



The Role of Ambidexterity Dimension in Mediating the Influence of Entrepreneurial Orientation on Business Performance in SMEs

M. Trihudyatmanto^{1*}, Bahtiar Efendi¹, Agus Putranto¹, Heri Purwanto¹

¹ Universitas Sains Al-Qur'an Jawa Tengah di Wonosobo, Indonesia
trihudyatmanto@unsiq.ac.id*, bahtiarefd@unsiq.ac.id, agusp@unsiq.ac.id,
heripurwanto@unsiq.ac.id

Abstract. This study investigates the mediating role of organizational ambidexterity in the relationship between entrepreneurial orientation and business performance among small and medium enterprises (SMEs) in the Kedu Residency, Central Java, Indonesia. The approach used in this study is a qualitative descriptive analysis approach. In this study, the researcher conducted an investigation to describe the Business Performance of SMEs driven by entrepreneurial orientation through ambidexterity, with dimensions of exploration and exploitation, in SMEs located in the Kedu Residency, Central Java Province. The findings are expected to firmly reveal that organizational ambidexterity plays a significant mediating role in strengthening the relationship between entrepreneurial orientation and business performance. SMEs that adopt an ambidextrous strategy are expected to show significantly superior performance results compared to their counterparts that do not integrate the approach. In the dynamic and often unstable environment that characterizes developing economies, the ability of organizations to simultaneously explore new opportunities while exploiting existing capabilities emerges as an important determinant of sustainable success. This study offers practical insights for SMEs practitioners, highlighting the need to embed an ambidextrous framework in business models to enhance competitiveness, agility, and resilience in increasingly complex and unpredictable markets.

Keywords: Organizational Ambidexterity, Exploitation, Exploration, Entrepreneurial Orientation, Business Performance, SMEs

1. Introduction

The SMEs sector in Indonesia plays a vital role in economic growth, job creation, and income distribution, which have a significant impact on national development [1]. One of the key factors influencing SME performance is entrepreneurial orientation, which can be defined as the ability to recognize opportunities, take calculated risks, and innovate according to market demand [1]. In the competitive context of Indonesia with limited resources, this orientation serves as a key driver of success. Entrepreneurial orientation enables SMEs to adapt to market

changes and capitalize on opportunities both locally and globally, which in turn drives resilience and sustainable growth amidst uncertainty.

In developing countries like Indonesia, businesses face challenges such as resource constraints, changing market dynamics, and regulatory complexity. To overcome these challenges, entrepreneurial orientation is needed. This study aims to bridge the knowledge gap and provide valuable insights for practitioners, academics, and policymakers in navigating the SMEs landscape in Indonesia [2]. Their success depends heavily on their ability to adapt and thrive in a dynamic environment [3].

Adopting an entrepreneurial orientation drives SMEs business performance, while organizational ambidexterity the ability to balance exploration and exploitation can mediate the relationship between entrepreneurial orientation and business performance [4]. This relationship is still under-explored, especially in Indonesian SMEs, including in Karisedenan Kedu. To maintain competitive advantage, SMEs must be able to adapt to dynamic business conditions and increasing competition [5]. Entrepreneurial orientation, which includes proactiveness, innovation, and the courage to take risks, is essential in facing challenges [6]; [7]. However, research shows that the results regarding the impact of entrepreneurial orientation on performance vary, especially in developing countries such as Indonesia [8]. Ambidextrous organizational capabilities, which combine exploration and exploitation, can serve as a mediator in this relationship, helping to ensure resilience and sustainability for SMEs facing resource constraints and market fluctuations [9]. The concept of ambidextrous organization focuses on the balance between exploration and exploitation to improve business performance [10]. Companies that adopt an ambidextrous approach often outperform companies that rely on only one strategy [11]. Recent research also incorporates sustainable performance criteria, which include economic, social, and environmental dimensions [12].

The results of this study are expected to provide valuable insights for SMEs in the Kedu Residency of Central Java in designing strategies that combine organizational skills and entrepreneurial orientation to improve their business performance. By considering the specific economic and social conditions in Indonesia, this policy can strengthen the resilience and long-term competitiveness of both domestic and foreign companies.

2 Literature Review

2.1 Ambidexterity

Ambidexterity is the ability to simultaneously exploit existing capabilities and to explore new opportunities [13]. Exploitation is focused on improving and reusing both products and processes with existing resources. Exploitation and exploration are two continuums at different ends, so practicing both is not easy [14]. If a company places too much emphasis on exploitation, the company will lose its competitive advantage because its products become obsolete and its processes are less effective and efficient than competitors [15]. But it is often easier to emphasize exploitation because most organizations have structures and cultures that emphasize stability and control, [15]. Conversely, too much emphasis on exploration will result in a long list of potential ideas for new products and processes to new clients and customers in new markets, but few are completed [16].

2.2 Business Performance

Business performance refers to how well an organization achieves its goals and targets, both financially and non-financially. It involves evaluating the effectiveness of strategies, operational efficiency, customer satisfaction, and employee productivity. Good business performance helps companies understand trends, identify problems, and make strategic adjustments. Business performance is the accumulation of the results of activities carried out within the company itself [17]. [18] define it as an effort to measure the level of performance including sales turnover, number of buyers, profits and sales growth.

SMEs performance refers to the results or achievements achieved by micro, small, and medium enterprises in a certain period of time. This performance reflects how SMEs utilize their resources in operational activities. SMEs performance can be measured using various indicators, including financial indicators, growth, and operational efficiency.

2.3 Entrepreneurial orientation

[19] states that companies with a strong entrepreneurial orientation will have the ability to innovate more strongly than other companies. [20], states that companies with a strong entrepreneurial orientation will be more willing to take risks, and not just stick to past strategies.

A person who dares to take risks can be defined as someone who is oriented towards opportunities in the uncertainty of the decision-making context. Risk barriers are key factors that differentiate companies with an entrepreneurial spirit from those without. The main function of a high entrepreneurial orientation is how to involve risk measurement and risk taking optimally [21].

2.4 Relationship between Entrepreneurial Orientation and Business Performance

Entrepreneurial orientation, which includes innovation, proactivity, and risk taking, is very important for the success of SMEs [22]. While Entrepreneurial Orientation improves the performance of younger SMEs (under 11 years), its effect diminishes in older firms [23]. In Indonesia, dynamic socio-economic and regulatory conditions shape the role of Entrepreneurial Orientation. Limited resources and regulatory challenges require adaptive and context-specific strategies. Policies that encourage entrepreneurship are critical for SMEs resilience. Recent studies reveal the nuanced impact of Entrepreneurial Orientation in Indonesia [24].

2.5 Relationship between ambidexterity and business performance

Organizational ambidexterity, defined as the ability to balance exploitation and exploration, enables firms to refine existing capabilities while driving business performance [25]; [26]. Ambidextrous organizations effectively navigate dynamic environments by leveraging this dual strategy [27]. In developing countries like Indonesia, ambidextrous capabilities are critical due to resource constraints, market volatility, and changing regulations. Firms must integrate local socio-economic conditions with ambidextrous strategies to achieve sustainable growth. Policies that promote this balance are critical to support both SMEs and larger firms.\

Organizational ambidextrousness is defined as a firm’s ability to balance exploitation of existing opportunities with exploration of new opportunities [6]. An overemphasis on exploitation can stifle innovation and hinder market expansion, while an overfocus on exploration can lead to costly experiments that threaten financial stability [6]. Striking a balance between these competing priorities is essential to ensure business sustainability and growth. Businesses face challenges including resource constraints, market volatility, and evolving regulatory frameworks [3].

2.6 Ambidextrous dimension to business performance

Complexity requires Indonesian firms to adopt ambidextrous strategies supported by government policies that encourage innovation and sustainable practices. By effectively balancing exploitation and exploration, businesses can adapt to local conditions, reduce risks, and exploit opportunities to achieve long-term success in dynamic and competitive markets [6]. Small and medium-sized enterprises (SMEs) with an entrepreneurial orientation tend to engage in ambidextrous innovative activities, which foster adaptive organizational cultures and routines [28]. These activities, which are based on resource-based logic, enable SMEs to develop unique capabilities and improve business performance [6]. The relationship between ambidextrous and entrepreneurial orientation is context-dependent, manifesting in two distinct forms: network ambidextrous and innovation ambidextrous [29]. Empirical research underlines the role of ambidexterity as a mediator, linking entrepreneurial orientation characterized by innovation, proactiveness, and risk-taking with organizational performance under various environmental conditions [30]; [31].

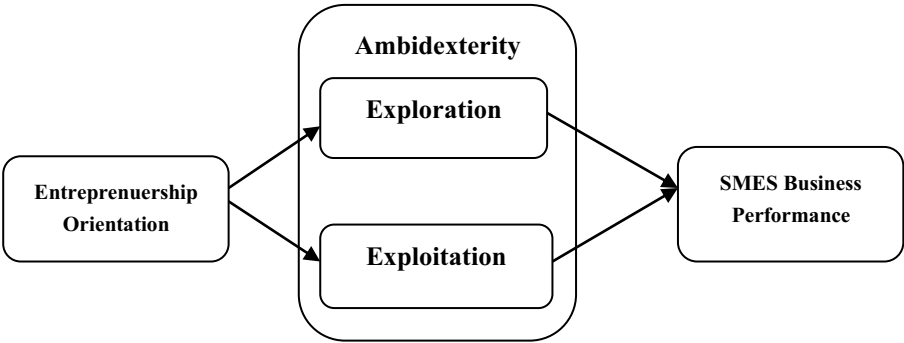


Figure 1. Research Model

3 Methodology

The approach used in this study is a qualitative descriptive analysis approach. The term qualitative research according to Kirk and Muller in [32] initially came from qualitative observations with an emphasis on quantum or quantity, so it emphasizes more on the quality aspect naturally because it concerns the understanding, concept, value of the object to be studied. While descriptive analysis according to [33] is a method used to describe or analyze a research result but is not used to make broader conclusions. The purpose of this descriptive research is to create a description, picture, or painting systematically, factually and accurately regarding the facts, characteristics and relationships between the phenomena being investigated. In this research, the researcher conducted research by describing or describing the Business Performance of SMEs driven by entrepreneurial orientation through an ambidexterity attitude with dimensions of exploration and exploitation in SMEs in the Kedu Residency, Central Java Province.

4 Discussion

Recent studies have strengthened the significant impact of Entrepreneurial Orientation on the performance of Small and Medium Enterprises (SMEs) in Indonesia. For example, a study by [34] found that Entrepreneurial Orientation positively influences SMEs business performance, highlighting the importance of fostering entrepreneurial attitudes among business owners. Similarly, a study by [35] showed that entrepreneurial orientation significantly influences business performance in a Bakery SMEs in Surakarta, Indonesia. Empirical evidence highlights the important role of Entrepreneurial Orientation in improving SMEs business performance. While [22] confirmed the positive influence of Entrepreneurial Orientation on SMEs performance, [23] argued that Entrepreneurial Orientation does not directly affect performance. In Indonesia, [34] found that Entrepreneurial Orientation significantly affects business performance. [35] showed that entrepreneurial orientation significantly affects SMEs performance. The analysis underlines that Entrepreneurial Orientation significantly affects Exploration Ambidexterity Capabilities. Empirical findings suggest that developing exploration capabilities is essential for gaining knowledge in emerging sectors, enabling businesses to identify new opportunities and markets [36]. Recent studies have also highlighted the important role of Entrepreneurial Orientation in driving business performance, which is mediated by organizational ambidexterity [37]. Exploration involves high-risk, flexible, and experimental activities aimed at discovering new ideas to innovate processes, technologies, products, and markets [6]. Empirical evidence suggests that SMEs can leverage Entrepreneurial Orientation for SMEs business performance amidst uncertainty. Recent studies reinforce the important role of Entrepreneurial Orientation in improving SMEs performance. [34] highlights the positive influence of Entrepreneurial Orientation on business growth, emphasizing entrepreneurial adaptability. Meanwhile, [37] shows that Entrepreneurial Orientation has a significant impact on marketing performance, with organizational agility as a mediating factor.

For SMEs in Kedu Regency, Central Java Province, effective business activities result in profitability, market share, and revenue growth. Effectiveness, as defined by [38] is the extent to which targeted results are achieved. This study is in line with previous studies by [39]; [40] which emphasize the important role of external resources and technological adaptation. By aligning with evolving consumer demands, SMEs can maintain their competitiveness in a dynamic market. Customized strategies that encourage exploration and adaptability are essential to address the unique socio-economic conditions of the country. Effectively ambidexterity organizations to achieve marketing success by balancing competitiveness and adaptability. Ambidexterity enhances the ability of SMEs to improve their business by innovating, targeting superior products, and meeting regional changes. Notably, high uncertainty is positively correlated with ambidexterity than direct marketing performance. This finding is consistent with research by [39]; [40], which highlights the importance of adapting external knowledge and resources to dynamic environmental conditions.

5 Conclusion

The study shows that the implementation of Entrepreneurial Orientation can improve the business performance of SMEs, especially in the Kedu Residency of Central Java Province. By encouraging Entrepreneurial Orientation, SMEs achieve superior results, in line with previous studies on the positive impact of Entrepreneurial Orientation on business performance. The relationship between Entrepreneurial Orientation and SMEs performance is further influenced by Exploitation Ambidexterity Organization and Exploration Ambidexterity Organization. Both dimensions support Entrepreneurial Orientation that allows SMEs to adapt to dynamic markets. This study identifies four strategic approaches to developing organizational ambidexterity, which guides managers to maintain competitiveness and drive sustainable business performance. By integrating internal resources with external collaboration, SMEs can improve adaptability and competitiveness. Policies that support resource optimization and ambidextrous practices are essential to navigate environmental uncertainty and drive sustainable growth.

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