



Competitive Advantage as a Mediator for Sustainable Business Performance in MSMEs of Makassar City

Muhammad Arif Ahsan¹

¹ Master of Management Student, Faculty of Economics and Business, Hasanuddin University, Indonesia

muhammad.ahsan@pajak.go.id

Abstract. This study aims to analyze the role of entrepreneurial orientation and sustainable business strategy in shaping competitive advantage and how competitive advantage mediates the relationship between these factors and sustainable business performance in MSMEs in Makassar City. Given the growing importance of sustainability in business, understanding how entrepreneurial and strategic factors contribute to long-term success is crucial. This study employs a quantitative approach, utilizing the Structural Equation Modeling-Partial Least Square (SEM-PLS) technique to analyze data from 257 MSMEs. The findings indicate that both entrepreneurial orientation and sustainable business strategy have a positive and significant impact on competitive advantage. Furthermore, competitive advantage plays a crucial mediating role in strengthening the relationship between entrepreneurial orientation and sustainable business strategy with sustainable business performance. These results highlight the strategic importance of competitive advantage in enhancing the sustainability of MSMEs. This research contributes to the theoretical and practical understanding of entrepreneurship and sustainability strategies, providing valuable insights for MSMEs in Indonesia to develop competitive and sustainable business practices. By emphasizing the role of strategic planning and entrepreneurial capabilities, this study offers practical implications for policymakers, business owners, and researchers in fostering a more resilient and competitive MSME sector.

Keywords: Entrepreneurial Orientation, Sustainable Business Strategy, Competitive Advantage, Sustainable Business Performance, SMEs

1 Introduction

Micro, Small and Medium Enterprises (MSMEs) have long been recognized as the backbone of the Indonesian economy, including in Makassar City. The vital role of MSMEs is not only reflected in their contribution to Gross Domestic Product (GDP) and employment, but also in their resilience in facing various economic shocks. However, amidst increasingly fierce global competition and demands for sustainable business practices, MSMEs in Makassar City face big challenges to remain relevant and competitive.

Entrepreneurial orientation, which includes innovation, risk taking, and proactivity, has been identified as a key factor in the success of MSMEs. In Makassar City, with

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its rich culture and natural resources, entrepreneurial orientation has great potential to encourage unique and sustainable product and service innovation. However, the extent to which this entrepreneurial orientation has been adopted and how it influences the competitive advantage of MSMEs in Makassar still needs further research.

In addition, sustainable business strategies are becoming increasingly crucial in the contemporary business landscape. Consumers, investors and other stakeholders are increasingly demanding business practices that are not only economically profitable, but also socially responsible and environmentally friendly. For MSMEs in Makassar, adopting a sustainable business strategy is not only about meeting market demands, but also about ensuring long-term sustainability in the context of limited resources and increasingly real climate change.

Competitive advantage, as a result of entrepreneurial orientation and effective business strategy, is a determining factor in the success of MSMEs [1]. In the Makassar context, competitive advantage can mean the ability of MSMEs to utilize local wisdom, optimize local resources, and create unique value that is difficult for competitors to imitate. However, how this competitive advantage is formed and how it affects the sustainable business performance of MSMEs in Makassar are still questions that need to be answered.

Sustainable business performance is an increasingly important measure of success for MSMEs [2]. This includes not only traditional financial indicators, but also the social and environmental impacts of business operations. In Makassar City, with its diverse ecosystem and socio-economic challenges, MSMEs that are able to achieve sustainable business performance will not only survive, but also contribute significantly to sustainable regional development.

Despite previous research on MSMEs in Indonesia, there are still gaps in our understanding of the specific dynamics of MSMEs in Makassar City, especially in the context of business sustainability. How entrepreneurial orientation and sustainable business strategy interact to create competitive advantage, and how this in turn influences sustainable business performance, still needs to be explored in more depth.

Therefore, this research aims to analyze the role of entrepreneurial orientation and sustainable business strategy in creating competitive advantage, as well as how this competitive advantage mediates the relationship between these factors and the sustainable business performance of MSMEs in Makassar City. It is hoped that the results of this research will provide valuable insights for policy makers, MSME players and other stakeholders in an effort to encourage sustainable and competitive MSME growth in Makassar City.

2 Literature Review

2.1 Entrepreneurial Orientation and Competitive Advantage

Entrepreneurial orientation (EO) is an important concept that is widely studied in the literature on entrepreneurship and management strategy. According to Lumpkin & Dess [3], EO consists of several key dimensions such as innovation, proactivity, and risk-taking, all of which play an important role in creating competitive advantage [4].

EO encourages companies to produce unique product innovations and exploit emerging market opportunities, which leads to increased competitive advantage. Previous studies have shown that companies with high entrepreneurial orientation are more likely to innovate and adapt to changes in the business environment, which increases their competitiveness in the long run [5]. In the context of MSMEs, especially in areas such as Makassar City, EO allows the utilization of local resources and local wisdom to create value that is not easily imitated by competitors. A study conducted by Wiklund & Shepherd [6] found that EO has a significant positive effect on company performance, especially when combined with a strong business strategy. In other words, EO not only improves a company's ability to compete, but also strengthens the foundation of sustainable business performance.

2.2 Sustainable Business Strategy and Competitive Advantage

Sustainable business strategy is increasingly gaining attention in modern management literature, especially in relation to how this strategy can create a lasting competitive advantage. Hart & Milstein [7] stated that companies that integrate sustainability into their business strategy are more likely to gain competitive advantage through increased resource efficiency, environmentally friendly product innovation, and improved corporate reputation. Porter & Kramer [8] also argue that corporate social responsibility (CSR) and sustainability can be sources of competitive advantage, especially in an era when consumers are increasingly concerned about the social and environmental impacts of business activities. Research by Dangelico & Pujari [9] shows that companies that adopt a sustainability strategy are able to create significant product differentiation, which not only increases competitiveness but also results in better business performance in the long term. In the MSME sector, sustainability strategy can also improve operational efficiency and help create a more positive corporate image in the eyes of consumers and stakeholders.

2.3 The Role of Competitive Advantage as a Mediator

Competitive advantage plays a crucial mediating role between entrepreneurial orientation and sustainable business strategy towards sustainable business performance [10]. According to Porter's theory of competitive advantage, companies that successfully create unique value and maintain their competitive position in the market tend to perform better than their competitors. This is reinforced by research from Wang & Hsu, which shows that competitive advantage plays an important role in linking innovation strategy with business performance, including in the context of sustainability. In the context of MSMEs, as highlighted by research by Covin & Miller [11], competitive advantage can be obtained through continuous innovation and the implementation of strategies that are responsive to changes in the business environment. In research conducted by Lin & Wu, competitive advantage was shown to be a significant mediator in the relationship between entrepreneurial orientation and company performance, especially in innovation-intensive sectors.

2.4 Sustainable Business Performance

Sustainable business performance includes the financial, social, and environmental dimensions of business results. Research by Elkington [12] on the triple bottom line concept emphasizes that successful businesses in the modern era are not only measured by financial profits, but also by the social and environmental impacts they generate. Research by Russo & Fouts found that there is a positive relationship between a company's environmental performance and long-term profitability, especially when the company adopts strategies that support sustainability. In the context of MSMEs in Indonesia, research by Nohong et al. [2] shows that sustainable business performance can be strengthened through the implementation of business strategies that focus on resource efficiency and environmentally friendly product innovation. This research is in line with previous findings showing that competitive advantage, obtained from entrepreneurial orientation and sustainable business strategies, can encourage MSMEs to achieve sustainable business performance [13].

3 Research Methods

This research methodology will use a quantitative approach with the aim of analyzing the role of entrepreneurial orientation and sustainable business strategy in creating competitive advantage, as well as how competitive advantage mediates the relationship between entrepreneurial orientation, business strategy and sustainable business performance in MSMEs in Makassar City. This research will use a survey design, where data is collected through questionnaires distributed to MSME owners or managers in various sectors in Makassar City. A five-point Likert scale will be used to measure main variables, such as entrepreneurial orientation, sustainable business strategy, competitive advantage, and sustainable business performance. The research sample will be selected purposively, with the criteria that the respondent is a decision maker in MSMEs who has at least two years of experience in managing a business, (The sample in this study is 257)

To analyze the data, statistical methods will be applied using the SEM-PLS (Structural Equation Modeling-Partial Least Square) technique, which allows testing direct and indirect relationships between research variables. The use of SEM-PLS was chosen because this technique is capable of handling complex research models with multiple indicators, and is suitable for use in relatively small research samples. In this research, the mediation model will be tested to see whether competitive advantage mediates the relationship between entrepreneurial orientation and sustainable business strategy and sustainable business performance. It is hoped that this data analysis can provide valid and reliable results regarding how these factors contribute to the sustainability of MSME businesses in Makassar City.

4 Results

4.1 Validity Test

Before conducting a more detailed analysis of the data collected, it is important to ensure that the instruments used in this research meet the standards of validity and reliability [14]. Validity is key components to ensure that a research instrument can reliably measure what it is supposed to measure. Validity relates to the degree to which the instrument can accurately measure the concept in question, while reliability relates to the consistency of the results obtained from the measurement.

Table 1. Validity Test

Variable	Average Variance Extracted (AVE)	Composit e Reliability	Cronbach's Alpha
X1.1	0.6	0.85	0.83
X1.2	0.67	0.88	0.86
X1.3	0.63	0.86	0.84
X1.4	0.68	0.89	0.87
X2.1	0.7	0.9	0.88
X2.2	0.65	0.87	0.85
X2.3	0.72	0.92	0.9
X2.4	0.66	0.88	0.86
Z.1	0.71	0.91	0.89
Z.2	0.69	0.89	0.87
Z.3	0.74	0.93	0.91
Z.4	0.68	0.87	0.85
Y.1	0.75	0.92	0.9
Y.2	0.7	0.9	0.88
Y.3	0.73	0.91	0.89
Y.4	0.71	0.89	0.87

Source: Researcher data processing 2024

Based on the results of the validity test, all variables in this study showed good convergent validity. This is indicated by the value Average Variance Extracted (AVE) which exceeds 0.50 for all variables, which means that more than 50% of the indicator variance can be explained by each construct. This AVE value shows that the indicators used are able to explain the construct significantly, ensuring that the measurements carried out on variables such as Entrepreneurial Orientation, Sustainable Business Strategy, Competitive Advantage, and Sustainable Business Performance valid and in accordance with the measurement objectives in this research. These results indicate that the variables used have adequate validity and are suitable for use for further analysis.

4.2 Reliability

Table 2. Reliability test

Variable	Average Extracted (AVE)	Variance	Composite Reliability	Cronbach's Alpha
Entrepreneurial Orientation	0.65		0.87	0.85
Sustainable Business Strategy	0.68		0.89	0.86
Competitive Advantage	0.71		0.91	0.89
Sustainable Business Performance	0.72		0.9	0.88

Source: Researcher data processing 2024

Based on the results of the SEM-PLS reliability test per variable which includes Entrepreneurial Orientation, Sustainable Business Strategy, Competitive Advantage, and Sustainable Business Performance, all variables show adequate results for reliability and validity.

1. Entrepreneurial Orientation has value Average Variance Extracted (AVE) of 0.65, indicating that more than 65% of the indicator variance can be explained by this construct, indicating good convergent validity. Plus, value Composite Reliability of 0.87 and Cronbach's Alpha of 0.85 indicates strong reliability, indicating high internal consistency between indicators in the entrepreneurial orientation construct.
2. Sustainable Business Strategy also shows good reliability, with value AVE of 0.68, which means that this construct explains 68% of the variance of the indicators. Mark Composite Reliability of 0.89 and Cronbach's Alpha of 0.86 indicates that the indicators used in this variable have very good consistency, so they can be relied on for measurement.

3. Competitive Advantage own AVE of 0.71, indicating strong convergent validity. Mark Composite Reliability of 0.91 and Cronbach's Alpha of 0.89 strengthens that this variable has very high reliability, with indicators that are able to explain competitive advantage consistently.
4. Sustainable Business Performance show value AVE the highest among all variables, namely 0.72, which shows that this construct is very capable of explaining the variance of its indicators. With value Composite Reliability of 0.90 and Cronbach's Alpha of 0.88, this variable also has very good internal consistency, ensuring that the indicators used are very reliable in measuring sustainable business performance.

Overall, the results of this reliability test show that all variables used in this research model meet the requirements for reliability and validity, with a very good score on AVE, Composite Reliability, and Cronbach's Alpha. This shows that this model is reliable in measuring the relationship between entrepreneurial orientation, sustainable business strategy, competitive advantage, and sustainable business performance in MSMEs in Makassar City.

4.3 R Square

Table 3. R Square

Dependent Variable	R-Square
Competitive Advantage	0.68
Sustainable Business Performance	0.72

Source: Researcher data processing 2024

The R-Square test results show that the variable Competitive Advantage has an R^2 value of 0.68, which means that 68% of the variance of competitive advantage can be explained by the independent variable, namely Entrepreneurial Orientation and Sustainable Business Strategy. Meanwhile, variables Sustainable Business Performance has an R^2 value of 0.72, which means 72% of the variance in sustainable business performance is explained by variables Competitive Advantage, Entrepreneurial Orientation, and Sustainable Business Strategy. These values indicate that the model has good predictive power, with the majority of the variance of the dependent variable explained by the independent variables in the model.

4.4 **Multicollinearity Test Results (VIF)**

Table 4. Multicollinearity Test (VIF)

Variable	VIF
Entrepreneurial Orientation	2.15
Sustainable Business Strategy	1.98
Competitive Advantage	2.45

Source: Researcher data processing 2024

The results of the multicollinearity test show that all variables have low VIF values, namely below 5. Entrepreneurial Orientation has a VIF value of 2.15, Sustainable Business Strategy of 1.98, and Competitive Advantage of 2.45. These values indicate that there is no serious multicollinearity problem in the model, so that the independent variables do not have a high correlation with each other. This means the model is considered stable and there is no redundancy of information between predictor variables.

4.5 **Path Significance Test Results (Path Coefficients)**

Table 5. Path Coefficients

Connection	t-Statistic	p-Value
Entrepreneurial Orientation -> Competitive Advantage	8.12	< 0.05
Sustainable Business Strategy -> Competitive Advantage	7.45	< 0.05
Competitive Advantage -> Sustainable Business Performance	9.03	< 0.05
Entrepreneurship Orientation -> Sustainable Business Performance	2.85	< 0.05
Sustainable Business Strategy -> Sustainable Business Performance	3.75	< 0.05

Source: Researcher data processing 2024

The results of the path significance test show that all relationships between variables in the model are statistically significant, with a value of t-statistic above 2. Entrepreneurial Orientation significant effect on Competitive Advantage (t = 8.12, p <

0.05), likewise Sustainable Business Strategy significant effect on Competitive Advantage ($t = 7.45$, $p < 0.05$). Relationship between Competitive Advantage and Sustainable Business Performance also significant ($t = 9.03$, $p < 0.05$). Apart from that, fine Entrepreneurial Orientation ($t = 2.85$, $p < 0.05$) as well Sustainable Business Strategy ($t = 3.75$, $p < 0.05$) has a significant direct effect on Sustainable Business Performance. This indicates that all paths in the model are statistically significant, and the relationships between variables are supported by the data.

4.6 Mediation

Table 6. Mediation

Mediation	Mediation Coefficient	t-Statistic	p-Value
Competitive Advantage mediates Entrepreneurial Orientation -> Sustainable Business Performance	0.29	4.58	< 0.05
Competitive Advantage mediates Sustainable Business Strategy -> Sustainable Business Performance	0.31	5.12	< 0.05

Source: Researcher data processing 2024

The results of the mediation test show that Competitive Advantage significantly mediate the relationship between Entrepreneurial Orientation and Sustainable Business Performance (mediation coefficient = 0.29, $t = 4.58$, $p < 0.05$). Besides that, Competitive Advantage also mediates the relationship between Sustainable Business Strategy and Sustainable Business Performance (mediation coefficient = 0.31, $t = 5.12$, $p < 0.05$). This means that competitive advantage plays an important role in strengthening the influence of entrepreneurial orientation and sustainable business strategies on the sustainable business performance of MSMEs. In other words, entrepreneurial orientation and sustainable business strategies indirectly impact sustainable business performance through competitive advantage.

5 Discussion

5.1 The Influence of Entrepreneurial Orientation on Competitive Advantage

Based on the analysis results, entrepreneurial orientation has a significant influence on competitive advantage, with a t-statistic value of 8.12 and a p-value below 0.05. This shows that the higher the level of entrepreneurial orientation possessed by MSMEs, the greater their ability to create competitive advantages in the market. Entrepreneurial orientation, which includes innovation, proactivity and risk taking, plays an important role in encouraging MSMEs to produce products or services that are unique and difficult for competitors to imitate, which ultimately increases their competitiveness.

Entrepreneurial orientation not only encourages product and service innovation, but also helps MSMEs to respond quickly to market changes and be more proactive in capturing new opportunities. In this context, MSMEs that have a strong entrepreneurial orientation are better able to create competitive advantages by offering products or services that suit consumer needs, even in conditions of intense competition. With this orientation, MSMEs can take risks in business development, which in turn increases their ability to compete effectively in local and global markets.

Apart from that, the influence of entrepreneurial orientation on competitive advantage can also be seen as an effort to utilize local wisdom and existing resources in Makassar City. According to Sugiarto et al. [15] and Herman, Saleh, et al. [16] Innovation carried out by MSMEs with an entrepreneurial orientation allows them to create unique value that is not only based on economic benefits, but also cultural and environmental local. Thus, entrepreneurial orientation not only helps MSMEs to survive amidst competition, but also creates sustainable advantages, which can improve business performance in the long term.

5.2 The Influence of Sustainable Business Strategy on Competitive Advantage

The results of the analysis show that sustainable business strategies have a significant influence on competitive advantage, with a t-statistic value of 7.45 and a p-value below 0.05. This confirms that the implementation of sustainable business strategies directly contributes to increasing the competitive advantage of MSMEs in Makassar City. Sustainable business strategies, which include resource efficiency, social responsibility and concern for the environment, are important factors in creating added value that differentiates MSMEs from their competitors, both in terms of products and business practices.

Sustainable business strategies not only enable MSMEs to meet the demands of a market that is increasingly concerned about social and environmental issues, but also help them reduce operational costs through resource efficiency. MSMEs that are able to optimize energy use, manage waste well, and contribute to the welfare of local communities, are more likely to gain a positive reputation and consumer loyalty. These advantages are not only limited to increasing profitability, but also building an image of a responsible company, which is difficult for competitors who do not implement sustainable practices to imitate.

Furthermore, sustainable business strategies provide MSMEs with the opportunity to innovate in creating environmentally friendly and sustainable products or services, which ultimately increases their competitiveness in the market. In the context of Makassar City, implementing this strategy can also strengthen links with local culture and environmental preservation, thereby creating a competitive advantage that is not only based on economics but also social and environmental. In other words, a sustainable business strategy allows MSMEs to create advantages that are more durable and relevant in facing future business challenges [17].

5.3 The Influence of Competitive Advantage on Sustainable Business Performance

The analysis results show that competitive advantage has a significant influence on sustainable business performance, with a t-statistic value of 9.03 and a p-value below 0.05. This confirms that MSMEs that are able to create a strong competitive advantage, either through innovation, product differentiation or efficient cost management, tend to have better business performance in the long term. Competitive advantage enables MSMEs to not only increase financial profits, but also meet sustainable business goals, including social and environmental responsibility. Therefore, effective competitive advantage is the key for MSMEs to achieve business sustainability. This is in line with what was done by Rijal et al. [18].

5.4 The Influence of Entrepreneurial Orientation on Sustainable Business Performance

Entrepreneurial orientation was also found to have a significant effect on sustainable business performance, with a t-statistic value of 2.85 and a p-value below 0.05. MSMEs that have a high entrepreneurial orientation characterized by innovation, proactivity and risk taking are able to adapt more quickly to market changes and take advantage of new opportunities for sustainable business growth. By taking innovative steps, MSMEs can develop products and services that suit dynamic market demands and care about sustainability aspects. This influence shows that entrepreneurial orientation not only contributes to achieving short-term profits, but also strengthens socially and environmentally responsible business performance. This research is in line with that conducted by Hamel & Wijaya [3].

5.5 The Influence of Sustainable Business Strategy on Sustainable Business Performance

Sustainable business strategy has a significant influence on sustainable business performance, with a t-statistic value of 3.75 and a p-value below 0.05. MSMEs that implement environmentally friendly and socially responsible business practices show better performance in the sustainability aspect. This means that by adopting strategies that focus on resource efficiency, social welfare and environmental sustainability, MSMEs can create a broader positive impact, not only in terms of profitability, but also in social and environmental contexts. According to Sastradinata [19] Sustainable business strategies help MSMEs create long-lasting value and provide advantages in facing long-term business challenges, which overall improves their sustainable business performance.

5.6 Competitive Advantage Mediates Entrepreneurial Orientation on Sustainable Business Performance

Competitive advantage plays an important role as a mediating variable between entrepreneurial orientation and sustainable business performance. When MSMEs have

a strong entrepreneurial orientation, especially in terms of innovation, proactivity and risk taking, they tend to be able to create significant competitive advantages. This competitive advantage then becomes a mechanism that links entrepreneurial initiatives with achieving sustainable business performance. MSMEs that are able to innovate and act proactively often produce products or services that are unique and difficult for competitors to imitate, which in turn improves their performance in terms of profitability and social responsibility. In other words, a good entrepreneurial orientation produces competitive advantages that mediate sustainable performance improvements.

Previous research supports this argument, such as a study conducted by Covin & Slevin [20] which found that entrepreneurial orientation increases company competitiveness through sustainable innovation. Competitive advantage is an important bridge in relation to broader business performance, including business sustainability. In addition, research by Herman, Bashir, et al. [13] also shows that entrepreneurial orientation helps companies develop the ability to compete effectively, which ultimately improves financial and non-financial performance, including aspects of business sustainability.

5.7 Competitive Advantage Mediates Sustainable Business Strategy on Sustainable Business Performance

Competitive advantage also plays an important mediating role in the relationship between sustainable business strategy and sustainable business performance. MSMEs that implement sustainable business strategies, such as efficient use of resources and social responsibility, are often able to build a good reputation in the market. This sustainable strategy creates competitive advantage by providing added value that is difficult for competitors who do not focus on sustainability to imitate. Thus, competitive advantage mediates the relationship between implementing sustainable strategies and achieving sustainable business performance, which includes long-term profitability and a positive reputation in the eyes of consumers and stakeholders.

Theoretical support for this can be found in research by Suhaeni [21] which emphasizes that sustainable business strategies can increase efficiency and innovation, which then creates a competitive advantage for companies. In addition, a study by Hart & Dowell [22] shows that companies that focus on sustainability are able to achieve higher business performance through developing unique competitive advantages, both in terms of operations and a socially and environmentally responsible brand image.

6 Conclusion

Based on the results of this research, it can be concluded that entrepreneurial orientation and sustainable business strategy has a significant role in improving competitive advantage and sustainable business performance on MSMEs in Makassar City. Entrepreneurial orientation, which includes innovation, proactivity and risk taking, contributes directly to the ability of MSMEs to create unique products and services, which in turn strengthens their competitive position in the market. On the

other hand, sustainable business strategies, which include efficient use of resources, social responsibility and concern for the environment, have been proven to be able to increase the competitiveness of MSMEs by providing added value that is difficult for competitors to imitate.

This research also shows that competitive advantage acts as a significant mediating variable in the relationship between entrepreneurial orientation and sustainable business strategy and sustainable business performance. Competitive advantage helps MSMEs translate entrepreneurial orientation and sustainable strategies into better business performance, both in financial aspects and social and environmental responsibility. With competitive advantages, MSMEs can more easily face market challenges and remain relevant in the long term.

Overall, this research provides important insight that developing competitive advantage through entrepreneurial orientation and implementing sustainable business strategies is the key for MSMEs to achieve sustainable business performance. The results of this research can serve as a guide for stakeholders, including MSME players and policy makers, in efforts to strengthen competitiveness and ensure the sustainability of MSME businesses amidst increasingly dynamic market challenges.

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