



Analysis of the Influence of Entrepreneurial Orientation, Learning Orientation, and Dynamic Capability on Strategic Flexibility and SMEs Performance

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Abstract. Currently, SMEs are competing with accelerated technological and market advances and increasingly challenging innovations. SMEs struggle to implement innovations because they may lack managerial and technical skills. However, they could reap higher returns if they were more flexible and quick to respond to changes in the dynamic business environment. This study aims to analyze the role of strategic flexibility in the relationship between strategic orientations (entrepreneurship orientation and learning orientation), dynamic capabilities, and financial performance and innovation performance of SMEs in Indonesia's creative sector. This study took data from 119 respondents from creative sector SMEs in Indonesia. The data processing method used to process the survey data is the partial-least square structural equation model (PLS-SEM). The results of the research data analysis show that strategic flexibility mediates the variables of entrepreneurial orientation, learning orientation, and dynamic capabilities on SMEs financial performance and innovation performance. As well as other findings in this study indicate that the innovation performance can mediate the relationship between strategic flexibility and financial performance.

Keywords: Entrepreneurial Orientation · learning orientation · dynamic capability · strategic flexibility · innovation performance · financial performance

1 Introduction

A retail survey conducted by Bank Indonesia in April 2020 confirmed a decline in retail sales. This is reflected in the Real Sales Index (IPR) of -16.9% [69]. This figure is far worse than the March 2020 IPR of 4.5% [69]. Bank Indonesia also experienced the biggest decline in sales, especially in the creative sector with the apparel sub-category down 70.9% and the cultural and recreational goods group down 48.5% . It is estimated that the surveyed raw materials will continue to decline during this pandemic, although the clothing subgroup is predicted to be 77.8% [69]. So that this decline has an impact on all economic sectors and organizations, including small and medium enterprises (SMEs) [46]. The operations of SMEs have been severely hampered, their financial situation

has weakened, and they are now more vulnerable to financial risks as a result of the timing of closures and movement prevention measures that have been put in place by governments in many countries [68]. This impact was felt for the Indonesian economy, because the performance of creative industry SMEs in Indonesia was considered one of the pillars of the economy during the financial crisis [58]. In Indonesia, the creative industry contributes more than 7% to the national economy (GDP) with an annual growth rate of around 5%, accounts for around 13% of national exports and provides more than 14% of total employment [16]. Therefore, Indonesian creative industry SMEs need an orientation focused on innovation to survive in the market [58]. [85] found that innovation can generate sustainable growth that leads to competitive advantage in both internal and external markets. For this reason. Therefore, innovation performance has a positive and important impact in supporting efforts to increase profitability which has an impact on the sustainability of an organization, especially in crisis situations such as the coronavirus pandemic that has occurred [85]. [89] found that during the coronavirus pandemic, SMEs tended to focus on reducing financial spending. This indicates the importance of looking at the financial performance of an SME during a crisis such as the coronavirus pandemic. In [43] regarding the performance of SMEs, the competitive advantage of an organization can be seen in their financial performance & innovation performance. Financial performance is a measure of the competitive advantage of a business, and financial performance can be seen from the profit and loss levels of a business actor [43]. And [34] explain the concept of innovation performance as the achievement or success of innovations carried out by organizations according to their goals.

To gain those competitive advantages, organizations must be flexible so they can respond quickly to changes and make the best decisions in an ever-changing environment [63]. The resource-based view (RBV) is a widely accepted approach to strategic management that emphasizes the role of a company's internal resources in shaping its competitive advantage [13]. One key aspect of the RBV is the concept of strategic flexibility, which refers to a firm's ability to adapt and respond to changes in the external environment [1]. This can be especially important for small and medium-sized enterprises (SMEs), which often have limited resources due to their lower diversification and must be more agile in order to remain competitive in changing environment [1, 18, 90]. Previous studies have shown that strategic flexibility can improve production capabilities [22], financial and market performance [83], and innovation performance [51] of an organization. The identification of different theoretical perspectives and conceptual foundations in the existing strategic flexibility literature has led to a series of unresolved tensions on the topic of strategic flexibility [19, 27]. Such as the topic of antecedents or activating strategic flexibility in an organization, is an area that has been largely under-researched [47].

Based on the results of the meta-analysis of [47] several organizational orientations that can activate strategic flexibility are entrepreneurial orientation and learning orientation. Entrepreneurial orientation can increase awareness about upcoming opportunities, as well as add exploitation capabilities to strengthen the competitive position of SMEs [72]. Entrepreneurial orientation refers to a company's proclivity for innovation, risk-taking, and proactiveness, and it has been shown to be positively associated with the ability of SMEs to adapt to changing market conditions and pursue new

opportunities [2]. Moreover, in the context of strategic flexibility, a learning orientation owned by a business allows for more effective adjustments to changing conditions so as to increase the flexibility of organizational strategy [71]. Research has shown that learning orientation is positively related to a firm's ability to adapt to changing market conditions, as well as to its overall performance [3]. And strategic flexibility is defined as an organization's capacity to respond to different types of external change [70]. According to [74] this capacity depends on the existence of dynamic capability to make changes and organizational responsiveness when facilitating change namely through the provision of regular reconfiguration of organizational resources, processes, and capabilities [15]. Dynamic capabilities are a source of regular updates to prevent organizational core competencies from becoming rigid, therefore, companies that have generated dynamic capabilities have demonstrated a high degree of strategic, structural, and operational flexibility [39].

There is a growing body of research on the importance of strategic flexibility in small and medium-sized enterprises (SMEs), but there is still a lack of insight into how strategic flexibility can increase an organization's financial and innovation performance in different contexts [23]. In particular, there is a need for more research on the role of strategic orientations and dynamic capabilities as antecedents of strategic flexibility [54] in specific industries or regions [12]. Therefore, this research highlights the importance of understanding the relationship between strategic orientations, dynamic capabilities, and strategic flexibility and how it can increase organization's financial and innovation performance in the context of SMEs in the creative sector of Indonesia.

2 Theoretical Background and Hypotheses Development

The resource-based view (RBV) and real options reasoning (ROR) theory are two widely accepted approaches to strategic management that have been the subject of significant research in the field [14]. These theories highlight the importance of internal resources and capabilities in shaping a firm's competitive advantage and ability to adapt and respond to changes in the external environment. The RBV emphasizes the role of a firm's internal resources and capabilities in determining its success [13]. According to this theory, a firm's resources and capabilities are the key drivers of its competitive advantage, and can include physical assets, such as factories and equipment, as well as intangible assets, such as intellectual property and brand reputation [13]. The RBV also highlights the importance of strategic flexibility, or the ability of a firm to adapt and respond to changes in the external environment [1].

ROR theory, on the other hand, focuses on the value of flexibility and the ability to adapt in the face of uncertainty [78]. ROR theory posits that firms can create value by holding options, or the ability to choose between different courses of action, in order to respond to changes in the external environment [78]. ROR theory also emphasizes the importance of entrepreneurial orientation (EO), or the degree to which a firm is oriented towards innovation and risk-taking, in shaping a firm's ability to create and capture value through options [59]. Both the RBV and ROR theory suggest that entrepreneurial orientation, learning orientation, and dynamic capability are important antecedents of strategic flexibility [1, 59]. Entrepreneurial orientation refers to a firm's focus on

innovation and risk-taking, and has been linked to improved innovation performance in SMEs [59]. Learning orientation, or the focus on continuous learning and improvement, has also been linked to improved performance in SMEs [1]. Dynamic capability, defined as the ability to reconfigure resources and capabilities in response to changing external conditions, has also been identified as an important antecedent of strategic flexibility and a driver of innovation and financial performance in SMEs [4, 5].

Overall, the literature suggests that the RBV and ROR theory provide a foundation for understanding the relationship between strategic flexibility, entrepreneurial orientation, learning orientation, and dynamic capability in SMEs. Strategic flexibility, driven by these antecedents, has been linked to improved innovation and financial performance in SMEs.

2.1 Entrepreneurial Orientation and Strategic Flexibility

Flexibility and adaptability have long been associated with entrepreneurship and better business performance [48, 84]. To adapt, organizations develop various plans and strategies to offset changes in the external environment in order to maintain business continuity and perform better [8]. Therefore, strategic flexibility requires organizations to not only proactively influence and adapt to the external environment by facilitating calculated risk-taking, but also to provide innovative solutions through capabilities known as the dimension of entrepreneurial orientation [59]. Previous studies have proven the positive effect of entrepreneurial orientation on strategic flexibility [11, 19, 57, 67, 84]. [11] study argued that entrepreneurial orientation can increase a firm's ability to respond to changes in the external environment by fostering a culture of innovation and risk-taking, which in turn can increase strategic flexibility. Another study published in the *Journal of Small Business Management* in 2018 found that entrepreneurial orientation had a positive effect on strategic flexibility in SMEs operating in dynamic industries, such as the technology sector [19]. The author of the study argued that entrepreneurial orientation can help SMEs to identify and exploit new opportunities, and to adapt to changes in the external environment by leveraging their unique strengths and capabilities [19]. However, the influence of entrepreneurial orientation on strategic flexibility in the context of small and medium-sized enterprises (SMEs) is still lacking, and this research aims to fill that gap. Therefore:

H1: Entrepreneurial orientation has a positive effect on strategic flexibility.

2.2 Learning Orientation and Strategic Flexibility

Strategic flexibility refers to an organization's ability to quickly identify major market changes, commit resources to new strategic responses, and react immediately when the time comes to terminate or reverse those resource commitments [73]. Learning orientation enables firms to achieve competitive advantage by increasing information processing activities, which allows for faster and more effective adjustments to changing environmental and market conditions than competition [30]. This suggests that learning orientation (LO) promotes greater strategic flexibility to neutralize environmental threats, take advantage of market opportunities, and even shape market evolution [10]. In addition, strategic flexibility represents an organization's ability to manage resources

efficiently [21]. Learning orientation creates a learning-oriented organizational culture and atmosphere by increasing corporate attention to organizational learning activities, thereby increasing resource allocation, configuration, and deployment [75]. Moreover, learning orientation enables firms to enhance their information processing and strategic learning capabilities [9], which allows them to adapt to changes and dynamics of the environment through the re-synthesis of resources. Learning allows for more effective adjustments to changing conditions and thus increases strategic flexibility [71]. Although there is evidence to suggest that learning orientation can positively influence strategic flexibility in small and medium-sized enterprises (SMEs) [57, 84], current literature still lacks a thorough understanding of this relationship in the SME context and this research aims to fill that gap. Therefore:

H2: Learning Orientation has a positive effect on strategic flexibility.

2.3 Dynamic Capability and Strategic Flexibility

In a dynamically changing environment, the ability of firms to quickly recalibrate their strategies is critical for competitive advantage [48, 50]. Strategic flexibility helps companies detect changes in the market environment [37], overcome organizational sluggishness [87], reallocate resources [70], stimulate creativity and innovation [48, 57], and explore new business opportunities [17]. Strategic flexibility reflects the presence of high-level capabilities that are oriented towards changes in the nature of activities and organizational goals [6]. Broadly defined, strategic flexibility reflects an organization's capacity to respond to different types of external change. This capacity depends on the dynamic capability possessed to make changes and the responsiveness of the organization to facilitate change [74]. This explanation is in line with the argument of [31] that dynamic capability is a source of regular updates to prevent core competencies from becoming core rigidities. Based on this explanation, an organization that has generated dynamic capability must demonstrate a high level of strategic, structural, and operational flexibility. Therefore:

H3: Dynamic Capability has a positive effect on strategic flexibility.

2.4 Strategic Flexibility and Innovation Performance

SMEs exert a strong influence on a country's economic growth and technological development through their ability to innovate new products and processes (Zhu et al., 2006). According to Harrison and Watson (1998), SMEs are generally more flexible, adaptable, and better located to develop and implement new ideas. Ussman et al. (2001) stated that the flexibility of SMEs is an important feature that allows them to innovate both within the organization and in the external market. In practical terms, flexibility provides a safe environment for organizations to experiment, learn from mistakes, and increase innovation (Luthar et al., 2000). Companies with higher strategic flexibility can react to market dynamics better and faster, identify customer needs more quickly and precisely (than companies that are less agile), and offer products and services required by customers with higher quality and in a timely manner. In the shorter term, this leads to higher customer satisfaction and, as a result, they will enjoy higher interest rates (Ghorban-Bakhsh & Gholipour-Kanani, 2018). Previous studies show that strategic flexibility also

supports new product development (Kandemir & Acur, 2012), radical innovation (Medina, Lavado, & Cabrera, 2006), innovation performance (Fan et al., 2013), and explorative types of innovation [87]. Therefore:

H4: Strategic flexibility has a positive effect on Innovation Performance.

2.5 Strategic Flexibility and Financial Performance

A literature review on the results of strategic flexibility shows that the higher the level of strategic flexibility, the higher the financial performance of the organization [19, 47]. In times of globalization, innovation and technology are undergoing changes, and flexibility is seen as an organizational capability that leads companies to gain competitive advantage [48]. This provides many advantages for businesses because it allows companies to achieve superior financial performance in a dynamic and competitive business environment [67]. Flexible companies are becoming more proactive and reactive in their business, thereby implementing different strategies and actions from their competitors in the competitive arena, which enables them to gain a sustainable competitive advantage and results in improved financial performance [51]. Proactive and reactive companies have the ability to analyze their environment and determine external opportunities and threats better than other companies [25]. When strategic flexibility is applied to all business structures, it helps companies to be aware of environmental changes that may occur, to allocate needed resources and bring creativity, as well as innovative attributes [48, 57]. [44] also stated that flexible companies are better prepared to face uncertainty; thus, they will obtain better financial results. For this reason, strategic flexibility is considered an important element of organizational efficiency and financial performance [82]. Therefore:

H5: Strategic flexibility has a positive effect on Financial Performance.

2.6 Innovation Performance as Mediating Variable between Strategic Flexibility and Financial Performance

Financial performance is the main goal of every company. This is the extent to which an organization achieves economic results in relation to its goals [49]. The relationship between a company's financial results and innovation is difficult to measure [20]. However, the effect of innovation performance on firm financial performance has been a topic of interest to managers and economists for many years [51]. Innovation performance can significantly improve existing products and processes or encourage companies to design, produce, and distribute new ones, providing better financial results than other entrepreneurial activities [42]. [79] explain that companies with high levels of innovation performance can achieve better financial results than companies with low levels of innovation performance. An organization with strategic flexibility tends to have the potential to innovate in response to changes in the external environment [76]. In line with this, [47] found that organizational strategic flexibility can positively influence financial performance through the mediation of innovation performance. Therefore:

H6: Strategic flexibility mediated by Innovation Performance has a positive effect on Financial Performance.

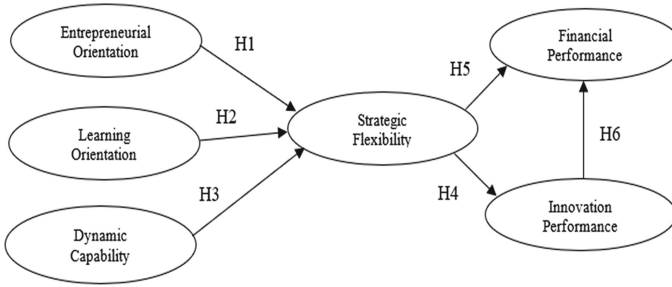


Fig. 1. Research Framework

2.7 Framework

Conceptually, this study was conducted to examine the effect of entrepreneurial orientation, learning orientation, and dynamic capability on innovation performance and financial performance of SMEs mediated by strategic flexibility. This research was developed by adopting previous studies that included the variables used in this study. There are 3 previous studies that are used as a reference in this study, namely [47, 53], and [39]. The framework of thought in this research can be seen in Fig. 1.

3 Research Method

3.1 Types of Research

This study uses a quantitative and descriptive approach to obtain a deeper understanding of the impact of the variables being studied. The method used is cross-sectional, as information is collected only once [61]. This means that data collection results in numeric or numerical systems.

3.2 Population and Sample

The population and sample in this study are small and medium-sized enterprises (SMEs) in the creative sector located on the island of Java, Indonesia. A purposive sampling technique is used for the sampling, which is a sampling technique that utilizes several criteria. The criteria used include:

- The target respondents are owners or employees who work at least at the management level (managers) in the creative sector of SMEs.
- The target respondents are SMEs that have an active period of 2 years
- The target respondents are SMEs that have a minimum of 5 employees.
- The target respondents are SMEs that have created or modified new products or services for consumers.
- The target respondents are SMEs in the creative sector.

According to data from [86], the largest population of Indonesian SMEs is located on the island of Java, Indonesia. Additionally, the Central Bureau of Statistics classifies small, medium, and large-scale businesses based on the number of workers. Enterprises with a workforce of 5–19 people are classified as small businesses, while businesses with a workforce of 20–99 people are classified as medium or medium-sized businesses. Large businesses are those with a workforce of more than 99 people. The SME sector in question is the creative industry sector, as defined by the Indonesia Ministry of Tourism and Creative Economy. These sectors include game development, architecture, interior design, music, art, product design, fashion, culinary, films, animations and videos, photography, visual communication design, television and radio, crafts, advertising, performing arts, publishing, and applications.

3.3 Data Collection

The data were collected through the distribution of carefully prepared questionnaires, as the respondents fully understood and were expected to objectively explain their perceptions of the related questions. The data obtained from the questionnaires were processed using descriptive and inferential statistics with the PLS structural equation modeling tool SmartPLS (SEM-PLS). Questionnaire development begins by conducting a pilot test and modifying the required questionnaire items to improve the content and understandability of the questionnaire for respondents. This ensures that the questions are relevant and use appropriate language. In this study, the questionnaire uses a six-point Likert scale and the collected quantitative data is the main data to be analyzed for hypothesis testing.

SmartPLS uses the bootstrap method or random multiplication, which does not take into account the normality assumption. This study used a one-way test with a significance level of 5% (0.05). The process of testing the hypothesis in this study involved examining the path coefficient values. A positive path coefficient value indicates that the independent variable is positively related to the dependent variable, while a negative path coefficient value indicates that the independent variable is negatively related to the dependent variable. In addition, the comparison of values in the t-table and t-statistic can be used to determine the significance values in support of the hypothesis. If the t statistic value is greater than the t table value, it means that the hypothesis is supported or the independent variable has a significant influence on the dependent variable.

3.4 Latent Variables Measurement

The present study used entrepreneurial orientation, learning orientation, and dynamic capability as independent variables, and innovation performance, financial performance as dependent variables.

a) *Entrepreneurial Orientation*

Following the [64] and [28] approaches about entrepreneurial orientation (EO). We used EO as the second order and measured it through three dimensions such as innovativeness, proactiveness, and risk-taking. Every dimension is measured through three items except proactiveness, which contains four items adapted from [28].

b) *Learning Orientation*

In the current study, following [75] learning orientation (LO) is used as second-order and measured through three dimensions such as commitment to learning, shared vision, and open-mindedness. Every dimension is measured through four items except open-mindedness, which contains five items.

c) *Dynamic Capability*

Following [77] and [56] approach about dynamic capability (DC). We used DC as the second order and measured it through three dimensions such as sensing, seizing, and transformation. Every dimension is measured through five items except seizing, which contains four items adapted from [56].

d) *Strategic Flexibility*

Following [32] approaches about strategic flexibility (SF). We used SF as the second and measured it through two dimensions such as reactive and proactive. Every dimension is measured through three items adapted from [65].

e) *Financial Performance*

In the current study, following [7] approach about financial performance (FP) in their study on the financial and non-financial performance of SMEs in Malaysia. We used FP as the second order and measured it through three dimensions such as sales, cash flow, and profit. Every dimension is measured through two items except cash flow, which contains three items.

f) *Innovation Performance*

Following [35] approach about innovation performance (IP). We used IP as the second order and measured it through five dimensions such as internal performance, technical performance, and commercial performance, economic performance and social performance. Every dimension is measured through several items, which were adapted from [35].

4 Results and Discussion

4.1 Research Results

To ensure the validity and reliability of our study instrument, we followed the procedures outlined by [40]. The loading factor value is used to measure the convergent validity of the reflecting model. A loading factor value greater than 0.5 indicates that the observed variable is valid. Therefore, there are several items that are less than the threshold and need to be deleted such as three items of innovation performance Kii2, Kii6, and Kit4. In addition, Table 2 shows that the AVE root value is higher than the correlation value between the other constructs. This shows that the constructs in the estimated model meet the criteria of high discriminant validity. Moreover, the composite reliability (CR) and average variance extracted (AVE) association with the construct should be higher than the threshold [40]. Hence, Table 1 shows that the composite reliability of all constructs is higher than 0.70, while the AVE value is higher than 0.50. It indicates that the measurement model is internally consistent and reliable.

Test the goodness of the structural model can be seen from the value of Q-Square (Q2). Q-Square predictive relevance for structural models, measures how well the observed values are produced by the model and also the parameter estimates. From

Table 1. Reliability Test

Construct	Test Results		
	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>	<i>AVE</i>
Dynamic Capability	0.944	0.945	0.583
Entrepreneurial Orientation	0.935	0.943	0.641
Learning Orientation	0.933	0.937	0.560
Strategic Flexibility	0.884	0.886	0.635
Innovation Performance	0.967	0.968	0.614
Financial Performance	0.910	0.911	0.649

^aData Source: Processed primary data, 2022

Table 2. Correlation Between Construct (AVE Root Value)

Construct	<i>DC</i>	<i>EO</i>	<i>FP</i>	<i>IP</i>	<i>LO</i>	<i>SF</i>
Dynamic Capability	0.763					
Entrepreneurial Orientation	0.598	0.801				
Financial Performance	0.376	0.506	0.806			
Innovation Performance	0.596	0.423	0.485	0.784		
Learning Orientation	0.453	0.499	0.432	0.448	0.748	
Strategic Flexibility	0.571	0.656	0.421	0.570	0.533	0.797

^bData Source: Processed primary data, 2022

Table 3. Direct Path-Coefficient and Effect Size

Construct	Test Results			
	<i>Standard Deviation (STDEV)</i>	<i>T Statistics</i>	<i>P Values</i>	<i>R2</i>
DC -> SF	0.106	2.114	0.017	0.517
EO -> SF	0.090	4.542	0.000	
LO -> SF	0.077	2.976	0.001	
SF -> FP	0.108	3.910	0.000	0.177
SF -> IP	0.091	6.295	0.000	0.325

^cData Source: Processed primary data, 2022

the R2 in Table 3 the Q-square value (Q2) is 0.732 > 0 indicating the model has predictive relevance. That is, the estimated parameter values generated by the model are in accordance with the observed values. The Q2 value is close to 1 so that it can be stated that the model structurally fit with the data or has a good fit.

Table 4. Indirect Path-Coefficient and Effect Size

Construct	Test Results		
	<i>Indirect Effect</i>	<i>T Statistics</i>	<i>Remarks</i>
SF -> IP -> FP	0.208	3.128	Significant

^dData Source: Processed primary data, 2022

To determine whether a hypothesis is accepted or not, we compare the t statistic with the t table and the p value. To support a hypothesis and conclude that there is a significant relationship, the following conditions must be met: t statistic > t table and p value < 0.05. The t table value for a significance level of 5% is 1.96. Based on this formulation and the data from Table 3, the results of testing hypotheses 1 to 5 of the proposed research have been supported. We tested the indirect effect using the Sobel Test, which is presented in Table 4. The results show that the mediating effect of innovation performance is significant in the relationship between strategic flexibility variables and financial performance. This is supported by the calculated t value of 3.128 ($t > 1.96$), indicating that the sixth hypothesis has been supported.

4.2 Discussion

a) *The Effect of Entrepreneurial Orientation on Strategic Flexibility*

The findings of this study are consistent with those of a previous study by [47], which found that entrepreneurial orientation has a positive influence on strategic flexibility in organizations. Another study by [24] also supports these findings, defining strategic flexibility as a company’s intrinsic ability to use and utilize resources flexibly in order to react to rapidly occurring environmental changes. This strategic flexibility is driven by the entrepreneurial orientation of SMEs, which enables companies to eliminate rigid institutional routines, make commitments, and take competitive actions when facing various changes [67, 87].

b) *The Effect of Learning Orientation on Strategic Flexibility*

The results of this study support the findings of previous research, which have found that learning orientation has a positive effect on organizational strategic [41, 47, 71]. These studies have shown that learning orientation enables companies to achieve strategic flexibility by increasing information processing activities, which allows them to make faster and more effective adjustments to changing environmental and market conditions than their competitors. [38] also have findings consistent with these findings, highlighting the importance of organizational context for effectively integrating specific knowledge from different functional areas, which can promote open feedback, collaboration, and sharing of ideas, in order to increase learning orientation and strengthen strategic flexibility in the organization.

c) *The Effect of Dynamic Capability on Strategic Flexibility*

The findings of this study are consistent with those of a previous study by [39], which found that dynamic capability has a positive influence on strategic flexibility. In their research, the most direct indication of the emergence of dynamic capability is

a high level of control or organizational agility [81], and achieving this level of control requires high flexibility. Furthermore, the research findings of [39] contribute to the understanding of dynamic capability by explaining that companies that successfully develop it can gain a high degree of strategic and operational flexibility, which is in line with the findings of this study. Although SMEs have limited resources, the resource-based view (RBV) describes organizational resources as tangible or intangible assets, including skills and knowledge in deploying tangible or intangible corporate resources. Therefore, organizational capabilities such as dynamic capability, which can help rearrange resources, change the nature of activities, introduce new products quickly, and adapt current organizational strategies if needed, can still be possessed by SMEs and increase their flexibility [15, 29, 38, 39].

d) *The Effect of Strategic Flexibility on Innovative Performance*

The findings of this study are consistent with those of a previous study by [47], which found that strategic flexibility has a positive influence on innovation performance. The idea that strategic flexibility plays a significant role in driving various types of innovation in the context of SMEs has received empirical support [26, 33, 65]. Strategic flexibility can impact innovation performance by providing more flexible processes and structures [25]. Organizations with higher strategic flexibility are able to better and faster react to market dynamics, more quickly and accurately identify customer needs, offer higher quality products and services in a shorter time, and provide more successful customer satisfaction [36].

e) *The Effect of Strategic Flexibility on Financial Performance*

These findings differ from the results of previous studies by [47], which found that strategic flexibility had a positive effect on financial performance. However, there is still empirical evidence to support the idea that organizations with a high level of strategic flexibility also have high financial performance, as shown in a study by [19]. When applied to all business structures, strategic flexibility can help organizations be aware of potential environmental changes and allocate the resources needed to respond to them, as well as stimulate creativity. This makes flexible companies better prepared to face uncertainty and achieve better financial results [51]. The implementation of strategic flexibility in an organization can improve operations and processes, reduce costs, and increase market growth and revenues, thereby improving financial performance. Given the importance of quickly adapting to environmental changes and seizing external opportunities, strategic flexibility reduces the risk of doing business and increases the likelihood of success for the company [51].

f) *The Effect of Strategic Flexibility on Financial Performance with the mediation of Innovation Performance*

This result is consistent with the findings of a study by [47], which showed that strategic flexibility can affect financial performance through the mediation of innovation performance. The results of this study can also be explained by the fact that innovation can significantly improve existing products and processes or encourage companies to design, produce, and distribute new ones, leading to better financial results than other entrepreneurial activities [42, 51]. In addition, organizations with an innovation focus can attract creative employees who can help them increase productivity and revenue, and reduce costs, thereby strengthening organizational financial performance [55].

According to the factor loading values, the most important role of strategic flexibility is reactivity, while the most important role of innovation performance is the organization's success in innovating, which creates an impact on consumers and/or users, as well as the community and the surrounding environment. This means that the reactivity of SMEs encourages organizations to create innovations that have a positive impact on consumers and the environment, which increases SME sales. This process has a greater positive effect when strategic flexibility has an indirect effect compared to a direct effect on financial performance. These results indicate that strategic flexibility is indeed an important part of an organization's ability to achieve competitive advantage, but its effect on financial performance may be more nuanced than previously theorized [47].

5 Conclusion

a) *Research Summary*

The evidence and discussion support the following conclusions:

Entrepreneurial orientation, learning orientation, and dynamic capability are all positively related to strategic flexibility. Strategic flexibility, in turn, has a positive influence on innovation performance and financial performance. Additionally, the ability of small and medium-sized enterprises (SMEs) to react to potential changes in the environment (a key aspect of strategic flexibility) can lead to innovation, which then has a positive effect on financial performance. Overall, the willingness of SMEs to explore new opportunities and adapt to changes in the external environment, along with the ability to anticipate and react to market trends and customer desires, can improve the organization's innovation performance and financial performance.

b) *Managerial Implication*

- Strategic flexibility is important for improving the performance of small and medium-sized enterprises (SMEs). SME owners should focus on building flexible business structures, processes, and systems that can adapt to changes in the environment. This will allow SMEs to quickly recognize and take advantage of new opportunities, leading to innovation and improved performance.
- The antecedents of strategic flexibility, such as entrepreneurial orientation and dynamic capability, should be fostered in the organization to increase flexibility. Entrepreneurial orientation can be increased by emphasizing experimentation and creative processes, while learning orientation can be increased by creating a learning-focused environment. Dynamic capability can be increased through internal efficiency and reconfiguration of competencies and by increasing awareness of market trends and customer desires.
- SME owners should be aware of the total impact of strategic flexibility on overall SME performance, including its mediating effect on financial performance through innovation performance. Tracking this effect can help SME owners understand the benefits of strategic flexibility on their organization.

c) *Research Limitations*

Despite its contributions, this study has several important limitations that must be considered when interpreting the research findings. This research was conducted on creative sector SMEs, and the results cannot be generalized to all SME sectors because each sector has different characteristics. In addition, this study focuses on the role of strategic flexibility in building SME performance, but does not consider other factors that influence SME performance, such as a dynamic market, a climate that encourages innovation, or organizational culture. Additionally, the distribution of questionnaires online may have caused possible errors in perceiving the questions or produced biased responses.

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