

Enhancing the Performance of Pesantren-Based Business Units through Entrepreneurial Orientation: The Mediating Role of Competitive Advantage

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Abstract

Objective – This research examines the influence of entrepreneurs' orientation, competitive advantages, and SME performance.

Design/methodology/approach – With the assistance of AMOS software, the data analysis involved the creation of measurement and structural models utilising the structural equation modelling technique. Data samples were subsequently bootstrapped utilising 250 samples to assess the indirect effect of entrepreneurial orientation on the performance of SMEs via competitive advantage.

Findings – The results of this study indicate that competitive advantage plays a mediating role in the relationship between entrepreneurial orientation and the performance of SMEs, specifically regarding both firm growth and personal wealth performance metrics. This study has enhanced the current body of work by offering evidence regarding utilizing personal wealth as an indicator of SMEs' performance..

Research limitations/implications – This research was only conducted in Indonesia specializing on bussines unit pesantren. As a recommendation, the author suggests further study in the same context of object. Researchers also suggest that further research can explore other constructs that can influence the performance of SME.

Practical implications – The results of this study are anticipated to provoke discussion over the suitability of personal wealth as an indicator of SME performance. These findings are anticipated to serve as a foundation for subsequent research.

Originality/value – This research examines the impact of greenwashing on the relationship between entrepreneurs' orientation, competitive advantages, and SME performance. This research also provides insight how SME performance specially on business unit pesantren



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INTRODUCTION

In the face of rapid technological advancement and an increasingly competitive economic environment, small and medium enterprises (SMEs) must adopt innovative strategies to survive and grow. Pesantren (Islamic boarding schools), traditionally known as religious and educational institutions, have increasingly taken on entrepreneurial roles by establishing business units to support their sustainability and empower surrounding communities (Kusnadi et al., 2020). These pesantren-based business units (PBBUs) now function similarly to SMEs and are critical for local economic development and institutional independence. These business units can take various forms, including agricultural enterprises, retail shops, cooperatives, and service-based ventures. The pesantren leadership or affiliated foundations often manage them and may involve students (*santri*) in educational and productive roles. The integration of business and education in pesantren is guided by Islamic principles such as honesty (*Siddiq*), trustworthiness (*Amanah*), and mutual benefit (*maslahah*) (Zarkasyi, 2019). Pesantren business units are unique in that they aim for profit and social and spiritual goals. This dual-purpose orientation sets them apart from conventional SMEs and aligns them with the broader concept of Islamic entrepreneurship, which emphasizes ethical business practices and community welfare (Kusnadi et al., 2021).

The East Java government has promoted entrepreneurship among pesantren via the One Pesantren One Product (OPOP) initiative, which seeks to empower pesantren by facilitating the development and marketing of at least one superior product by each pesantren (Kemenkop UKM Jatim, 2019). The products encompass halal food, herbal medicines, creative industries, and agro-based enterprises. Consequently, pesantren business units are increasingly adopting structured and commercially orientated approaches, characterised by the integration of formal business models and digital platforms. The performance of SMEs pertains to the results of enterprises' business activities (Kotane & Kuzimina-Merlino, 2017). Diverse metrics can quantify it. Firm growth indicators are significant performance metrics for SMEs. Pesantren business units refer to entrepreneurial ventures or economic activities operated by Islamic boarding schools (*pesantren*) in Indonesia. Traditionally, pesantren have been religious, educational institutions that teach Islamic knowledge and values. However, in recent years, many pesantren have begun to engage in business activities to promote economic self-reliance, support educational operations, and contribute to the local economy (Huda et al., 2017).

Shepherd and Wiklund (2009) identified five prevalent indicators of business growth utilised in previous studies: growth in sales, employees, profit, assets, and equity. It is indisputable that performance metrics for SMEs have been established in Western nations. The availability of exploitable opportunities drives entrepreneurs in the Western world, but entrepreneurs in least developed nations are motivated by necessity (Eijdenberg, 2016). Revenues from entrepreneurial ventures in rich nations are exclusively allocated for business expansion, but a portion of revenues in least developed countries is directed towards personal expenses to sustain the entrepreneurs' livelihoods. This situation has necessitated the assessment of SMEs' success through personal wealth measures, as proposed by Eijdenberg (2016). The utilisation of personal wealth as a metric for assessing SMEs' performance in least developed countries, such as Tanzania, is a novel approach; however, it remains uncertain if entrepreneurial orientation affects these measurements (Eijdenberg, 2016).

THEORETICAL BACKGROUND AND RESEARCH MODEL

The Influence of Entrepreneurial Orientation on Competitive Advantages

The firm's Resource-Based View (RBV) provides the theoretical foundation for this relationship. According to RBV, internal firm resources and capabilities—especially valuable, rare, inimitable, and non-substitutable (VRIN)—are key to achieving and sustaining a competitive advantage (Barney, 1991). EO is increasingly viewed as a dynamic capability that enables firms to identify and exploit new opportunities, innovate, and act ahead of competitors (Wiklund & Shepherd, 2003).

Firms that exhibit high EO are more likely to engage in creative problem-solving, introduce new products or processes, and enter new markets before competitors. These behaviors directly contribute to creating differentiation and cost advantages—two fundamental types of competitive advantage described by Porter (1985). Innovativeness can lead to unique products, proactiveness to first-mover benefits, and risk-taking to high-reward ventures—all sources of sustainable competitive positioning.

H1: Entrepreneurial Orientation positively influences Competitive Advantages

The Influence of Entrepreneurial Orientation on SME Performance

EO is a key construct in entrepreneurship research, often characterized by three core dimensions: innovativeness, proactiveness, and risk-taking (Lumpkin & Dess, 1996). These dimensions reflect a firm's strategic posture and influence its ability to respond to market dynamics, identify opportunities, and pursue competitive advantage. The Resource-Based View (RBV) is the overarching theory explaining how internal capabilities, such as entrepreneurial orientation, can serve as strategic resources to achieve superior performance (Barney, 1991). According to the RBV, organizations with valuable, rare, inimitable, and non-substitutable (VRIN) resources can sustain competitive advantages. In this framework, EO is conceptualized as a behavioral and strategic resource that drives innovation and agility, which are critical for performance in dynamic environments (Wiklund & Shepherd, 2005). In the context of pesantren business units, EO plays a unique role. These units not only pursue economic objectives but also social and spiritual missions, aligned with Islamic values such as honesty (Siddiq), responsibility (Amanah), and benefit for others (maslahah) (Huda et al., 2017; Zarkasyi, 2019). The integration of EO within such institutions is expected to empower them to overcome challenges such as limited access to capital and managerial expertise while enhancing their economic independence and community impact (Kusnadi et al., 2021).

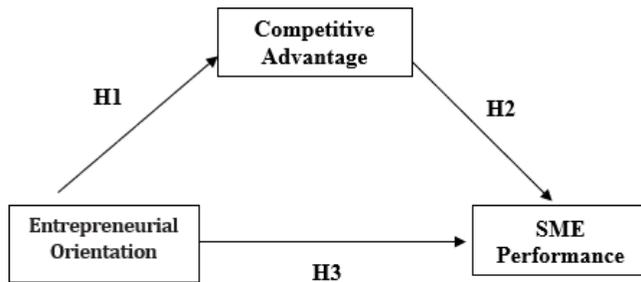
Prior empirical studies suggest a positive relationship between EO and SME performance (Rauch et al., 2009). However, the unique institutional setting of pesantren introduces additional layers of complexity, including religious values, social goals, and educational priorities. As such, the present framework posits that when contextualized within pesantren business units, EO will positively influence SME performance, both in financial and non-financial terms. Previous research findings indicate that the performance of SMEs is influenced by entrepreneurial attitude (Amin, 2015; Amin et al., 2016; Fatoki, 2012; Mahmood & Hanafi, 2013; Mata & Aliyu, 2014; Rauch, Wiklund, Lumpkin, & Frese, 2009; Yeni, 2015; Zehir et al., 2015; Urban & Kujinga, 2017; Jena, 2020; Fatoki, 2021; Al Mamun et al. (2022)).

H2: Competitive Advantage positively influences SME Performance

Numerous studies have treated entrepreneurial orientation as an independent variable and firm performance as a dependent variable. This commonly examined relationship has resulted in replications that often overlook identifying and assessing mechanisms and mediating variables that influence firm performance (Covin et al., 2019).

This study posits that competitive advantage is a probable mediator in the relationship between entrepreneurial orientation and firm performance, despite the presence of various mediators. This mediation is underpinned by the resource-based view, which posits that a firm's competitive advantage and superior performance arise from firm-specific resources and capabilities that are costly for rivals to replicate, valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991). Barney (1991) asserts that resources encompass assets, capabilities, organisational processes, firm attributes, information, and knowledge. This study posits that entrepreneurial orientation, which encompasses processes leading to new entry (Lumpkin & Dess, 1996), is an intangible firm resource that fosters competitive advantage and enhances firm performance. Intangible rather than physical assets largely influence performance disparities among firms, as intangible assets are less likely to be imitated (Connor, 2002).

H3: Competitive advantage mediates the relationship between entrepreneurial orientation and SME Performance



Source: Researcher Design

Figure 3. RESEARCH THINKING FRAMEWORK

RESEARCH METHODS

A cross-sectional survey method was employed to gather data from managers of business units in the Pesantren member of OPOP East Java. The sample size for the study was established based on a heuristic, by the prerequisites for data analysis methodologies. A sample size of 120 participants is sufficient for factor loadings of ± 0.5 or above (Hair Jr., Black). For each independent variable or predictor, structural equation modelling necessitates 15–20 observations (Hair Jr. et al., 2010).

The entrepreneurial orientation construct was employed in this study to predict SMEs' performance and competitive advantage. Additionally, the competitive advantage construct was used to indicate the performance of SMEs. Competitive advantage comprises 12 elements, while entrepreneurial orientation includes 14. Consequently, the model contains the maximum number of items at 14. The minimal sample size of 210 subjects was obtained by multiplying 14 by a minimum number of observations (subjects), which is 15. The chi-square statistic is employed in structural equation modelling to evaluate the model's fit quality. The statistic is sensitive to large sample sizes, meaning that the likelihood of the model failing increases as the sample size increases (Barret, 2007). Consequently, the recommended sample size for models necessitating structural equation modelling is 100 to 400 subjects (Hair Jr. et al., 2010). A sample size of 225 subjects was deemed sufficient for this investigation, as indicated by the rule of thumb.

ANALYSIS AND RESULTS

Measurements of variables and data collection

Entrepreneurial orientation and competitive advantage are classified as second-order constructs, while their dimensions are identified as first-order constructs. To decrease model complexity, total scores for entrepreneurial orientation and competitive advantage dimensions were calculated using SPSS software. Total scores converted the dimensions into observed variables, while entrepreneurial orientation and competitive advantage were redefined as first-order constructs. The performance measures of SMEs are observed variables and therefore were not transformed. Table 2 presents the transformed variables.

Data analysis was conducted using the Analysis of Moment Structures (AMOS) software. This involved the development of measurement and structural models through confirmatory factor analysis (CFA) and structural equation modelling (SEM) techniques. The study employed two distinct types of performance measures for SMEs, resulting in the development of two measurement models: one focused on firm growth measures and the other on personal wealth measures. Similarly, two structural models were created based on the same categories of performance measures.

Table 1.
MEASUREMENT OF MODEL VARIABLES

Construct	Dimension	Number of items	Source
Entrepreneurial orientation	Pro-activeness	3	Campos et al. (2012), Covin & Wales (2012)
	Risk taking	3	
	Competitive aggressiveness	2	Hughes & Morgan (2007)
	Autonomy	3	Lumpkin & Dess (1996)
Competitive advantage	Innovativeness	3	Ramaswami et al. (2006)
	Differentiated products	3	
	Market sensing	4	
SME Performance	Market responsiveness	5	Shepherd and Wiklund (2009)
	Growth in assets	1	
	Growth in sales	1	
	Growth in number of employees	1	

Result

Confirmatory factor analysis

The CFA technique was employed to evaluate the factor loadings, construct correlations, and model fit indices for the developed models based on firm growth and personal wealth measures. The following sections outline the measurement models.

Measurement model for firm growth measures

The differentiated products (Total DPR) dimension of the competitive advantage (CA) construct exhibited a factor loading of 0.24, which is considered insufficient (< 0.5) (Zainudin, 2015); therefore, it was removed from the model. The remaining dimensions exhibited factor loadings exceeding 0.5 and were thus retained for subsequent analysis. The innovativeness (Total INN) dimension of the entrepreneurial orientation construct was removed due to a high modification index (18.227) associated with the risk-taking (Total RTA) dimension of entrepreneurial orientation. Following deletion of the measurement model for the two dimensions was deemed acceptable, evidenced by a minimum chi-square statistic of 33.751 ($p > 0.05$), a cmin/df ratio of less than 2.5, a CFI greater than 0.90, and an RMSEA of less than 0.06 (Zainudin, 2015). Additionally, construct correlations were below 0.90 (Pallant, 2005; Tabachnick & Fidell, 2007).

The construct reliability (CR) and average variance extracted (AVE) values for firm growth measures were determined to be 0.850 and 0.663, respectively. AVE values exceeding 0.5 and CR values surpassing 0.6 signify acceptable construct validity and reliability levels, respectively (Zainudin, 2015).

Hypotheses testing

AMOS computer software facilitated path analysis to assess the impact of entrepreneurial orientation on competitive advantage and the subsequent effect of competitive advantage on the performance of SMEs. Additionally, bootstrapping was conducted to determine the mediating effect of competitive advantage on the relationship between entrepreneurial orientation and the performance of SMEs.

The structural model results indicate that entrepreneurial orientation positively and significantly

affects competitive advantage ($\beta = 0.68, p < 0.001$). Similarly, competitive advantage has a positive and significant effect on the performance of SMEs ($\beta = 0.40, p < 0.001$).

Table 3 summarises the sample bootstrapping results for direct and indirect effects related to firm growth measures. The results are threefold: Firstly, the impact of entrepreneurial orientation on competitive advantage was determined to be positive and significant at the 5% level, with the bias-corrected 95% confidence interval excluding 0. Secondly, the impact of competitive advantage on the performance of SMEs was identified. The results are positive and significant at the 5% level, with the bias-corrected 95% confidence interval excluding 0. Thirdly, the indirect effect of entrepreneurial orientation on the performance of SMEs through competitive advantage was identified as positive and significant at the 5% level, with the bias-corrected 95% confidence interval excluding 0. The results indicate that the collected data substantiate hypotheses H1, H2, and H3.

Results indicate that entrepreneurial orientation significantly and positively affects competitive advantage ($\beta = 0.56, p < 0.001$), while competitive advantage also significantly and positively influences SMEs' performance ($\beta = 0.34, p < 0.001$).

Table 4 presents the bootstrapping results for both direct and indirect effects related to personal wealth measures. The relationships among entrepreneurial orientation, competitive advantage, and SMEs' performance were found to be positive and significant at the 5% level of significance. Furthermore, the bias-corrected 95

DISCUSSION

As with the methodology, focus on the essentials, the main facts, and those with wider significance. Don't go into great detail about each statistic in your results.

Again, you want to tell a story and explain it in the most logical order. What are the really significant facts that emerge? For example, findings that further understanding in the field, those that differ from previous findings, and any unexpected results.

Consider presenting key facts in tables or graphs or using images to explain your findings. See your chosen journal's Author Guidelines for information on how these should be formatted, used and displayed. This section on results may include a discussion of the significance of the findings.

Table 2
DIRECT AND INDIRECT EFFECTS FOR FIRM GROWTH MEASURES

Hypothesis	Coefficient (β)	p value (2-tailed)	Significance ($\alpha = 0.05$)	95% corrected bias (BC)		Decision
				Lower	Upper	
H ₁ CA -> Eo	0.56	0.012	Significant	0.570	0.144	Supported
H ₂ CA->PER	0.34	0.015	Significant	0.144		
H ₃ EO->CA->PER	0.24	0.017	Significant	0.099	0.099	

This study investigates the impact of entrepreneurial orientation on the performance of SMEs, with a focus on the mediating role of competitive advantage, utilising firm growth and personal wealth as performance metrics. The study examined the effects of entrepreneurial orientation on competitive advantage, the impact of competitive advantage on the performance of SMEs, and the mediating role of competitive advantage in the relationship between entrepreneurial orientation and SME performance, utilising measures of firm growth and personal wealth. Measurement and structural models were constructed using the original sample, followed by bootstrapping (200 samples) to assess the direct effect of entrepreneurial orientation on competitive advantage, the direct impact of competitive advantage on SMEs' performance, and the indirect effect of entrepreneurial orientation on SMEs' performance via competitive advantage. The findings were subsequently compared to determine the degree to which results from personal wealth measures align with or diverge from those obtained through traditional firm growth performance.

In the development of the measurement model, two dimensions—differentiated products (Total DPR) and innovativeness (Total INN)—were removed from both models (measurement models for firm

growth and personal wealth measures). The previous dimension was removed from the competitive advantage construct because of low factor loadings, indicating that it inadequately represents the construct. The latter dimension was removed from the entrepreneurial orientation construct because of high modification indices with the risk-taking (Total RTA) dimension, indicating the presence of redundancy.

The removal of both dimensions can be explained by the observation that welding industry SMEs in Tanzania predominantly do not create their own products; product designs are determined mainly by customer specifications. Nonetheless, removing those dimensions did not impact the definitions of the constructs, as the retained dimensions represent the same constructs as the deleted ones.

SMEs' performance was considered a unidimensional construct indicated by firm growth measures, while simultaneously, it was also regarded as a unidimensional construct indicated by personal wealth measures. In both instances, the results indicate that factor loadings for all items were equal to or greater than 0.50 and significant at the 0.05 level, suggesting that the items assessed the same underlying construct. Subsequent analysis of the SMEs' performance construct, utilising firm growth measures, indicated a CR value of 0.750 and an AVE of 0.763. Additionally, the performance construct of SMEs, assessed through personal wealth measures, resulted in a composite reliability (CR) value of 0.788 and an average variance extracted (AVE) value of 0.565. AVE values exceeding 0.5 and CR values surpassing 0.6 signify acceptable construct validity and reliability levels, respectively (Zainudin, 2015). The performance construct of SMEs, indicated by firm growth and personal wealth measures, demonstrated both construct validity and reliability.

It was hypothesised that competitive advantage has a positive effect on the performance of SMEs. Similar to the initial case, both firm growth and personal wealth metrics corroborated the hypothesis in both the original and bootstrapped samples. The findings support the resource-based view, which asserts that competitive advantage enhances firm performance. The results align with those reported in previous studies (Ismail et al., 2010; Majeed, 2011; Muafi & Roostika, 2014; Wijetunge, 2016; Zhou et al., 2009).

The study posited that competitive advantage serves as a mediator in the relationship between entrepreneurial orientation and the performance of SMEs. Bootstrap data findings corroborated the hypothesis regarding both firm growth and personal wealth metrics. The findings align with the resource-based view, which asserts that competitive advantage and firm performance derive from resources owned or controlled by the firm. Similar findings have been documented by Mustafa et al. (2015).

This study's findings cannot be compared with previous research utilising personal wealth performance measures due to insufficient literature. This study supports (Welter, Baker, Audretsch, & Gartner, 2017; Kibler, Kautonen, & Fink, 2020). Additionally, Santos et al. (2023) proposition that personal wealth measures can be utilised to assess the performance of SMEs in least developed countries.

CONCLUSIONS

The findings and discussion indicate that firm growth and personal wealth performance measures yielded comparable results. This study concludes that the use of both firm growth and personal wealth performance measures reveals three key findings: first, entrepreneurial orientation has a positive and significant impact on competitive advantage; second, competitive advantage positively and significantly affects SMEs' performance; and third, competitive advantage serves as a mediator in the relationship between entrepreneurial orientation and SMEs' performance.

Entrepreneurial orientation serves as a firm resource through processes (Barney, 1991). This study demonstrates that the impact of entrepreneurial orientation on the performance of SMEs is mediated by competitive advantage. This study's findings indicate that the resource-based view effectively explains both physical and intangible resources, including entrepreneurial orientation. In the contemporary business landscape, firm performance is increasingly influenced by intangible resources rather than physical resources (Connor, 2002). Consequently, firm owners and managers should invest in both physical and intangible resources to establish a competitive advantage and enhance the performance of SMEs.

In light of the differing paradigms that entrepreneurs in the Western world and least developed countries navigate—where opportunities typically drive the former and necessities shape the latter (Eijdenberg, 2016)—researchers and stakeholders in least developed countries must adopt both personal wealth and traditional firm growth performance metrics to assess SMEs' performance comprehensively.

Recent studies have emphasized that in contexts where necessity entrepreneurship prevails, especially in Sub-Saharan Africa and Southeast Asia, indicators such as improvements in household income, community impact, and entrepreneurial satisfaction are as critical as revenue and employment growth (Welter, Baker, Audretsch, & Gartner, 2017; Kibler, Kautonen, & Fink, 2020). Additionally, Santos et al. (2023) argue that understanding entrepreneurial performance in developing contexts requires incorporating subjective wellbeing and non-financial success indicators, as these often reflect more immediate and relevant outcomes for entrepreneurs facing structural economic constraints. Following a period of resource investment in a firm, owners-managers often cease further investment. Consequently, metrics of firm growth, such as increases in assets, sales, and employee numbers, may reflect suboptimal performance in SMEs. This is compounded by the fact that a significant portion of earnings from SMEs is allocated to support the livelihoods of entrepreneurs and the related accumulation of wealth. Although significant firm growth may not be observed over a specific measurement period, asserting that such SMEs are performing poorly is inappropriate, given that the wealth generated from enterprises owned and managed by entrepreneurs contributes positively to their lifestyle changes. This situation necessitates the utilisation of both personal wealth and conventional firm growth performance metrics when evaluating the performance of SMEs in least developed countries. The findings from this study are anticipated to stimulate discussions regarding the appropriateness of personal wealth as a measure of SMEs' performance. The findings are anticipated to serve as a foundation for future research.

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