

Competitive Advantage and Innovation as Mediator of the Influence of Entrepreneurial Orientation on Firm Performance and Business Environment as Moderation of the Influence of Entrepreneurial Orientation on Competition Advantage (Study of Batik Craft SMEs in East Java)

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Abstract: The purpose of this study is to investigate and analyze the relationship between entrepreneurship orientation, competitive advantage, and innovation in relation to company performance, as well as the business environment as a moderating variable. This study's population consists of business players and strategic decision makers in the batik crafts industry, with respondents based in Malang Raya, Tulungagung, Trenggalek, Probolinggo, Surabaya, Sidoarjo, and Bangkalan. SEM with AMOS software and a 5-point Likert scale were employed as the analysis tool. According to the findings of the study, entrepreneurial approach has a considerable effect on competitive advantage and innovation, but not on performance. Entrepreneurial orientation includes being aggressive in competition, being able to take risks by viewing uncertain situations as challenges, being motivated to work in environmentally friendly industries, and prioritizing opportunities for business success over business failure. Performance is significantly influenced by competitive advantage and innovation. Process innovation by business actors efficiently reduces the use of raw materials that generate hazardous waste, also market innovation by promoting items through digital marketing and designing appealing product layouts. The indirect impact demonstrates that competitive advantage mediates the influence of entrepreneurial attitude on performance, whereas innovation does not. The business environment is able to moderate the influence of entrepreneurial orientation on competitive advantage.

Keywords: *Entrepreneurship; Competitive Advantage; Firm Performance; Innovation; Business Environment.*

INTRODUCTION

As a business actor, the SME (Small and Medium Enterprises) sector has been shown to have a positive impact, particularly on local economic growth, job creation, and the ability to enhance people's income. The variety of business disciplines managed by SMEs demonstrates that consumers have a wide range of needs for diverse products and services, one of which is apparel in the form of batik crafts. Various types of batik items are the work of Indonesians that have excellence, attractiveness, high artistic value, and can be used for a variety of reasons, making them well welcomed in domestic and international markets.

In 2022, about 64.5% of Indonesian SMEs will begin to grow, resulting in a considerable rise in sales volume over the Covid-19 epidemic in 2021. On the other hand, approximately 12.5% of SMEs are still struggling as a result of the post-pandemic environment. According to a rapid study survey of the impact of the Covid pandemic on the performance of Indonesian SMEs undertaken by the Institute of Sciences (LIPI), during the pandemic, about

94.6% of SMEs saw a sales decline. Meanwhile, the Ministry of Cooperatives and Small and Medium Enterprises (KemenKopUKM) reported that SMEs in Indonesia faced a number of challenges during the Covid-19 pandemic, including a 56% decrease in sales turnover and a 22% difficulty obtaining financing or credit, 15% of the issues were related to product distribution, and the remaining 4% experienced difficulties in getting raw materials (LIPI, 2020). The role of the government and other parties, such as academics, is critical in efforts to assist SMEs in recovering in the face of adversity, specifically by conducting research with the goal of developing SMEs, taking into account their potential role in improving the national economy and improving community welfare through job creation. Aside from that, it is critical to be able to hold empowerment programs for the SME sector so that intensive management of their resources can have an impact on enhancing performance and competitive advantage (Ansori et al., 2014).

Competition in the business sector is perceived to be fairly strong, particularly among batik craft SMEs, and they have creativity and invention, as evidenced by the range of product variants, colors, and designs that many SMEs have developed to meet consumer demand and market trends. In order to achieve the intended company performance, a strategy that represents competitive advantage is required. One approach is to encourage ownership of an entrepreneurial mindset as a strategy so that SMEs can continue to survive and thrive in the face of business obstacles. Several research findings indicate that entrepreneurial approach has a considerable impact on firm performance (Ullah & Danish, 2020; Kiyabo & Isaga, 2020; Aburuman et al, 2021; Rofiaty, 2022; Soares, 2019). Miller (1983) measured the construct of entrepreneurial orientation using three dimensions: proactiveness, autonomy, and boldness in facing risks.

When a corporation or organization can bring new products, services, technology, markets, or businesses, it is said to be entering a new era; this is an innovation model that did not previously exist (Covin, Wales, & J., 2019). A business person's ability to respond to market trends and competition, consumer demand, and environmental changes is also vital. A successful innovation strategy is one that is in sync with market development trends in terms of products, processes, and others. The greater the strength of the innovation applied, the larger the ability to increase corporate performance (Neely, A., & Hii, J., 1998). In the concept of knowledge-driven growth, an input becomes an investment, resulting in a rise, rather than a drop, in profits. As a result, establishing an innovation plan will have a long-term positive influence on competitive advantage and firm performance.

RBV theory refers to efforts to optimize the capabilities of internal resources for use in developing corporate strategies to achieve optimal performance (Barney, 1991 & Grant 1991). The Resourced-Based View theory is then employed as the primary reference in this research, which claims that organizational resources, including tangible and intangible assets, must be valuable, scarce, unique, difficult to imitate, and cannot be substituted or duplicated. It has a competitive advantage over its competitors or is known as VRIO resources so that business actors have a sustainable competitive advantage (SCA). Competitive advantage is defined as the strategy of producing greater economic value than competitors in order to increase turnover, market share, consumer happiness, and long-term business sustainability. Strategy Differentiated products, market observation, focus on high-value customers, collaboration with partners, customers as assets, supply chain leadership, and information transparency are examples of competitive advantage variables to measure as a strategy to improve superior performance in a business organization (Kiyabo and Isaga, 2020). One of the innovative aspects of this research is the use of the above-mentioned metrics to determine competitive advantage. Meanwhile, another novelty appears in the MSME sector of the batik industry's innovation

strategy, reflected in process innovation using raw materials such as natural coloring derived from leaves, secang wood plant coloring, and others derived from "locally based" environmentally friendly products.

Furthermore, performance is measured not only from the standpoint of business growth, but also from the standpoint of increasing the welfare of SMEs (personal wealth), which is measured by capability in purchasing healthy food, capability in accessing health-care, capability in acquiring shelter, and capability in waste management or called environmentally friendly manufacturing. This is consistent with the findings of other studies that examined the impact of competitive advantage on company performance and found a strong relationship between competitive advantage strategies and firm success (Pratono & Darmaasetiawan, 2019; Kiyabo & Isaga, 2020).

THEORETICAL FRAMEWORK AND HYPOTHESIS

1. Entrepreneurial Orientation and Firm Performance

Entrepreneurship has the potential to be a "driving force" in the improvement of the firm performance (Rofiaty, 2019). Entrepreneurship allows businesses to discover/develop environmentally friendly practices, methods, or technology in order to boost production efficiency while minimizing environmental damage (Shafique et al., 2020). Entrepreneurship predicts firm performance in terms of profitability, growth, and competitive advantage (Ullah & Danish, 2020). In general, entrepreneurial orientation refers to a long-term activity that aims to improve inventive capabilities, manage risks, make better use of resources, and create value in order to maintain customers and company interests (Rofiaty, 2019). Entrepreneurial orientation, according to Lumpkin and Dess (1996), is the strategic talents and attitudes of an entrepreneur that lead to company decisions. In the meantime, Fairouz (2010) describes entrepreneurial orientation as a strategic orientation that displays proactiveness, innovation, and the bravery to take chances, all of which are critical for organizational growth and performance.

Meanwhile, performance is a description of the amount of achievement of a program or policy in attaining the organization's goals, vision, and mission as expressed in its business strategy planning (Wibowo, 2017). Several metrics can be used to assess performance, including sales, sales growth rate, cash flow, operational net profit, rate of return on investment, and the organization's ability to capitalize/finance business expansion interests from profits earned.

Several prior research have shown that there is a positive relationship between entrepreneurial orientation and firm performance. Entrepreneurial orientation improves business success (Rofiaty, 2019; Alvarez Torres et al., 2019; Mozumdar and Islam, 2022; Kiyabo and Isaga, 2020). Entrepreneurial approach improves corporate performance (Aftab et al, 2022). Entrepreneurial approach improves firm success (Elidjen et al, 2022); entrepreneurial orientation improves startup performance (Daradkeh and Mansoor 2023). Entrepreneurial orientation correlates directly with business performance (Mozumdar and Islam, 2022).

H1. Entrepreneurial Orientation has a significant effect on Firm Performance

2. Entrepreneurial Orientation and Competitive Advantage

Entrepreneurial orientation refers to a company's strategic orientation as well as its capacity to capture specific market elements as well as decision making, methods, and procedures (Boso et al., 2013). Organizations with a high entrepreneurial orientation demonstrate the bravery to take chances, are innovative, proactive, and compete fiercely and

independently in order to uncover new opportunities and boost competitive advantage and performance (Chen et al., 2011). According to Kiyabo and Isaga (2020), entrepreneurial orientation is measured by proactiveness, risk-taking capacity, courage in taking large risks, and autonomy.

Organizations that have a competitive advantage over their competitors, allowing business people to have a sustainable competitive advantage, or "Sustainable Competitive Advantage (SCA)". Competitive advantage can be manifested in a variety of ways, including distinct products, market observation, collaboration with partners, a focus on high-value customers, customers as assets, information transparency, and supply chain leadership (Rasmawami et al., 2006). Other measures of competitive advantage include pricing, quality, delivery, and product innovation (Wijetunge, 2016).

Several prior studies have shown that entrepreneurial approach improves competitive advantage (Kiyabo & Isaga, 2020). Product differentiation, market sensing, and market responsiveness are measures of competitive advantage (Rasmawami et al., 2006; Kiyabo & Isaga, 2020).

H2. Entrepreneurial Orientation has a significant effect on Competitive Advantage

3. Entrepreneurial Orientation and Innovation

Entrepreneurship is associated with decision-making attitudes/behavior, proactiveness, and autonomy. Entrepreneurial orientation enables businesses to take chances and proactively use cutting-edge technology, allowing resources to be used more efficiently in the production of goods (Ullah & Danish, 2020). Entrepreneurship necessitates a variety of business abilities in order to create innovation (Skordoulis et al., 2022).

Conventionally, innovation is described as a fresh breakthrough in the development of new products and services. Innovation is often regarded as a larger notion that addresses the execution of ideas for new products or processes. The process of realizing fresh ideas that differ from prior ways of production is known as innovation. As a result, businesspeople must be able to generate fresh ideas and thoughts by offering unique items and upgrading services that satisfy clients. Entrepreneurial orientation and innovation have a good link, according to research (Daradkeh & Mansoor, 2023; Kiyabo & Isaga, 2020).

H3. Entrepreneurial Orientation has a significant effect on Innovation

4. Competitive Advantage and Firm Performance

Companies get a competitive advantage by differentiating their products, detecting the market, and responding to it (Rasmawami et al., 2006; Kiyabo & Isaga, 2020). Market responsiveness refers to tactics implemented by batik SMEs to match market demand in terms of batik patterns, colors, fabric types, and so on. According to Bastian (2001), company performance is the accomplishment of management's efforts in allocating resources economically and in relation to financial and non-financial problems. Competitive advantage promotes SME performance positively (Thaweepaiboonwong and Wongsansukcharoen, 2023).

H4. Competitive Advantage has a significant effect on Firm Performance

5. Innovation and Firm Performance

The greater the SMEs' innovation approach, the better their firm performance will be. Ferreira et al. (2020) discovered that the components of the Innovation Capability (product

innovation, process innovation, marketing innovation, service innovation, and administrative innovation) have a substantial influence on SME success. Thaweepaiboonwong and Wongsansukcharoen's (2023) research discovered that innovation competence has a beneficial effect on SME performance.

H5. Innovation has a significant effect on Firm Performance

6. Competitive Advantage, Entrepreneurial Orientation and Firm Performance

Entrepreneurial orientation has a considerable favorable impact on company performance, which is mediated via competitive advantage (Kiyabo & Isaga, 2020). Competitive advantage moderates the larger influence of entrepreneurial orientation on company performance. This hypothesis is proposed to demonstrate the role of competitive advantage as a mediating variable that can act as full mediation, partial mediation, or even be incapable of mediating. The positive association between the independent variable and the mediating variable, as well as the mediating variable and the dependent variable, demonstrates the function of competitive advantage in mediating the relationship between entrepreneurial orientation and business performance (Kiyabo & Isaga, 2020). Elgarhy and Shouk (2022) propose that sustainable competitive advantage is a partial mediator between the antecedents of SCA (entrepreneurial orientation, market competence, innovation capability, and market innovation) and market performance.

H6. Competitive Advantage mediates the influence of Entrepreneurial Orientation on Firm Performance

7. Innovation, Entrepreneurial Orientation, and Firm Performance

Entrepreneurial orientation improves organizational performance through innovation (Soares and Perin, 2019). The larger influence of entrepreneurial orientation on business success is mediated by innovation. This hypothesis is proposed to demonstrate the role of innovation as a mediating variable that can act as full mediation, partial mediation, or even be unable to mediate. According to Ullah and Danish (2020), the positive association between the independent variable and the mediating variable and the mediating variable and the dependent variable demonstrates the mediating role of innovation between entrepreneurship orientation and company performance.

H7. Innovation mediates the influence of Entrepreneurial Orientation on Firm Performance

8. Business Environment, Entrepreneurial Orientation, and Competitive Advantage

The role of the business environment is regarded to be able to improve the influence of entrepreneurial orientation on competitive advantage tactics. The VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) model is used to assess the business environment. Business tactics for sustaining a competitive advantage are heavily influenced by dynamic changes in the business environment. The external business environment, in terms of consumers, suppliers, competitors, politics, technology, marketing, and other factors, can influence business decisions and strategies. Changes in the business environment can have an impact on increasing business competitive advantage plans, and if business personnel can use entrepreneurial attitude, they can also assist competitive advantage strategies.

H8. Business Environment moderates the influence of Entrepreneurial Orientation on Competitive Advantage

RESEARCH METHOD

This study is an explanatory study that employs a quantitative technique. The purpose of this study is to illustrate how entrepreneurial orientation, competitive advantage, innovation, and the business environment all contribute to improved firm success. Several localities in East Java were employed in this study to assess and explain the research hypothesis, including Malang Raya, Tulungagung, Trenggalek, Tuban, Probolinggo, Surabaya, Sidoarjo, and Bangkalan. The reasons for choosing these sites are that the areas listed have Batik SME centers that are continually profitable. The population of this study comprised managers of batik UKMs in East Java, and the sample used was 188 batik UKM operators selected using purposive sampling procedures. Several criteria were used to identify research samples for batik SMEs in East Java: (1) strategic decision makers from batik SMEs, who in this case were most likely managers or owners of the SMEs in question; (2) the business still exists, has been operating for the last three years, and has performance indicators indicating profit generation; and (3) has used information technology as a business tool as a requirement for a competitive advantage strategy. Data was gathered through the use of a questionnaire with a 5-point Likert scale, documentation, and interviews. The gathered data was then examined using SEM and AMOS software.

DATA ANALYSIS AND DISCUSSION**Respondent Characteristics**

Table 1. Respondent Characteristics

Characteristic	Category	Employee	
		Frec	Percent
Gender	Man	28	14,89
	Woman	160	85,11
	Total	188	
Age	25 ≤ 30 years old	18	9,57
	31 ≤ 40 years old	26	13,83
	41 ≤ 50 years old	74	39,36
	> 50 years old	70	37,23
	Total	188	
Business Age	< 3 years	42	22,34
	3 ≤ 5 years	58	30,85
	5 ≤ 7 years	22	11,70
	> 7 years	66	35,11
	Total	188	
Education	< SMA	34	18,06
	SMA/Sederajat	87	46,28
	D III	2	1,06

	S1	55	29,26
	S2	10	5,32
	Total	188	
Types of Product	Handmade Batik	76	40,43
	Printed Batik	2	1,06
	Combination of both types	108	57,95
	Total	188	
Marketing Method	Online	6	3,19
	Offline	4	2,13
	Combination of both types	178	94,68
	Total	188	
Market Area	Local Area	42	22,34
	East Java	58	30,85
	Outer Island	64	34,04
	Overseas	24	12,77
	Total	188	

Source: Primary data processed (2023)

According to the table above, up to 85% of Batik SMEs in East Java are women, which is consistent with the qualities of business that require creativity and perseverance, both of which women generally possess. More than 70% of business owners are over 40 years old, implying that they have been in business for more than 20 years. Batik items include written and stamped batik with traditional patterns known on the island of Java as Sido Mukti, Sekar Jagad, Parang, and several other patterns, such as flora and animals. In terms of marketing method, 94% of business people have used online platforms and offline marketing, which has been shown to be capable of reaching a larger marketing region ranging from 30% of East Java, 34% of Outer Islands, and 13% of Overseas.

Data Validity and Reliability Test

The goal of convergent validity is to determine the validity of the link between indicators and their constructs or latent variables. The loading factor and Average Variance Extracted (AVE) values can be used to test for convergent validity. With good criteria, the loading factor is greater than 0.50, and with ideal criteria, it is greater than 0.70 (Hair et al., 2006). X1.2; X1.3; X2.1 (Entrepreneurial Orientation), Z1.1.2; Z1.2.1 (Competitive Advantage), Z2.1.2; Z2.2.2; Z2.4.1; Z2.4.3 (Innovation), Y1.2; Y1.3; Y2.4 (Firm Performance), and M1.2; M2.1; M2.3; M3.1; M4.2 (Business Environment) were deleted based on the standardized regression weights estimate measurement output. The next step in analyzing convergent validity is to use Average Variance Extracted (AVE), with a good AVE value being more than 0.50. Meanwhile, this study uses Construct Reliability (CR) analysis to measure reliability; the basis for construct reliability must be 0.70 to show high reliability, but reliability in the range of 0.60 - 0.70 is still acceptable if the validity indicators in the model are adequate.

Table 2. AVE and CR Calculation

Variable	Cut-off Value	AVE Value	CR Value
Entrepreneurial Orientation (X)	AVE > 0,50 CR ≥ 0,70 (good reliability) CR 0,60-0,70 (reliability is acceptable)	0,415	0,865
Competitive Advantage (Z1)		0,367	0,697
Innovation (Z2)		0,345	0,807
Firm Performance (Y)		0,482	0,766
Business Environment (M)		0,588	0,851

Source: Primary Data Processing, 2023

According to the calculations in the tables above, the Entrepreneurial Orientation (X), Competitive Advantage (Z1), Innovation (Z2), and Firm Performance (Y) variables do not meet the AVE > 0.50 criteria, with the exception of the Business Environment variable (M), which meets the AVE criteria with a value of 0.588. Meanwhile, the construct reliability ratings for the five variables vary from 0.60 to 0.70, indicating good dependability. According to Fornell and Larcker (1981), the average variance extracted (AVE) is often required to be greater than 0.50 and acceptable at 0.40. Next, if the AVE value is less than 0.50 but the composite reliability value is greater than 0.60, the construct's convergent validity is still appropriate (Fornell & Larcker, 1981).

Goodness of Fit Test

Table 3. Overall Model Feasibility Test Results

GOF	Cut-off-value	Result	Conclusions
RMSEA	< 0,08 (<i>Good fit</i>)	0,068	<i>Good fit</i>
CFI	0,9-1 (<i>Good fit</i>) 0,8-0,9 (<i>Acceptable fit</i>)	0,876	<i>Acceptable fit</i>
GFI	0,9-1 (<i>Good fit</i>) 0,8-0,9 (<i>Acceptable fit</i>) <0,8 (<i>Acceptable marginal fit</i>)	0,791	<i>Acceptable marginal fit</i>

AGFI	0,9-1 (<i>Good fit</i>) 0,8-0,9 (<i>Acceptable fit</i>) <0,8 (<i>Acceptable marginal fit</i>)	0,756	<i>Acceptable marginal fit</i>
IFI	0,9-1 (<i>Good fit</i>) 0,8-0,9 (<i>Acceptable fit</i>)	0,877	<i>Acceptable fit</i>
TLI	1 (<i>Perfect fit</i>) 0-1 (<i>Acceptable fit</i>)	0,864	<i>Acceptable fit</i>

Source: Primary Data Processing, 2023

According to the model evaluation offered, the model evaluation of the construct as a whole is pure fit or has produced crucial data values, implying that the model is acceptable or in accordance with the data.

Hyphotesis Testing Direct Influence Test

Table 4. Direct Influence Test

Hyphotesis	Lane		S.E.	C.R.	P	Conclusion
H1	Entrepreneurial -- Firm Orientation > Perfomance	-0,02	0,03	-0,676	0,499	negative, insignificant
H2	Entrepreneurial -- Competitive Orientation > Advantage	0,152	0,066	2.296	0,022	positive, significant
H3	Entrepreneurial -- Orientation > Innovation	0,18	0,06	3.021	0,003	positive, significant
H4	Competitive -- Firm Advantage > Perfomance	1.107	0,145	7.643	***	positive, significant
H5	Innovation -- Firm > Perfomance	0,215	0,072	2,999	0,003	positive, significant

Source: data processing with AMOS, 2023

Mediation Effect Test

Table 5. Indirect Influence Test

Hyphotesis	Lane	Sobel Test		Conclusion
		t-Stat	P Value	

H6	Entrepreneurial Orientation	-->	Competitive Advantage	-->	Firm Performance	2,204	0,027	Significant
H7	Entrepreneurial Orientation	-->	Innovation	-->	Firm Performance	0,620	0,534	Insignificant

Source: data processing with AMOS, 2023

Moderation Effect Test

Table 6. Test of the Effect of Moderating Variables

Hyphotesis	Lane		S.E.	C.R.	P	Conclusion
H8	Interaction --> Competitive Advantage	0,003	0,001	2.896	0,004	Positive, significant

Sumber: pengolahan data dengan AMOS, 2023

The Influence of Entrepreneurial Orientation on Firm Performance

According to the findings of hypothesis testing, entrepreneurial orientation, as reflected by the indicators (1) proactiveness, (2) autonomy, (3) risk-taking, and (4) competitive aggressiveness, has no substantial impact on enhancing business performance. This is due to corporate actors' inconsistent pursuit of new opportunities and a lack of responsiveness to socially responsible business practices. Even though business people have carried out aggressive competition, courage in facing risks, and have encouraged employees to be responsible for their work and carry out as little supervision as possible, the implementation of entrepreneurial orientation in this research is still considered not optimal. If we look at the length of business, the insignificant results of testing the entrepreneurial orientation hypothesis on company performance could be due to the fact that as many as 53% of the identified businesses are still classified as new businesses because they are still 5 years old, so business actors are still at the stage of recognizing or deepening their entrepreneurial orientation.

When evaluated, these findings strengthen prior research, which is also backed by various empirical data showing that entrepreneurial orientation has no substantial influence on business performance (Rafiki, A., et al., 2023). Furthermore, these findings contradict research by (Mozumdar, 2022; Mahmood, R & Hanafi, N., 2013; Soares, 2019; Rofiaty, 2019; Ullah & Danish, 2020; Kiyabo & Isaga, 2020; Aburuman, et al, 2021; Rofiaty, 2022) demonstrating that entrepreneurial orientation has a significant effect on company performance. In this scenario, it can be stated that East Java Batik SMEs need to strengthen their general entrepreneurial orientation through indicators of proactiveness, autonomy, risk taking, and competitive aggression in order to support increased company performance. Aside from that, the impact of entrepreneurial orientation on performance will be demonstrated if SMEs also execute competitive advantage and innovation strategies as mediating variables.

The Influence of Entrepreneurial Orientation on Competitive Advantage

According to the findings of hypothesis testing, entrepreneurial orientation, as reflected by indices of proactiveness, autonomy, risk-taking, and competitive aggressiveness, has a considerable influence on competitive advantage. In the sense that the greater the entrepreneurial orientation of Batik SMEs in East Java, the greater the competitive advantage strategy of the business, which includes: the ability to differentiate business products, the

ability to sense or observe the market, and the ability to respond to customer requests. This may be demonstrated in East Java Batik SMEs that have optimally adopted autonomy, as seen by their capacity to empower employees to be responsible for their job while minimizing monitoring of employee performance. Aside from that, it is ideal for carrying out tough competition, as well as having the confidence to face commercial dangers.

The findings of this study support previous research and are supported by several theories that state that high levels of entrepreneurial orientation ability can increase business competitive advantage (Chen et al., 2011; Ismail et al., 2010; Majeed, 2011; Muafi & Roostika, 2014; Wijetunge, 2016; Zhou et al., 2009). According to the test results, courage in addressing business risks (risk-taking) is the strongest indication of developing entrepreneurial orientation in East Java Batik SMEs. This can be understood as a tendency of East Java Batik SMEs to be fearless in addressing or taking business risks, as evidenced by SME owners' ability to view situations of uncertainty as a challenge and place more emphasis on prospects for success than opportunities for failure. Thus, the ability to be brave in the face of hazards will work as a catalyst in developing a firm competitive advantage strategy. As a result, in order to preserve and even improve their company competitive edge in the face of market developments and increasingly diverse consumer expectations, Indonesian SMEs must optimize their entrepreneurial attitude.

The Influence of Entrepreneurial Orientation on Innovation

According to the findings of hypothesis testing, entrepreneurial orientation has a considerable impact on creativity skills. This can be understood to mean that the more entrepreneurial SMEs are, the better their company innovation capabilities will be. Indicators of innovation ability include: (1) the ability to innovate products by using environmentally friendly raw materials or production materials that are easy to recycle, reuse, and decompose; and (2) the ability to innovate processes by minimizing consumption of hazardous substances or waste and the use of fuels such as coal, oil, electricity, or water to create environmentally friendly manufacturing processes, (3) the ability to carry out market innovation by selling products via the internet or social media, and (4) actor creativity SMEs can give a variety of patterns, colors, and product varieties based on consumer preferences.

These findings support prior research that indicates that high entrepreneurial orientation of corporate actors increases their innovation capacities (Nguyen, P. V., et al., 2021; Yaacob, Z. et al., 2020; Hutahayan, B., 2019). Furthermore, Al Mamun and Fazal (2018) concluded that entrepreneurial orientation had a favorable influence on creativity and creative behavior among micro-entrepreneurs in Kelantan, Malaysia, which is consistent with and supports the findings of this study. With the increased pressure on businesspeople to be socially responsible, there is a greater need to constantly innovate and be innovative in order to implement ecologically friendly company practices. This must be done continuously or on a regular basis by strengthening entrepreneurial orientation as a foundation for producing innovation that benefits all relevant parties, including business, the environment, customers, and other parties concerned.

The Influence of Competitive Advantage on Firm Performance

According to the findings of hypothesis testing, the competitive advantage strategy has a considerable beneficial impact on corporate performance (firm performance). This suggests that a company's rising competitive advantage strategy, as illustrated by the indicators: 1) distinct products, 2) market sensing, and 3) customer response, will have an impact on increasing company performance. According to the CFA test results, the capacity to respond

to client wants or desires is the most important indicator of a competitive advantage plan for East Java Batik SMEs. This finding indicates that batik SMEs were able to meet customers' wants and desires through the business product varieties supplied, both in terms of product type, color, pattern, theme, and other components, which can therefore have an impact on enhancing business performance.

Previous research has shown that enhancing a company's competitive edge improves its performance (Lestari S.D, et al., 2020; Wongsansukcharoen & Thawepaiboonwong, 2023). The business success of East Java's batik SMEs can be linked to how successfully business actors manage and improve their business competitive advantage strategies, which is a vital aspect in supporting higher company performance. As a result, it can be concluded that Batik SMEs in East Java have a competitive advantage strategy that is demonstrated by having unique products, superior quality, the ability of SMEs to understand and meet customer needs, constantly monitoring business competitors on a regular basis, and always receiving positive feedback from consumers are able to contribute to improving business performance through business growth as indicated by an increase in sales, business assets, and the number of work hours.

The Influence of Innovation on Firm Performance

According to the findings of hypothesis testing, innovation capability, as reflected by the indicators (1) product innovation, (2) process innovation, (3) market innovation, and (4) creativity, can have a considerable impact on business performance. This means that innovation capabilities play an essential role in achieving successful performance outcomes. This condition is consistent with what has been done by East Java Batik SMEs who have the ability to innovate products by utilizing environmentally friendly raw materials or production materials that are easily recycled, reused, or broken down, as well as the ability to innovate process processes for business actors to minimize the use of hazardous substances or waste, as well as the use of fuels such as coal, oil, electricity, and water. Aside from that, performance-improving innovation is realized through the use of the internet or social media as part of product marketing innovation, as well as the ability to be creative in delivering multiple product variants through motifs, colors, and product types to fulfill client wants.

This study's findings support the findings of Ferreira et al. (2020), who concluded that innovation capability as measured by indicators of product innovation, process innovation, marketing innovation, service innovation, and administrative innovation has a significant impact on company performance in Portugal. According to test results, product innovation is the strongest indicator in forming innovation capabilities, implying that East Java Batik SMEs have prioritized environmental sustainability by innovating products to encourage business performance through the use of raw materials or materials that produce the least pollution, can be broken down, recycled, or reused, and can design business products that are safe and environmentally friendly. As a result, Batik SMEs that have implemented an appropriate innovation strategy would be able to contribute to increasing business performance through business growth, SME welfare, and environmental sustainability.

The Role of Competitive Advantage in Mediating Entrepreneurial Orientation on Firm Performance

According to the findings of hypothesis testing, competitive advantage techniques can mitigate the impact of entrepreneurial orientation on company success (firm performance). This can be interpreted as a stronger entrepreneurial orientation characterized by proactiveness,

autonomy, courage to face risks, and the ability to compete aggressively, followed by a competitive advantage strategy characterized by the ability to offer unique and superior products, the ability to observe the market to understand customer needs and analyze business competitors, and the ability to respond to customer feedback regarding the business product. The competitive advantage strategy is a full mediator in enhancing performance, which means that an entrepreneurial mindset, followed by the implementation of a competitive advantage strategy, will improve business performance.

The findings of this study support previous research by Kiyabo and Isaga (2020), who found that competitive advantage strategies could play a mediating role between entrepreneurial orientation and company performance in MSMEs in Tanzania's city centers of Dar es Salaam, Mbeya, and Morogoro. Furthermore, Elgarhy and Shouk (2022) stated that sustainable competitive advantage (SCA) is capable of mediating the influence of SCA antecedents such as entrepreneurial orientation, marketing capability, innovative capability, and marketing innovation on the performance of travel agency companies. As a result, the success or progress of the SME sector, particularly Batik SMEs in East Java, may be concluded if business actors are able to establish an entrepreneurial orientation through competitive advantage tactics.

The Role of Innovation in Mediating Entrepreneurial Orientation on Firm Performance

The results of hypothesis testing reveal that entrepreneurial orientation has no effect on company performance. In the sense that innovative capabilities like as product innovation, process innovation, marketing innovation, and creativity are unable to affect entrepreneurial performance orientation. The findings of this study contradict prior studies (Soares & Perin, 2019; Ullah & Danish, 2020) that claimed that innovation can mitigate the impact of entrepreneurial orientation on corporate performance. This is due to the fact that the majority of Batik SMEs do not require significant creativity in terms of motifs or designs for their product. SMEs players prioritize the preservation of old patterns that have had cultural and historical value since ancient times, such as batik with machete patterns, sidomukti, sekar universe, malangan masks, flora and fauna patterns based on the natural environment, and so on, which are still appealing and enjoyed by consumers. So, in this scenario, SME players focus more on strategies to preserve or increase product quality, as seen by the durability and attractiveness of stunning colors, followed by good raw material quality (fabric, dyes) so that the product may be utilized in the long term.

The Role of Business Environment in Moderating Entrepreneurial Orientation on Competitive Advantage

According to the findings of hypothesis testing, the business environment has the potential to improve the influence of entrepreneurial orientation on competitive advantage tactics. The function of the business environment is capable of strengthening the competitive advantage strategy of Batik SMEs in East Java by employing indicators such as (1) volatility, (2) uncertainty, (3) complexity, and (4) ambiguity. The ability of business people to adapt to changes in the external environment supports their ability to achieve competitive advantage, namely always being flexible in adapting strategies to business changes, always updating business-related information, having speed in carrying out innovation, and being open to ideas from others, as well as being open to technological changes.

IMPLICATION

This study contributes to the advancement of management theory, particularly strategic management, which is related to company performance as measured by: (1) business growth through increases in sales, assets, and the number of employees; (2) increasing the welfare of SMEs through a more health-care lifestyle, such as quality housing, healthier food, and owning a mode of transportation; and (3) concern for the environment through business waste management to reduce environmental pollution. Because of its emphasis on environmentally friendly business management, the performance assessment in this study can be described as sustainable business performance.

The concept of applying strategic management through environmentally friendly performance management, establishing competitive advantage strategies through differentiated products, market observation, and being more responsive to customers is the practical contribution of this research.

CONCLUSION

Based on the findings of data analysis and hypothesis testing, the following conclusions can be drawn:

1. Firm Performance cannot be improved by increasing entrepreneurial orientation. Due to a lack of consistency in exploring new opportunities, as well as the necessity to focus and develop environmentally friendly business services, entrepreneurial orientation is directly incapable of improving corporate performance. As a result, it must be followed by more inventive and new initiatives.
2. The greater the Entrepreneurial Orientation, the greater the Competitive Advantage, which means that the greater the entrepreneurial orientation of Batik SMEs in East Java, the greater the competitive advantage of the business, which includes the ability to increase product differentiation, regularly monitor and analyze competitors, and be responsive to consumer needs.
3. Increasing Entrepreneurial Orientation can boost Innovation Capabilities. It has been demonstrated that increasing entrepreneurial orientation, as reflected by proactiveness, autonomy, risk-taking, and competitive aggressiveness, can boost the innovation potential of business players.
4. Increasing the Competitive Advantage approach through distinct products, market sensing, and a greater reaction to customers would help improve corporate performance. The use of distinctive, appealing products, as well as the selection of high-quality materials and a range of patterns, themes, and colors, all contribute to the improvement of corporate performance or goals.
5. The increased innovative skills of Batik SME business actors will have an impact on corporate performance as well. The ability of Batik SMEs in East Java to innovate in terms of product innovation, process innovation, market innovation, and creativity is critical to their success.
6. The Competitive Advantage Strategy is able to mediate the influence of Entrepreneurial Orientation on Firm Performance. Competitive advantage strategies that improve performance by increasing product differentiation, market monitoring capabilities, and the ability to adapt to consumer needs. This suggests that having a strong

entrepreneurial attitude, when combined with the application of competitive advantage tactics, will boost corporate performance.

7. Innovation Capability is unable to mediate the influence of Capability Orientation on Firm Performance. This is due to the fact that SMEs prioritize the preservation of ancient patterns or motifs that contain historical components and are still popular with the general public, rather than product innovation in terms of product motifs and patterns.
8. The Business Environment is able to moderate the Entrepreneurial Orientation towards Competitive Advantage strategies. The ability of East Java's Batik SMEs to react to changes in the external environment, such as flexibility, continuous information updating, and speed in innovation, has been shown to promote the achievement of company competitive advantage strategies.

SUGGESTION

The following recommendations can be made based on the research findings:

1. The need to be more proactive by boosting business actors response to environmentally friendly business practices and taking on more social responsibility.
2. Not all Batik SMEs can utilize ecologically friendly materials because they are expensive, take a long time to produce, and are less practical in the manufacturing process. Aside from that, people are more interested in adopting chemical-based colors because they are thought to be better and last longer.
3. Implement waste management for Batik SMEs using Waste Water Treatment Plants (IPAL).
4. The necessity for government attention through associated institutions and the private sector to empower and sustain the existence of Batik SMEs, given their historical and cultural significance.

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