the innovative, risk-taking, and proactive behaviors exhibited by micro, small, and medium-sized enterprises (MSMEs). It serves as a crucial strategic approach to ensure the longevity and sustainability of businesses, often leading to the development of dynamic capabilities. The findings of this study affirm the tenets of classical theory, aligning with Lumpkin and Dess's (1996) proposition that the dimensions of entrepreneurial orientation may yield diverse outcomes contingent upon the context of performance and moderation variables. In the case of micro-level businesses with relatively young ages, the implementation of entrepreneurial orientation, specifically emphasizing innovativeness and risk-taking, emerges as a strategic imperative for ensuring survivability and prolonged success. Meanwhile for risk-taking, organizations are advised to maintain a robust level of financial resources, recognizing their pivotal role in providing requisite support for ventures characterized by heightened uncertainty. MSME management should also prioritize enhancing the adaptability and reconfiguration of resources to effectively respond to evolving market dynamics and strategic demands. The promotion of resource flexibility emerges as a key strategy for organizations to actively support and enable innovation initiatives.

6.2 Practical Implications

The findings of this study suggest that entrepreneurs, governmental bodies, policymakers, and support institutions in Indonesia should actively promote the development of strategic orientation. In specific terms, the implications encompass:

1. The integration of a strategic business orientation, specifically emphasizing innovativeness or proactiveness, stands as a pivotal measure to secure the longevity and sustainability of a business. Entrepreneurial orientation, in particular, has demonstrated a noteworthy correlation with enhanced firm performance, a relationship particularly pronounced for small-scale enterprises in their nascent stages, which are inherently predisposed to growth.
2. MSME management is urged to exercise prudence in the adoption of a risk-taking orientation. It is imperative to underscore the critical role of substantial financial reservoirs in underpinning ventures characterized by heightened uncertainty and risk. Organizations ought to uphold a robust level of financial resources to furnish essential support for initiatives of this nature. With an ample financial foundation, managers are afforded the assurance needed to systematically pursue innovative strategies, explore new markets, and engage in projects with potentially elevated returns.
3. MSME management is well-advised to place a premium on honing the capacity to adapt and reconfigure resources in tandem with evolving market dynamics and strategic imperatives. The cultivation of resource flexibility not only bolsters organizational agility but also serves as a facilitator for innovation endeavours. This involves fostering cross-functional collaboration, advocating for knowledge exchange, and affording employees' opportunities to delve into novel ideas and experiment with diverse approaches.
4. Rather than offering direct financial aid to smaller firms, the government and support institutions might consider fostering platforms or networks that encourage subtle knowledge exchange and collaboration in the realms of frugal innovation and/or research and development. Training programs, workshops, mentorship initiatives, and networking opportunities could be extended to microlevel businesses, allowing them to enhance their innovation capabilities. This approach avoids excessive reliance on financial incentives and encourages the utilization of existing resources and capabilities in their local context to cultivate an innovative and proactive mindset.

6.3 Recommendations

Research has shown the impact of constrained resources on innovation processes. Instead of providing direct financial assistance to smaller firms, the government and other support institutions can establish platforms or networks that facilitate knowledge sharing and collaboration on the topic of constrained or frugal innovation and research and development. Activities such as training programs, workshops, mentorship, networking, and partnership programs can enhance the innovation capabilities of micro-level businesses without being too

dependent on financial incentives and leverage other resources and capabilities that already exist in their vicinity to manifest an innovative or proactive orientation.

6.4 Further Research

The author realizes this study has deficiencies and limitations. Therefore, future researchers should address the limitations and deficiencies contained in the following research. The following is the author's suggestion that can be considered if further research is carried out:

1. This research focuses on a specific entrepreneurial community in Indonesia with a wide range of industries. Further research should analyze the relationship that happens between the dimensional EO and performance from a more specific group of representatives, especially in terms of the industry-specific implications of the EO dimension.
2. Indicators used for financial resource availability and resource flexibility are broad and only focused on those that are important for MSMEs (Adomako and Ahsan, 2022). Further research should capture a specific resource factor or indicator that is considered critical to the firm's operation.
3. Future researchers could explore other ways to measure EO, such as adding more specific indicators with implications for specific functions or specific performance (research and development performance, sales performance, *et cetera*), to explore how the EO-performance alternative model can yield different results when specific contexts are implemented. Future researchers can also explore it through other methods, such as through qualitative studies carried out to understand and examine variables related to the implementation of EO and the alternative variable more intensively.

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