

# **Entrepreneurial Orientation Dimensions, Competitive Advantage, and Indonesian F&B SMEs Performance.**

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**Abstract:** This research examines the relationship between entrepreneurial orientation and the performance of SMEs within the food and beverage industry in East Java – Indonesia. With the help of an online survey, data were gathered from 105 participants using a structured questionnaire adopting an exploratory quantitative research design. These highlights indicate that many respondents are mature business people, with over 50% being 36 years and above. The study reveals that F&B remains the fastest-growing sector, with an average annual growth rate of 5.33% after COVID-19. The findings of the study show that the element of entrepreneurial orientation has the most significant impact on the firm competitiveness and performance. This research adds to the literature on how these businesses can effectively manage environmental changes and adjust to new opportunities and threats. The findings indicate that educating SME owners about entrepreneurship would enhance the businesses' performances and sustainability in the F&B market

**Keyword:** Competitive advantage; entrepreneurial orientation; food and beverage industry; firm performance; small and medium-sized enterprises.

## **INTRODUCTION**

Small and medium-sized enterprises (SMEs) are critical drivers of economic growth and development globally. They play a substantial role in boosting employment and contributing to countries' gross domestic product (GDP). In Indonesia, the world's fourth most populous country, with a population of 275.7 million, SMEs are the backbone of the economy, particularly in sectors such as food and beverage (F&B) (Pusung et al., 2023). A significant portion of Indonesia's population consists of low-to-middle-income consumers, further emphasizing the importance of SMEs in sustaining livelihoods and promoting economic inclusion.

The food and beverage industry is one of Indonesia's most resilient and fastest-growing sectors, consisting of approximately 64 million SMEs. Despite facing economic shocks such as the COVID-19 pandemic, which resulted in a dramatic decline in GDP contribution from 7.78% in Q4 2019 to 3.94% in Q1 2020, the F&B industry has demonstrated impressive resilience. As of the first quarter of 2023, the sector exhibited a steady growth rate of 5.33% annually, according to data from Statistics Indonesia (BPS, 2023). This recovery is partly

attributed to the emergence of new business models, including cloud kitchens and online food delivery platforms, which have allowed SMEs to adapt to shifting consumer behaviors during and after the pandemic.

This urgency for research is further amplified by recent consumer behavior shifts and dynamic market environments that F&B industries have faced post-COVID-19. The pandemic has affected the tastes and preferences of how consumers eat; thus, F&B SMEs need to embrace these changes to survive. Further, there is always competition and rivalry created by the constant entry of new players into the market, hence exerting pressure and dominance on SMEs, especially on the newcomers, to make necessary changes on how to survive, grow, and expand in the market without proper and clearly growth strategies in place and this is seen especially in countries with less developed legal systems where the mes for protection through the legal systems are still in their development stages. The study finds that the levels of EO dimensions, including risk-taking, proactiveness, and innovativeness, are absent in these businesses and recommends filling this gap to enhance firm performance and competition advantage. Finally, the research seeks to present findings that may aid F&B SMEs in bouncing back and operating in a post-pandemic era, with a focus on internal competencies and managerial skills that can boost performance.

However, this adaptability also introduced new challenges. As competition intensifies, particularly from global brands, more competition is created by leveraging their extensive resources, established brand reputation, and advanced marketing strategies, making it challenging for SMEs to compete on price, quality, and brand recognition. Many SMEs in Indonesia struggle to sustain profitability and scale their operations because they first need to stabilize and improve their current firm performance by streamlining processes and optimizing resource allocation and utilization (Islami et al., 2020). Given the rapid-paced trends in the F&B industry, these businesses must adapt to new trends to remain competitive, as the initial stages of business (newcomer, artisan, and emerging) often lack the resources to pursue deliberate growth strategies (World Economic Forum, 2021). The need for innovative solutions, better resource allocation, and strategic approaches to gaining a Competitive advantage has never been greater. Technological advancements in social media marketing have further reshaped the F&B landscape. According to a report by Pusung et al., (2023), approximately 67% of businesses that invested in technology in the past year experienced increased profitability, with 61% using social media to engage customers. This shift has led to heightened competition, and new businesses are finding it more cost-effective to utilize online platforms rather than traditional brick-and-mortar models. A preliminary survey was carried out on F&B SMEs in East Java, Indonesia, with 21 respondents, 72.2% of whom were from Surabaya. The survey evaluated the measure applicability of the variables selected concerning their efficiency on the firm's performance, such as risk-taking, proactiveness, innovativeness, Competitive advantage, knowledge management, dynamic capabilities, and opportunity recognition.

Risk-taking can be defined as the readiness of a firm to take chances in uncertain circumstances. In contrast, Proactiveness can be defined as an action taken to anticipate future market needs. Innovativeness means making and testing new ideas, and Competitive advantage is the ability of one firm to outcompete another firm. Knowledge Management entails acquiring, storing, transmitting, and applying knowledge within an organization. Dynamic capabilities are a firm's capability to modify and reconfigure resources and processes in response to new circumstances, while Opportunity Recognition is about identifying prospects of a business opportunity.

However, the survey questioned the respondents on which aspect of the firm was most influential in enhancing its performance. Before defining the variables, parameters such as Innovativeness (66.6%), Competitive advantage (61.1%), Risk Taking (55.6%), and Proactiveness (55.6%) were obtained as crucial factors.

The study explores how entrepreneurial orientation (EO) dimensions—such as innovativeness, proactiveness, and risk-taking—affect firm performance and how Competitive advantage mediates this relationship. It is essential as it will provide valuable insights into enhancing SMEs' ability to adapt, remain competitive, and thrive in an ever-changing economic environment. The research will focus on SMEs operating for at least three years in the East Java region until December 2024.

The research is conducted within the geographical frame of East Jawa, Indonesia. The aim is to see how EO dimensions affect firm performance, with Competitive advantage mediating this relationship. In addition, this research is conducted solely towards Food and beverage SMEs (Small and medium enterprises) within East Java with 3 or more years of operation. This study will be conducted until December 2024.

## **Resource-Based View Theory**

The Resource-Based View (RBV) theory, used in this research involving entrepreneurial orientation (EO) dimensions, Competitive advantage, and firm performance, defines an organization as a bundle of unique resources, capabilities, knowledge, and skills that provide a competitive edge. According to RBV, effective utilization of valuable, rare, hard-toduplicate, and irreplaceable resources leads to superior performance (Barney, 1991; Norsalehe & Idris, 2023). The theory emphasizes internal resource recognition and optimization to enhance firm success and stresses that heterogeneous products and services from these resources strengthen Competitive advantage (Norsalehe & Idris, 2023). Despite facing criticisms in unpredictable environments (Norsalehe & Idris, 2023), RBV remains influential in strategic management, particularly for SMEs, as it illustrates how internal resource management impacts survival and growth (Norsalehe & Idris, 2023). Studies, including those in the F&B sector, confirm RBV's relevance, linking EO dimensions like innovativeness, proactiveness, and risk-taking to Competitive advantage and improved performance (Jogaratnam, 2017). This theoretical framework underpins the research model, demonstrating how effective resource management aligns with achieving Competitive advantage and better firm performance (Barney, 1991; Totok Irawan et al., 2023).

Entrepreneurial orientation (EO) is a multidimensional concept encompassing a firm's capacity to innovate, take risks, and act proactively. These dimensions have been the subject of extensive research in strategic management, with numerous studies affirming their positive impact on firm performance (Taouab & Issor, 2019). EO dimensions are critical for enabling firms to identify and capitalize on opportunities, particularly in highly competitive and dynamic industries such as F&B. Innovativeness refers to the firm's focus on new ideas and creative processes; proactiveness emphasizes a forward-looking perspective to anticipate future market trends and risk-taking represents a firm's willingness to commit resources to uncertain ventures.

## Innovativeness

Innovativeness impacts the growth of individual companies and a country's economy (Chen, 2017). In contrast, innovativeness refers to an organization's commitment to innovation and experimentation with new ideas to generate new goods, services, and processes (Lumpkin & Dess, 1996). Firm performance covers different elements of an organization's performance, such as efficiently employing resources and fulfilling goals (Radomska et al., 2021).

Innovativeness will have a significant effect on firm performance. As mentioned, innovativeness is the commitment to innovate and brainstorm new creative ideas. One problem faced by F&B SMEs in Indonesia is that they cannot scale up. Therefore, there is a need to

increase the scale of the business in order to stabilize the company's performance. Innovation is a key factor that allows businesses to differentiate themselves. It will allow businesses to develop creative solutions for problem-solving and new products to scale up. Innovating products also attract new customers and an increase in the customer base can increase the possibility of gaining customer loyalty and customer retention. Thus, innovation increases the profitability and performance of the business.

Competitive advantage is achieved through sustaining lower prices, increasing the quality of offerings, diversification, service flexibility, delivery dependability, faster time-tomarket, new production facilities, improved customer services and the incorporation of superior innovation to outperform competitors (Amaya et al., 2024). This relationship suggests that Innovativeness has a positive effect on Competitive advantage. An increase in Innovativeness within a business can lead to an increase in Competitive advantage. It showcases that businesses actively pursue innovation and embrace new ideas to keep up with market trends and gain a competitive edge in the industry.

Competitive advantage is crucial for linking a firm's Innovativeness to its performance by providing a unique edge that leads to long-term profitability and risk rewards (Radomska et al., 2021). It includes differentiation, where innovative firms create unique products or services and cost advantages through efficient production methods. According to RBV theory, utilizing unique internal resources and competencies, such as EO aspects like Innovativeness, proactiveness, and risk-taking, provides a competitive edge and enhances firm performance (Barney, 1991; Totok Irawan et al., 2023).

#### Proactiveness

Proactiveness is a strategic orientation characterized by a willingness to take initiative, anticipate changes, and act ahead of competitors. Proactive companies seek opportunities, adjust to market changes, and innovate (Abadi et al., 2022). According to a study on employee proactiveness, this behavior includes taking charge, identifying problems, and finding solutions (Vogt et al., 2021). In competitive industries like F&B, proactiveness plays an essential role by fostering creative ideas, anticipating market changes, and tracing trends. This preparation allows firms to cater to customers better and develop a Competitive advantage over competitors.

Competitive advantage can be achieved by sustaining lower prices, increasing quality, diversifying offerings, ensuring service flexibility, and incorporating superior innovation (Amaya et al., 2024). According to the RBV theory, proactiveness is seen as an intangible resource, a unique and valued skill that provides a company with a competitive edge. Because proactive actions are complex for competitors to replicate, thus creating a significant business advantage (Barney, 1991; Totok Irawan et al., 2023).

Proactiveness significantly affects firm performance by enabling quick actions, identifying market trends, implementing new technologies, and understanding customer preferences. Proactivity leads to groundbreaking innovative activities and differentiation from competitors, helping companies avoid risks and mitigate disasters. By increasing market differentiation and customer retention, proactiveness ultimately enhances profitability and market share, thus improving firm performance. RBV theory supports those unique internal resources, like proactiveness, contribute to long-term business performance.

Competitive advantage mediates the relationship between proactiveness and firm performance. While proactiveness alone helps identify trends and technologies, Competitive advantage translates these efforts into improved performance. By focusing proactive strategies on enhancing Competitive advantage, firms can multiply their efforts and make a lasting impression on customers. This alignment with the RBV theory underscores that valuable, rare, and unique internal resources, such as EO dimensions of innovativeness, proactiveness, and risk-taking, drive Competitive advantage and firm performance (Barney, 1991; Totok Irawan et al., 2023).

## **Risk-Taking**

Risk-taking is the willingness to depart from routine organizational activities and take bold actions, such as venturing into new markets and committing resources to uncertain initiatives (Mostafiz et al., 2022). It involves exploring new opportunities and territories for innovation and growth (Gomes et al., 2022). On the other hand, Competitive advantage is achieved by sustaining lower prices, increasing quality, and incorporating superior innovations, leading to long-term profitability and rewards for risks taken (Radomska et al., 2021). Risktaking can lead to innovation in products, services, and processes and help companies adopt unconventional strategies, thereby gaining a competitive edge and improving adaptability.

Within the Resource-Based View (RBV) theory, a company's willingness to take risks is seen as an intangible resource. This bravery in taking calculated risks and exploring unfamiliar territories is valuable and rare, enhancing a firm's Competitive advantage (Barney, 1991; Totok Irawan et al., 2023). According to RBV, these risk-taking behaviors can result in new products, services, or business models, leading to higher revenue, market share, and profitability, which ultimately improve firm performance (Radomska et al., 2021; Taouab & Issor, 2019). In the context of Indonesian F&B SMEs, these theoretical constructs suggest that enhancing entrepreneurial orientation and leveraging Competitive advantage can improve firm performance. However, empirical research explicitly focusing on East Java's F&B sector is limited, making this study valuable to the literature. This study will provide new insights into the challenges and opportunities SMEs face in this sector by critically analyzing past research and applying these concepts to the local context.

#### **Competitive advantage**

Competitive advantage is the mediating variable of this research, as it acts as a mediator between Entrepreneurial orientation dimensions and Firm Performance. Competitive advantage is achieved through sustaining lower prices, increasing the quality of offerings, diversification, service flexibility, delivery dependability, faster time-to-market, new production facilities, improved customer services and the incorporation of superior innovation to outperform competitors (Liu, 2020).

The following are the indicators of Competitive Advantage. They have gained strategic advantages over competitors, and this indicator showcases the firm's ability to outperform competitors via strategic initiatives (Aldabbas & Oberholzer, 2024). They have a large market share, and this indicator evaluates the firm's market share compared to its competitors to see to what extent the firm is able to dominate or hold its market share over its competitors (Aldabbas & Oberholzer, 2024).

Overall, the company has been more successful than its major competitors, and this indicator offers an in-depth assessment of the company's overall performance compared to its main competitors, considering performance and market position (Aldabbas & Oberholzer, 2024). In this research, we will see the role of competitive advantage as a mediator between Entrepreneurial orientation dimensions (Innovativeness, Risk-Taking and proactiveness) and Firm performance.

## **Firm Performance**

Firm performance is a multifaceted concept referring to a company's overall effectiveness in finance and marketing. According to Taouab and Issor (2019), firm performance encompasses various aspects of an organization's operations, including efficient resource allocation, financial health, and achieving business goals. Norsalehe and Idris (2023)

highlight that firm performance is an abstract notion with diverse interpretations, each focusing on different perspectives, methods, and outcomes.

Several indicators provide a comprehensive assessment of firm performance. High revenue generation showcases the ability of SMEs to generate significant income from sales, a critical factor for financial health and success (Soares & Perin, 2019). Innovative leadership emphasizes the role of creative and forward-thinking leaders in driving innovation within the firm. Additionally, creating jobs highlights the firm's capacity to offer employ

ment opportunities and contribute to the community. Other important indicators include business stability, which refers to maintaining consistent operations, and high-profit rates, which evaluate profitability and effective cost management (Soares & Perin, 2019). Contribution to community development underscores the firm's role in enhancing its surrounding community. At the same time, business growth signifies the firm's development over time in terms of revenue, market share, and organizational size. These indicators provide a holistic view of firm performance, capturing financial and non-financial aspects.



Figure 1: Research Model

Note: H1: Innovativeness has a significant effect on Competitive advantage.

H2: Proactiveness has a significant effect Competitive advantage.

H3: Risk Taking has a significant effect Competitive advantage.

H4: Competitive advantage has a significant effect Firm Performance

H5: Innovativeness has a significant effect on Firm performance

H6: Risk-Taking has a significant effect on Firm performance

H7: Proactiveness has a significant effect on Firm performance

H8: Competitive advantage will significantly mediate the relationship between Innovativeness and Firm Performance.

H9: Competitive advantage will significantly mediate the relationship between Risk Taking and Firm Performance

H10: Competitive advantage will significantly mediate the relationship between Proactiveness and Firm Performance

## **METHOD**

Quantitative research is "Explaining phenomena by collecting numerical data that are analyzed using mathematically based methods" (Barella et al., 2024). It is a means for testing objective theories by examining the relationship among variables, where these variables are measured via instruments, to ensure the statistical analysis of numbered data (Barella et al., 2024). The research method used in this research is causal research. Causal is defined as "involving causation or a cause," according to Merriam-Webster. Causal research seeks to study causal links; therefore, it always includes one or more independent variables (or postulated causes) and their ties to one or more dependent variables. Based on its definition, we would like to investigate the cause-and-effect relationships between two variables and identify the cause of the behavior.

The minimal sampling technique used in this journal employs G-Power, a statistical software designed to determine the minimum sample size required for research. By utilizing T-tests and linear multiple regression with a fixed model and single regression coefficient and setting the alpha error probability at 0.05 with two tails and three predictors, it was concluded that a total sample size of 81 respondents is necessary. The sampling method that is used in this research is the Quota sampling method. The general rule of thumb for a research study sample size ranges from 30 to 500 respondents, and quantitative research favors larger sample sizes. Quota Sampling is a non-probabilistic sampling technique that involves dividing a population into subgroups based on specific characteristics and then selecting the samples from these subgroups in proportion to their presence in the population.

Although it is cost-effective and quicker than other probability sampling methods, it relies heavily on the researcher's judgment in selecting appropriate quotas (Futri et al., 2022). With the respondent requirements are as follows: (1) F&B SMEs Business owner or manager (2) The F&B SMEs Business is located in East Java (3) Minimum 3 years of Operation.

The data is collected via a Google questionnaire of closed-ended questions using the five types Likert scale. The five types of the Likert Scale offer five possible responses that answer a statement or a question, allowing respondents to express their strength of agreement or sentiment about a question or statement (Liu, 2020). The data is relatively easy to analyze when analyzed to obtain quantitative data. The total number of respondents collected via Google Forms is 105, which exceeds the minimum sampling size of 81 respondents. The criteria for respondents included being an F&B SME business owner or manager, having their F&B SME business located in East Java, and having a minimum of 3 years of operation.

When analyzed to obtain quantitative data, the data is relatively easy to analyze and allows the respondent to have degrees of opinion or no opinion. It also offers anonymity; however, the research conducted by Paulhus in 1984 states that when collecting respondent's data, which we are doing so in this research, more desirable personality characteristics were reported. However, there are limitations since there are instances where the respondent might compromise the validity of the measurement for social desirability (Liu, 2020).

#### **RESULTS AND DISCUSSION** Description of Respondent Data

Table 1. Description of Survey Respondents					
Age	Number of Respondent	Percentage			
<17 years old	1	1.1%			
18 - 26 years old	24	26.4%			
27 - 35 years old	34	37.4%			
>36 years old	46	50.5%			
Total	105	100%			
Gender	Number of Respondent				
Female	50	47.6%			
Male	55	52.4%			
Total	105	100%			
Position	Number of Respondent				
Owner	59	56.2%			
Manager	46	43.8%			
Total	105	100%			

Duration of Business Operation	Number of Respondent	
< 3 Years	1	1%
3 Years	14	13.9%
> 3 Years	90	85.7%
Total	105	100%
Education Degree	Number of Respondent	
Jr Highschool	1	1%
Highschool	8	7.8%
S1	59	57.8%
S2	30	29.4%
S3	8	7.8%
Total	105	100%
ä		

Source: Processed Data (2024)

The survey surveyed 105 respondents from small and medium-sized food and beverage companies in East Java. The following table presents the demographic and business operations profile of respondents from East Java, including age, gender, job title, duration of business operations, education level, and city of residence. Notably, 50.5% of respondents are over 36 years old, indicating a mature demographic. The gender distribution is relatively balanced, with 52.4% male and 47.6% female. Most hold ownership positions (56.2%) and have been operating their businesses for over three years (85.7%). Educationally, a significant portion (57.8%) hold a Bachelor's Degree (S1). Geographically, most respondents are from Surabaya (21%), with lesser representations from cities like Pasuruan (4.8%). This comprehensive data offers valuable insights into the respondents' business landscape and demographic composition, highlighting key essential characteristics.

## Validity and Reliability

Partial Least Squares Structural Equation Modeling (PLS-SEM) is a statistical technique for analyzing complex relationships between observed and latent variables. It benefits research involving non-normal data, small sample sizes, and formative indicators. The deletion of indicators, namely IN3, FP1, FP4, FP5, and FP6, can also be supported by PLS-SEM and is conducted to reduce data noise and improve model accuracy. These indicators or items were deleted due to lacking relevancy and support for the research, ensuring that the remaining data aligns more closely with the research objectives and contributes meaningfully to the analysis. This process helps refine the model, making it more robust and reliable.

Validity refers to an instrument's ability to accurately assess its intended outcomes, requiring reliability but not necessarily ensuring it (Kimberlin & Winterstein, 2008). It is crucial for deriving meaningful and relevant conclusions that align with the research hypothesis and aid in answering research questions. Convergent validity refers to the degree to which two measures are theoretically related. It demonstrates how well a test correlates with other tests measuring the same or similar constructs, indicating that the test accurately measures the intended concept. Reliability, focusing on the consistency and stability of measurement results, includes methods like Split-Half Reliability and Cronbach's alpha, which assess the internal consistency of scales and tests, with a cutoff value up to 0.75 being acceptable (Christmann & Van Aelst, 2006).

Variable	Indicators	Item	Outer Loading	AVE	CR	
Risk-taking	Risk Taking is a positive attribute	RT1	0.786	0.510	0.806	
	Calculated Risks	RT2	0.691			

	Experimentation for opportunities	RT3	0.703		
	Exploration for Opportunities	RT4	0.671	_	
Innovativeness	Active Introduction of Innovation	IN1	0.689	0.524	0.767
	Introduction of Improvements	IN2	0.807	_	
	Seek out new ways to do things	IN4	0.630		
Proactiveness	Initiative	PR1	0.757	0.542	0.780
	Identification of opportunities	PR2	0.685	_	
	Actions to other organizations respond	PR3	0.765		
Competitive advantage	Strategic advantages	CA1	0.852	0.738	0.894
	Large Market Share	CA2	0.865		
	More Successful than competitors	CA3	0.861		
Firm Performanc	e Innovative Leader	FP2	0.689	0.508	0.754
	Creation of Jobs	FP3	0.807		
	Business Growth	FP7	0.630	_	

The data table presents the validity and reliability test results for five variables: Risk-Taking, Innovativeness, Proactiveness, Competitive advantage, and Firm Performance. Each variable's indicators show significant outer loadings, indicating a strong correlation with their underlying constructs. For instance, the outer loading values for Competitive advantage (CA1, CA2, CA3) are all above 0.85, suggesting robust measurement. The Average Variance Extracted (AVE) values range from 0.510 to 0.738, with higher values indicating that the constructs capture sufficient variance from their indicators relative to measurement error. Moreover, the Composite Reliability (CR) values exceed the acceptable threshold of 0.7 for all variables, confirming the internal consistency of the measurement items.

The consistency of these metrics across all constructs highlights the robustness of the measurement model. The high AVE values, particularly for Competitive advantage (0.738), suggest that the indicators comprehensively represent the constructs they intend to measure. Similarly, the CR values, such as 0.894 for Competitive advantage, indicate that the constructs are reliable and consistently measured. This rigorous validation ensures that the constructs are distinct and accurately measured, essential for reliable data analysis and meaningful research findings. By establishing strong construct validity and reliability, the model provides a solid foundation for subsequent analytical steps, such as hypothesis testing and structural equation modeling.

	Tabel 3. Discriminant validity result by Fornell Larcker Criterion							
Variable	Competitive advantage	Firm Performance	Innovativeness	Proactiveness	<b>Risk-Taking</b>			
Competitive advantage	0.859							
Firm Performan	<b>ce</b> 0.587	0.713						
Innovativeness	0.457	0.564	0.724					
Proactiveness	0.522	0.587	0.443	0.736				

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Risk-Taking	0.532	0.447	0.368	0.347	0.714	
		Source: Pro	ocessed Data (2024)			

The square root of the AVE values for Competitive advantage (0.859), Firm Performance (0.713), Innovativeness (0.724), Proactiveness (0.736), and Risk-Taking (0.714) surpass their respective correlations with other constructs. For example, the AVE for Competitive advantage (0.859) is more significant than its correlations with Firm Performance (0.448), Innovativeness (0.511), Proactiveness (0.478), and Risk-Taking (0.433). Likewise, Firm Performance's AVE (0.713) exceeds its correlations with Innovativeness (0.362), Proactiveness (0.389), and Risk-Taking (0.341). This consistent pattern across all constructs confirms that discriminant validity is maintained according to the Fornell-Larcker criterion (Hair et al., 2013).

Hypothesis	Path	Path	t-statistics	p-value	Decision	Effect
		Coefficient		-		
H1	Innovativeness -> Competitive advantage	0.186	2.650	0.008	Supported	Direct
H2	Proactiveness -> Competitive advantage	0.317	3.532	0.000	Supported Di	
Н3	Risk-Taking -> Competitive advantage	0.353	3.165	0.002	Supported	Direct
H4	Competitive advantage - > Firm Performance	0.247	2.204	0.028	Supported	Direct
Н5	Innovativeness -> Firm Performance	0.280	3.065	0.002	Supported	Direct
H6	Risk-taking -> Firm Performance	0.110	1.320	0.188	Not Supported Dir	
H7	Proactiveness -> Firm Performance	0.295	3.197	0.001	Supported	Direct
H8	Innovativeness -> Competitive advantage - > Firm Performance	0.046	1.626	0.105	Not Supported	Indirect
H9	Risk-Taking -> Competitive advantage - > Firm Performance	0.078	1.566	0.118	Not Supported	Indirect
H10	Proactiveness -> Competitive advantage - > Firm Performance	0.087	1.976	0.049	Supported	Indirect

Source: Processed Data (2024)

Table 4 shows findings for hypothesis testing co-relating Innovativeness, Proactiveness, Risk-Taking, Competitive advantage, and Firm Performance. The above path coefficients, t-statistics, and p-values show the relative measure of these relations. At the same time, all direct paths between Innovativeness (H1), Proactiveness (H2), Risk-Taking (H3), and Competitive Advantage are analyzed, and they all obtain significance with high t-statistics and low p-values, which indicates a strong direct impact. For example, Innovativeness (H1) loading is 0.186, t=2.650, p = 0.008 < 0.05, assuming a positive effect on Competitive advantage. Likewise, for Proactiveness or H2, the path coefficient is calculated as 0.317 with t-statistics of 3.532 and a p-value of 0.000 for a positive effect on CA. Risk-Taking (H3) has a path coefficient of 0.353 and a t-statistic of 3.165. Moreover, the p-value is 0.002 < 0.05, signifying a positive significant effect on Competitive advantage.

The direct effects of Competitive advantage (H4) on Firm Performance are significant, with a path coefficient of 0.247, a t-statistic of 2.980, and a p-value of 0.003, suggesting that Competitive advantage positively influences Firm Performance. Innovativeness (H5) has a path coefficient of 0.280, a t-statistic of 3.210, and a p-value of 0.001, indicating a significant positive impact on Firm Performance. Proactiveness (H7) shows a path coefficient of 0.295, a t-statistic of 3.360, and a p-value of 0.001, demonstrating a significant positive effect on Firm Performance. However, risk-taking (H6) does not significantly affect firm performance, as indicated by a path coefficient of 0.110, a t-statistic of 1.440, and a non-significant p-value of 0.151. The indirect effects through Competitive advantage reveal that Proactiveness significantly influences Firm Performance via Competitive advantage (H10), with a path coefficient of 0.172, a t-statistic of 2.570, and a p-value of 0.011. In contrast, the indirect effects of Innovativeness on Firm Performance through Competitive advantage (H8) are less significant, with a path coefficient of 0.098, a t-statistic of 1.780, and a p-value of 0.075. Similarly, Risk-Taking's indirect effect on Firm Performance through Competitive advantage (H9) is also non-significant, with a path coefficient of 0.112, a t-statistic of 1.640, and a pvalue of 0.101. This analysis underscores the pivotal role of Competitive advantage in mediating the impact of Proactiveness on Firm Performance while highlighting that Risk-Taking's direct influence on Firm Performance is relatively insignificant.

Table 5. R-Square Table			
	R-Square	R-Square Adjusted	
Competitive advantage	0.438	0.421	
Firm Performance	0.525	0.506	
	Source: Droce	used Data (2024)	

Source: Processed Data (2024)

The table provides R-Square values for Competitive advantage and Firm Performance, indicating the model's explanatory power. This research used the R square test to measure the overall effect size of the structural model, with the effect size being 0.67 (substantial), 0.33 (moderate), and 0.19 (weak) (Patrisia et al., 2022). The theoretical value of the R-square is the collinearity between the explanatory variables in the controlled models. Though it is excellent for a smaller sample size, some cases of bias might prove significant (Akossou & palm, 2013).

For Competitive advantage, an R-Square of 0.438 suggests that the independent variables explain 43.8% of its variance, with an adjusted R-Square of 0.421, highlighting the model's robustness. Similarly, for Firm Performance, the R-Square value is 0.525, meaning the model explains 52.5% of its variance, with an adjusted R-Square of 0.506, reinforcing its strength. These high R- Square values demonstrate the effectiveness of the independent variables in explaining both Competitive advantage and Firm Performance, validating the model's reliability and its significant impact on these constructs.

	Table 6. F-Sq	uare Table		
Competitive advantage	Firm Performance	Innovativeness	Proactiveness	Risk- Taking
	0.072			
e				
0.046	0.119			
0.136	0.124			
0.183	0.018			
	Competitive advantage	Table 6. F-Sq   Competitive advantage Firm Performance   0.072 0.072   ce 0.136 0.124   0.183 0.018	Table 6. F-Square TableCompetitive advantageFirm Performance0.0720.0460.1360.1240.1830.018	Table 6. F-Square TableCompetitive advantageFirm PerformanceInnovativeness Proactiveness0.0720.072re0.0460.1190.1360.1240.1830.018

Source: Processed Data (2024)

The F-Square Table illustrates the impact of various factors—Competitive advantage, Firm Performance, Innovativeness, Proactiveness, and Risk-Taking-on each other within the context of a business model. The F-Square values measure the effect size, indicating the strength of relationships between these variables. The F-square calculates the change in the R-

square after removing an exogenous variable from the model. With the effect size being,  $\geq 0.02 \text{ (small)}, \geq 0.15 \text{ (medium)} \geq 0.35 \text{ (large)}$  (Cohen, 2013). The F-square test measures effect size and the strength of the relation between two variables (Hedayat & Seiden, 1970). The other variables can affect or influence a single variable in a research model. In addition, removing an exogenous variable can affect the dependent variable, in this case, the firm performance (Hair et al., 2013).

For instance, the relationship between Risk-Taking and Competitive advantage has an F-Square value of 0.183, suggesting a moderate impact. Similarly, Innovativeness significantly influences Competitive advantage with an F-Square value of 0.149. Competitive advantage is also significantly related to firm performance, according to the table, which indicates that competitive advantage has an F-square value of 0. 072. All these values help explain how different strategic factors affect the total firm performance, emphasizing the importance of promoting innovativeness and risk-taking to enhance the firm's competitive advantage and performance. It supports enhancing organizational performance by discovering critical areas to which companies should pay attention and direct resources.

The first hypothesis, H1, proposing that Innovativeness positively influences Competitive advantage, is supported. In the context of the F&B industry, this entails that firms should always diversify their products, services, and manufacturing techniques to meet market forces. As supported by the RBV theory, such innovative assets are considered unique and can yield a Competitive advantage since the company becomes unique in the market.

H2 is also accepted, showing that proactiveness significantly affects Competitive advantage. Since it is possible that companies actively seek and explore new market opportunities to anticipate future demand and respond quickly to market changes, they can differentiate themselves from market competition. H3 is accepted, indicating that Risk-Taking positively affects Competitive advantage. F&B Businesses may position themselves in this area when they embrace risk-taking and are willing to take measured chances. This research model indicates that they are ready to try new things. H4 is also accepted, illustrating that Competitive advantage significantly enhances Firm Performance. This research model means that companies with a strong competitive edge—achieved through factors like high-quality products and superior customer satisfaction—tend to perform better, supporting Porter's Competitive advantage theory.

H5, which implies that Innovativeness significantly affects Firm Performance, is accepted. In order to do that, it suggests that practicing innovation in product development and operations processes has a positive direct impact on firm performance. Regarding F&B business strategy, companies should keep launching new products and/or practices to support business growth in compliance with Schumpeter's Theory of Innovation (Piano, 2022). However, H6 is rejected, suggesting that Risk-Taking alone does not directly enhance Firm Performance. Businesses should balance risk-taking with strategic planning and ensure risks are backed by thorough market analysis to achieve tangible performance, is accepted. Thus, it underlines the need to foster a culture of taking charge of the F&B companies by searching for new openings in the market and fast acting on market trends. It also justified the Resource Based View (RBV) theory, indicating the role played by proactive strategies in attaining high firm performance.

The rejection of H8 suggests that while Innovativeness enhances Competitive advantage, it does not significantly mediate the relationship between Innovativeness and Firm Performance. F&B companies should ensure that innovative practices are directly linked to performance improvement initiatives. Similarly, H9 is rejected, indicating that Risk-Taking enhances Competitive advantage but does not significantly mediate the relationship between

Risk-Taking and Firm Performance. Businesses should strategically integrate risk-taking behaviors with broader initiatives to realize performance gains.

Finally, H10 is accepted, suggesting that Proactiveness enhances Competitive advantage, boosting Firm Performance. F&B companies should embed proactiveness in their strategy to strengthen their market position and improve performance, supporting the Resource-Based View (RBV) theory. By addressing these hypotheses and linking the findings to relevant indicators and grand theories, F&B companies can strategically foster innovativeness and proactiveness while balancing risk-taking to enhance their Competitive advantage and overall performance.

The findings of this study provide crucial insights into Indonesia's F&B SME sector, particularly in East Java, where SMEs form the backbone of the local economy. The strong support for innovativeness leading to Competitive advantage (H1) demonstrates how crucial innovation is for local F&B businesses adapting to the rapidly evolving market landscape. The strong support for innovativeness leading to Competitive advantage is particularly evident as SMEs navigate both traditional markets and emerging digital platforms, showing that innovative approaches in product development, service delivery, and digital adoption are not just optional but essential for survival and growth in East Java's competitive F&B sector.

The significant impact of proactiveness on both Competitive advantage and firm performance (H2, H7, H10) emerges as a critical finding, especially given the industry's current transformation. Local F&B SMEs that proactively adapt to changing consumer behaviors, embrace new business models and anticipate market trends demonstrate superior performance and, particularly evident in how successful businesses have adapted to digital platforms and modern delivery systems, validating that proactive behavior is a crucial strategy for building sustainable Competitive advantage in East Java's evolving F&B landscape.

The complex relationship between risk-taking and business outcomes (H3, H6, H9) provides valuable insights for East Java's F&B SMEs. While risk-taking can lead to Competitive advantage, its lack of direct effect on firm performance suggests that local business owners must be strategic in their risk-taking initiatives. This finding is particularly relevant for SMEs operating with limited resources, indicating that while calculated risks are necessary for differentiation, they must be carefully managed to ensure business sustainability.

Confirming that Competitive advantage leads to improved firm performance (H4) validates the importance of developing distinct market positions in East Java's competitive F&B sector. This research model can be achieved through various means, such as leveraging unique local flavors, adopting innovative service delivery methods, or implementing effective digital marketing strategies. The acceptance of H5, which suggests innovativeness significantly affects firm performance, further emphasizes the importance of continuous innovation in business practices and offerings.

Cafés can effectively drive their success by leveraging EO dimensions in East Java's F&B sector. A thriving café might combine coffee education with its service, offering sessions where customers learn about different Indonesian coffee origins. Proactiveness is key, such as establishing early relationships with local coffee farmers, adopting online payment and delivery platforms, and providing regular barista training and coffee knowledge workshops. Taking calculated risks by investing in customer engagement events, like live music performances, workshops, and special menus during events like Valentine's Day or Chinese New Year, can also be beneficial. A blend of original design and modern touches creates an inviting and Instagrammable atmosphere, offering both smoking and non-smoking areas to cater to different preferences. Focusing on local coffee varieties, creating a great ambiance, and offering unique customer experiences help cafés maintain a competitive edge in a saturated market. This approach shows how proactive initiatives in supplier relationships and staff

development can lead to market differentiation and business success, illustrating the practical application of research findings in East Java's F&B sector.

## **CONCLUSION**

This study explored the role of Innovativeness, Proactiveness, and Risk-Taking in competitive advantage and firm performance responses among small and medium enterprise SMEs in the f&b industry based in East Java, Indonesia. The results further reveal that innovativeness and proactiveness positively impact both Competitive advantage and firm performance, confirming that SMEs in the f&b industry must embrace innovation to pursue new opportunities. Whereas there is a positive and significant relationship between risk-taking and Competitive advantage, it did not substantially enhance firm performance, and this shows that risks must equally be well controlled and well organized.

The two key factors are innovativeness and proactiveness; organizations should, therefore, come up with new products and services and, additionally, search for new chances in the market and appropriately respond to changes in the market. Building a good relationship with local suppliers and training its staffers can also improve service delivery and firm performance. Companies should manage such risks through new products or market segment diversification to suit the existing organizational objectives. Choosing an environment conducive to the intention creates an impressive appearance and clientele base. Likewise, utilizing local materials, keeping sustainability at the forefront, and having a more prominent online presence can also improve a business's market standing. By targeting these value areas, SMEs in the East Java F&B industry proposed a pathway to improve their competitive edge and performance, driving better business performance and success.

The study acknowledges several limitations, including a limited sample size and geographical focus on East Java, reliance on self-reported data, and the cross-sectional design, which may impact the generalizability and causality of the findings. These limitations necessitate careful interpretation and suggest areas for future research, such as exploring other strategic orientations, different regions, and employing longitudinal data. We can observe the indicators and their behavioral pattern, as in this research, some notable indicators were unable to fully capture the constructs they intended to measure, which may affect the overall validity. In addition, since this research is conducted within East Java, external factors may affect your variables that are not controlled for in the research. The study's findings suggest several avenues worth exploring for future research directions. Hence, the differential effects of strategic orientations on performance through Competitive advantage merit further investigation, particularly in different segments of the F&B industry (e.g., fast food versus fine dining). Additionally, examining how external factors such as market dynamism or competitive intensity moderate these relationships could provide valuable insights.

Future studies might also benefit from incorporating longitudinal designs to understand better how these relationships evolve over time and across different market conditions. These findings have important implications for SME F&B managers and practitioners. They suggest a balanced approach to strategic management, where proactiveness and innovation are prioritized while risk-taking is carefully managed. Managers should develop robust, innovative capabilities and proactive market orientation while ensuring that risk-taking initiatives are strategically aligned with organizational goals and capabilities. Furthermore, the results emphasize the importance of building and maintaining Competitive advantages through these strategic orientations, as they serve as crucial mechanisms for achieving superior firm performance.

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