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Boosting Textile Industry Growth: Adversity Quotient Meets Entrepreneurial Orientation

Unang Toto Handiman[1*]; Towaf Totok Irawan[2]; Jeniboy Kimpah[3]; Diah Fistiani Sukardiman[4]

[1] unangtotohandiman@stie-wikara.ac.id, Sekolah Tinggi Ilmu Ekonomi Wibawa Karta Raharja, Indonesia
[2] towaf@unpak.ac.id, Universitas Pakuan, Indonesia
[3] jeniboy.kimpah@umt.edu.my, University of Malaysia Terengganu, Malaysia
[4] diah_fistiani@mercubuana.ac.id, Universitas Mercu Buana, Indonesia
**) Corresponding Author*

ABSTRACT

***Objectives**: The worldwide market presents substantial problems for the textile sector, especially for small and medium-sized businesses. This study explores how business performance in Java Islands SMEs' textile sectors is impacted by the Adversity Quotient (AQ) and Entrepreneurial Orientation (EO). This study focuses to determine how resilience and entrepreneurial behaviour affect organisational performance using a resource-based view.*
***Methodology**: Data were collected from 277 respondents across various SME textile firms through structured questionnaires. Structural equation modelling (SEM) was utilised to analyse the data to validate the suggested connections between AI, EO, and firm performance.*
***Finding**: The findings reveal that both AQ and EO significantly impact firm performance. Specifically, AQ boost the firm's capacity to navigate challenges and exploit opportunities, while EO fosters for competitive edge. The inestigation highlights that EO mediated partially the association among AQ along firm performance, suggesting that entrepreneurial behaviors amplify the significant effects of resilience on organizational outcomes.*
***Conclusion**: These results offer valuable insights for SME textile firms, figuring the valuable of cultivating high AQ and nurturing an entrepreneurial culture to improve performance. The study participates to the conceptual grasp of AQ and EO within the confine of emerging markets and provides practical recommendations for industry stakeholders to enhance their competitive.*

***Keywords**: Adversity Quotient; Entrepreneurial Orientation; Firm Performance; SME Textile Industries; Indonesia.*

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INTRODUCTION

The Indonesian textile industry serves as an important pillar of the national economy. This sector is a major driver of economic activities and contributing significantly to the gross domestic product (GDP) (Hasdiana et al., 2023). This sector also serves as a creator of jobs, export income, and stimulation for related industries. In 2017, for example, textile exports reached around USD 12.4 billion and placing Indonesia among the top 10 textile exporters in the world. The country boasts a large and youthful workforce, a crucial factor in sustaining the labor-intensive nature of the textile industry (Prayuda, 2023). Additionally, this country boasts plenty nature materials, primarily cotton, leading to provide as the mainly inert good for textile production. Furthermore, this sector employs a major function in the preservation of culture and the promotion of Indonesia's heritage. Batik and ikat have cultural and historical significance that can enhance national pride and identity (Hasdiana et al., 2023). Moreover, this industry has driven infrastructure improvements such as transportation networks that are crucial for the efficient distribution of production outputs (Ievtushenko & Hodge, 2012).

However, this industry faces challenges that could affect its growth and competitiveness in the future. The fragmentation of the textile industry where many garment producers rely on imported raw materials to meet buyers' needs and poses a risk to the sustainability of local production (Prasetyani et al., 2020). In addition, other textile-producing nations like China and India pose fierce competition (Asmara et al., 2016; Maulina & Natakusumah, 2020). The decline in exports has been a consistent trend since 2015. In 2019, Indonesia's textile exports decreased by 2.8% compared to 2018, and in 2020, they fell by 16.6% compared to 2019. In 2019, Indonesia's textile exports amounted to around $13 billion, while Vietnam's were $35 billion, and China's were $151.37 billion during the same period. Limited market access, particularly to the European Union is the cause of this disparity (Hatab, 2017; Sugeng et al., 2022). Additionally, inefficiencies due to inadequate logistics infrastructure hinder timely product delivery to international markets (Arianto & Kurniasih, 2023; Chan, 2024). Furthermore, there are inefficiencies in energy usage and labor wages compared to Vietnam and Bangladesh (Obeysekera & Ekanayake, 2016; Havidz & Yandi, 2020).

Small textile industry SMEs must prioritize internal capabilities, particularly entrepreneurial orientation (EO), to build resilience and maintain growth in this turbulent environment. According to Zighan et al. (2022), Al-Hakimi & Borade (2020), and Schepers et al. (2021), EO employs a major function in building resilience as well retaining growth in this turbulent environment. Creative thinking, being proactive, and taking chances are the factors that support the success of EO. According to Wach et al. (2023), Astrini et al. (2020), and Chowdhury & Audretsch (2021), these factors aid in achieving the goal of EO. EO helps SMEs find opportunities (Anwar et al., 2022; Shafique et al., 2021), adapt to market changes (Zhang et al., 2020; Ferreira et al., 2020), and generate new ideas when SMEs do not know what will happen (Putniņš & Sauka, 2020; Kraus, 2023). The impacts can enhance organizational performance (Sawaean & Ali, 2020; Fan et al., 2021), adaptability (Makhloufi et al., 2021), and competitiveness (Gomes et al., 2022).

In an unstable environment like the Indonesian textile industry, Adversity Quotient (AQ) emerges as an important determinant of resilience and sustainable performance. The concept of AQ plays a crucial role in enhancing the growth of the textile industry, especially in relation to EO. AQ, or an individual's ability to face difficulties and challenges, it is a characteristic that can drive resilience and innovation among entrepreneurs in the textile sector. Previous research supports this opinion, for instance, in the textile industry, SMEs with high

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AQ are more likely to concent innovation and adapt to market shift (Wahyuni & Sara, 2020). This adaptability highlights the meaning of EO for bettering the performance of businesses through innovation and market responsiveness (Wahyuni & Sara, 2020). Tounés et al. (2020) emphasize that EO motivates MSME actors to adopt sustainable practices as a response to environmental challenges. This proactive approach positions textile MSMEs advantageously in the market, thereby driving growth. Khan et al. (2022) shows that SMEs with strong EO are more prepared to respond to market dynamics which is facilitated by their agility to effectively manage difficulties. Berndt et al. (2023) emphasize the importance of combining AQ with EO to drive operational performance through cost-effective innovation.

The relationship between AQ and EO in textile SMEs reveals a significant gap, specifically the absence of comprehensive studies that explicitly link AQ with EO to enhance industry growth. One notable area of novelty lies in the application of AQ as a psychological construct that can empower textile entrepreneurs to navigate difficulties more effectively. For instance, Thị et al. (2023) highlight the importance of the ability to deal with inbound logistics in driving resilient capacities of the Vietnamese textile industry's supply chain, however, they rarely speak about how AQ can enhance the decision-making processes of entrepreneurs facing supply chain disruptions. Moreover, the literature on entrepreneurial orientation often emphasizes innovation and market responsiveness as key components of success. However, research like that which was performed by Piprani et al. (2020) and Appiadu et al. (2022) focus on resilience factors and supportive environments without explicitly linking these concepts to AQ. Additionally, although some research has researched the implications of AQ regarding achievements in educational settings, such as the work of Mwivanda and Kingi (2019), this is the case still insufficient investigation examining its consequences in the textile industry context.

Although AQ is recognised as a vital psychological construct, there remains a lack of research explicitly linking it to EO within the context of textile SMEs. Existing studies often focus on logistical resilience or supportive environments without examining how AQ shapes entrepreneurial decision-making during disruption. Furthermore, most applications of AQ are found in educational settings rather than industrial contexts. Yet, AQ has the potential to strengthen EO by enhancing resilience, innovation, and proactiveness. Therefore, this study seeks to address this gap by exploring AQ's role in improving the performance of textile SMEs through entrepreneurial orientation. Therefore, the authors develop the following research question (RQ):

RQ-1: How is EO influenced by AQ?
RQ-2: How is SMEs textile performance (STP) influenced by EO?
RQ-3: How is SMEs textile performance (STP) influenced by AQ?
RQ-4: How is SMEs textile performance (STP) influenced by AQ through EO?

LITERATURE REVIEW

The concept of AQ plays an imperative component in understanding the performance of small and medium-sized businesses (SMEs) in Indonesia's textile industry, particularly when mediated by EO. Research has shown that AQ defined as the ability to manage and overcome challenges, positively influences performance outcomes in various contexts, including entrepreneurship (Ramadani, 2023; Achmadi, 2022). Research indicates that individuals with a high AQ are more adept at transforming obstacles into opportunities which is crucial for entrepreneurial success (Ramadani, 2023). Moreover, a high AQ significantly enhances EO

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characterised by innovation and risk-taking, thereby fostering better performance in SMEs (Achmadi, 2022; Zulmi, 2024). Studies have demonstrated that AQ not only directly impacts performance but also serves as a mediator between EO and business outcomes, suggesting a complex interplay that warrants further exploration (Achmadi, 2022; Sholikhah & Faraz, 2021). Thus, integrating AQ into the framework of EO can offer beneficial details on enhancing the resilience and adaptability of SMEs in the textile industry in Indonesia.

The Resource-Based View (RBV) offers a robust theoretical foundation for understanding how internal resources such as AQ and EO contribute to the performance of SMEs in Indonesia's textile industry. RBV posits that a firm's unique resources and capabilitieswhich are valuable, rare, inimitable, and non-substitutable (VRIN) are central to sustaining competitive advantage (Helfat et al., 2023; Weigel & Hiebl, 2022). In this context, AQ can be conceptualised ontologically as an intangible psychological resource, embedded within the entrepreneur's cognitive and emotional structures, enabling the ability to endure, adapt, and respond to adversity (Ramli, 2020). Epistemologically, AQ represents a form of internalised knowledge and capability that influences decision-making, resilience, and long-term business agility, particularly in uncertain and volatile market conditions.

Within the RBV framework, AQ aligns with dynamic capabilities that allow firms to sense, seize, and transform resources in response to environmental change. For SMEs, especially in the textile sector where competition, supply chain volatility, and shifting consumer demand are constant, high AQ equips business leaders with the endurance and flexibility needed to navigate crises and sustain operations. Meanwhile, EO defined through dimensions of innovativeness, proactiveness, and risk-taking also fits within the RBV as a strategic posture that transforms internal resources into market-relevant actions (Wahyuni & Sara, 2020; Lee & Chen, 2022). Empirical research suggests that SMEs with high AQ are more capable of leveraging EO to drive innovation and performance outcomes (Arsawan et al., 2020).

Thus, integrating AQ into the RBV perspective extends the theory by incorporating psychological capital as a critical internal resource, particularly relevant for SMEs operating under pressure. This integrative lens explains how SMEs with strong AQ and EO can achieve superior performance, especially in dynamic sectors like Indonesia's textile industry.

The premise of firm performance is intricate and entails the ability of an entity to achieve its financial and non-financial objectives (Lembono & Layman, 2023). Various metrics often assess it, reflecting a firm's overall effectiveness and efficiency in utilizing its resources to generate value. The definition of firm performance can vary depending on the context (Utoyo et al., 2019), but it generally includes both quantitative and qualitative indicators (Power & Reid, 2015). This aligns with the notion that firm performance is not only a reflection of current results but also of the strategic choices that shape future success.

The strategic stance of a company that includes its readiness to take risks, be proactive, and be inventive is termed as entrepreneurial orientation (EO). Covin and Slevin (1989) in Covin et al. (2020) EO can be described as a business's plans that reflects its readiness to take part in entrepreneurial pursuits. They argue that EO is a key factor that determines a company's capacity to achieve superior performance in dynamic environments. Rogo et al. (2023) notes that EO is characterized by strategic decision-making at the entrepreneurial level, which includes risk-taking, innovation, and proactivity. Cho & Lee (2020) examine the connection between the two between corporate performance and EO, finding that the innovative and proactive dimensions of EO significantly influence financial performance. This definition underscores the necessary of EO in shaping a SME's strategic direction and operational effectiveness.

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Entrepreneurial Orientation (EO) and Adversity Quotient (AQ)

AQ significantly influences EO, particularly in the context of SMEs in Indonesia's textile industry. EO encompasses dimensions such as proactivity, risk-taking, and innovativeness, which are essential for navigating challenges and seizing opportunities in a competitive environment (Manik & Kusuma, 2021). Research indicates that a higher AQ equips entrepreneurs with the resilience needed to embrace these dimensions, thereby enhancing their EO (Kiyabo & Isaga, 2019). For instance, individuals with strong AQ are more likely to engage in proactive behaviors and take calculated risks, which are critical for innovation and competitive advantage (Vaitoonkiat & Charoensukmongkol, 2020). Furthermore, the interplay between AQ and EO can lead to improved performance outcomes for SMEs, as firms that effectively leverage their entrepreneurial capabilities are better positioned to adapt to market changes and overcome adversities (Kiyabo & Isaga, 2020). Consequently, learning the association among AQ as well as EO becomes critical for creating strategies that boost SMEs' performance in the textile industry. In light of the reasoning, the following hypothesis is developed in this study:

H1: EO is a significantly influenced by AQ.

SMEs Textile Performance (STP) and Entrepreneurial Orientation (EO)

EO has a major impact on SMEs' performance in the textile sector, especially within Indonesia. EO is described by self-initiative (proactive), brave enough (risk taking), and innovative thinking serves as a critical driver for enhancing SMEs (small and medium-sized businesses) performance (Kiyabo & Isaga, 2020; Rokhman et al., 2023). Research indicates that SMEs using powerful EO are preferable equipped to adjust to market demands and competitive forces, leading to improved operational efficiency and profitability (Kiyabo & Isaga, 2020). With reference to the textile sector, in which market dynamics can be volatile, a robust EO allows SMEs to leverage their unique resources effectively, fostering innovation and responsiveness (Allammari, 2024). The association among EO and the performance of SMEs is mediated by competitive advantage, indicating that firms with an entrepreneurial mindset can create value and achieve superior outcomes (Kiyabo & Isaga, 2020). Therefore, understanding how EO influences SMEs' performance is essential for developing strategies that enhance competitiveness and sustainability in the textile sector. Taking into account the explanation, the following hypothesis is developed in this study:

H2: STP is a significantly influenced by EO.

SMEs Textile Performance (STP) and Adversity Quotient (AQ)

AQ has a major effect on how successfully SMEs perform in the textile sector by enhancing their resilience and adaptability in challenging environments. Research indicates that a high AQ enables entrepreneurs to effectively navigate difficulties, which directly impacts their capacity for retaining and improving their performance (Safi'i et al., 2021). In the context of SMEs, particularly in the textile sector, AQ can mediate the relationship between various factors such as emotional intelligence and performance outcomes, suggesting that those with higher AQ are better equipped to manage stress and uncertainty. Moreover, studies have shown that AQ reinforces the advancement of internal abilities (Delgado, 2023), and that are essential for sustainable growth in the textile industry. By fostering a proactive approach to challenges, SMEs with high AQ is able to use their entrepreneurial orientation to develop and meet market needs, thereby enhancing overall performance (Pong & Fong, 2023). Thus, understanding the

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influence of AQ on SMEs' textile performance is vital for developing strategies that promote resilience and adaptability in this competitive sector. In consideration of the reasoning, the following hypothesis is developed in this study:

H3: STP is a significantly influenced by AQ.

SMEs Textile Performance (STP), Entrepreneurial Orientation (EO), and Adversity Quotient (AQ)

AQ significantly influences the performance of SMEs in the textile industry, particularly through its mediation by EO. AQ represents an individual's ability to cope with challenges, which is crucial for entrepreneurs facing the dynamic and often volatile textile market (Ramadani, 2023). Research indicates that a higher AQ enhances an entrepreneur's EO by fostering resilience, risk-taking, and innovation, which are essential for navigating market uncertainties (Nguyen et al., 2021). In the context of SMEs, those with elevated AQ are more likely to exhibit proactive behaviors and embrace innovative practices, which leads to improved performance outcomes (Abdulrab et al., 2021). Studies have demonstrated that entrepreneurial leadership, closely associated with EO, enhances SMEs' performance by encouraging taking chances and being creative (Nguyen et al., 2021). Furthermore, SMEs can take use of their special skills thanks to the interaction between AQ and EO, ultimately enhancing their competitive advantage and operational effectiveness in the textile sector (Kiyabo & Isaga, 2020). Thus, understanding the function of EO as a mediator in the connection between SMEs' textile performance and AQ is vital for developing strategies that foster resilience and adaptability in this competitive industry. In consideration of the reasoning, a further hypothesis has been proposed in this study:

H4: STP is a significantly influenced by AQ through EO.

The relationship between variables in this study can be seen in Figure 1.

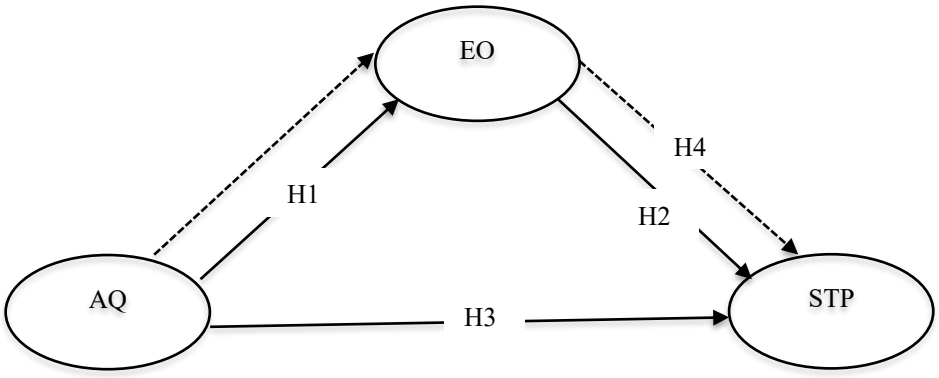

Figure 1 Conceptual Framework

METHOD

This study applies a method of quantitative investigation to investigate how the Adversity Quotient (AQ) shapes SMEs' performance in the textile sector in Indonesia, with a particular emphasis on the function of the business's entrepreneurial mindset (EO) as a mediator. Because it enables the collecting and analysis of numerical data to find patterns and

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relationships among variables, the quantitative approach is suitable for this subject, thereby facilitating statistical inference and the generalization of findings.

Textile SMEs in Indonesia are the study's target population. The total number of textile SMEs players is 1,613 business units, located spreading across several regions of Indonesia.We specifically draw the sample from regions: Provinces of Banten, Central Java, West Java and East Java. The selection of textile SMEs from the provinces of Banten, Central Java, West Java, and East Java is grounded in both strategic and empirical considerations. These four provinces represent the core industrial clusters of Indonesia's textile manufacturing sector, contributing significantly to national output, employment, and export activity. These regions have the highest concentration of textile-related SMEs, making them ideal for capturing a representative sample of entrepreneurial activity and organisational resilience in the sector. Additionally, in the sample size contecxt, if there is a 5% error in the number of samples collected, the multiplier industry sample would be 276 SMEs. We determined a total sample size of 276 textile SMEs to ensure a robust analysis. We can draw meaningful conclusions about the relationships between AQ, EO, and SME performance with this sample size, which is adequate to achieve statistical power and reliability in the results (Chen et al., 2020). This study leverages probability sampling for data collection. This method of sampling assures that the sample is adequate to represent the chosen population and generates rich, data that is relevant for evaluation (Mbowa, et al., 2023). The primary data collection instruments include structured questionnaires and semi-structured interviews. The main objective of the questionnaire's completion is to compile quantitative data concerning AQ, EO, and performance metrics by making implementation of a Likert scale for responses. Additionally, we conduct interviews with a subset of SME owners to gain qualitative insights that complement the quantitative findings, allowing for better insight of each aspect shaping SME performance (Karollah, 2023). The development of the research instruments involves a thorough review of existing literature to provide assurance reliability and validity. We construct the questionnaire based on established scales for measuring AQ, EO, and performance, and modify it to suit the context of Indonesian textile SMEs. The instrument undergoes a pilot study involving a limited number of small business owners to refine the questions and ensure clarity and relevance.

Partial least squares (PLS) and structural equation modelling (SEM) are commonly employed for data analysis to assess relationships among the variables. SEM PLS is particularly suitable for this research as it allows for the examination of complex relationships and the testing of mediation effects (Akpan & Okwudu, 2022). We perform the analysis in two steps: This phase assesses the validity and reliability of the measurement model. The key indicators include evaluating the model through outer loading, extracting the average variance (AVE), Cronbach's alpha (CA), and composite reliability (CR). By applying these criteria, the constructs are assured to accurately reflect the underneath concepts of theory. We estimate the constructs through the Heterotrait-Monotrait ratio (HTMT), the Fornell-Larcker criterion, and cross-loading. These tests confirm that constructs are distinct from one another, this is necessary for retaining the model's integrity (Hair Jr. et al., 2021). This part looks at the possible connections between the ideas, mainly how EO affects the link between AQ and the textile performance of small businesses. Key metrics include: The structural model uses these statistics to determine the greatest significance of the paths. Statistically significant associations can be determined by a T-value higher than 1.96 and a P-value lower than 0.05 (Hair Jr. et al., 2021).

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RESULTS AND DISCUSSION

Results

Based on the result of data processing using SmartPLS version 3.2.9, researchers get the following results:

Table 1 Measurement Test and Predictive Test Results

Variable, Dimension, Items	Outer Loading	AVE	CR	CA	R^2	f^2
Adversity Quotient		0.569	0.939	0.926		
Control						
Cont1	0.670					
Cont2	0.796					
Cont3	0.807					
Ownership						
Own1	0.424	0.683	0.866			
Own2	0.485					
Own3	0.703					
Reach						
Reach1	0.829	0.854	0.946			
Reach2	0.907					
Reach3	0.865					
Endurance						
Endu1	0.786	0.826	0.934			
Endu2	0.796					
Endu3	0.821					
Entrepreneurial Orientation		0.594	0.961	0.956	0.515	0.051
Innovation						
Inno1	0.470					
Inno2	0.151					
Inno3	0.159					
Inno4	0.530					
Inno5	0.786					
Inno6	0.824					
Inno7	0.761					
Inno8	0.806					
Inno9	0.775					
Inno10	0.807					
Proactive						
Pro1	0.823	0.760	0.950			
Pro2	0.847					
Pro3	0.858					
Pro4	0.738					
Pro5	0.727					
Pro6	0.819					
Risk Taking		0.799	0.941			
Risk1	0.736					
Risk2	0.717					

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Risk3	0.816					
Risk4	0.722					
SMEs Performance		0.865	0.978	0.974	0.032	0.022
Financial Performance						
FP1	0.921					
FP2	0.943					
FP3	0.932					
Growth						
Gro1	0.926	0.974	0.991			
Gro2	0.925					
Gro3	0.936					
Gro4	0.927					

The outcomes of a measuring test and a prediction test are shown in Table 1, evaluating dimensions or variables for reliability, validity, and predictability. There are many things that are looked at in Table 1, such as related items, their outer loadings, the extracted average variance, composite reliability, and Cronbach's alpha for both reliability and convergent validity tests. Meanwhile, Table 1 assesses the coefficient determinant and effect size for prediction analysis.

As shown in Table 1, the variable of adversity quotient has a reliability of composite (CR) of 0.939 (very strong internal consistency), a Cronbach's alpha of 0.926 (good reliability), and an AVE of 0.569 (higher than the 0.50 threshold needed, suggesting acceptable convergent validity). Therefore, constructs exhibit high CR (>0.7) and AVE (>0.5), ensuring reliability and convergent validity. Additionally, Table 1 also describes that the dimension of control of the adversity quotient variable has high reliability (CR = 0.911) and average variance extracted (AVE = 0.773). The outer loadings range from 0.670 to 0.807, indicating that the indicators are moderately strong. Additionally, the reliability of the ownership dimension is slightly lower, with a CR of 0.866 and an AVE of 0.683. Outer loading for one item is relatively weak (e.g., 0.424), which may indicate a need for removal. Additionally, the dimension of reach has very high reliability (CR = 0.946) and AVE = 0.854. Outer loadings are strong (0.829 to 0.907). Furthermore, the dimension of endurance has excellent reliability (CR = 0.934) and AVE = 0.826. Outer loadings are consistently strong (0.786 to 0.821). Therefore, all dimensions of the adversity quotient variable exceed the standard threshold (0.70), suggesting excellent reliability overall. Most dimensions surpass the threshold of 0.50, confirming convergent validity.

Table 1 shows that the entrepreneurial orientation variable has an AVE of 0.594, a CR of 0.961, a Cronbach's Alpha of 0.956, an R^2 of 0.515, which means it has moderate explanatory power, and an f^2 Effect Size of 0.051, which means it has a small to moderate effect. Therefore, constructs exhibit high CR (>0.7) and AVE (>0.5), ensuring reliability and convergent validity. The Entrepreneurial Orientation construct explains 51.5% of the variance, indicating moderate predictive power. Table 1 also reveals that the entrepreneurial orientation variable's innovation dimension has moderate reliability (CR = 0.908), with an AVE of 0.527. Outer loadings show variation, with some low (0.151, 0.159) and others strong (0.786 to 0.807). Consider removing the weaker items. Additionally, the dimension of proactiveness has high reliability (CR = 0.950) and AVE = 0.760. Outer loadings range from 0.727 to 0.858, showing consistency. Moreover, the dimension of risk-taking has strong reliability (CR = 0.941) and AVE = 0.799. Outer loadings range from 0.717 to 0.816, suggesting solid items. Therefore, all dimensions of the

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entrepreneurial orientation variable exceed the standard threshold (0.70), suggesting excellent reliability overall. Convergent validity has been confirmed by the majority of dimensions exceeding the 0.50 criteria.

Table 1 reveals that the SMEs textile performance variable has an excellent convergent validity of AVE: 0.865, a high internal consistency of CR: 0.978, a strong reliability of Cronbach's Alpha: 0.974, a low explanatory power of R: 0.032, and a small effect size of f: 0.022. Therefore, constructs exhibit high CR (>0.7) and AVE (>0.5), ensuring reliability and convergent validity. SMEs Performance has a lower R^2 (3.2%), suggesting limited explanatory power from the predictors analyzed. Small f2 values (e.g., 0.022 for SME performance) suggest a weak practical impact of predictors. Table 1 also describes the dimensions of financial performance for SMEs. Textile performance has exceptional reliability (CR = 0.979) and AVE = 0.923. The outer loadings, ranging from 0.921 to 0.943, demonstrate robust indicators. Additionally, the dimension of growth has similarly outstanding reliability (CR = 0.991) and AVE = 0.974. Outer loadings are consistently strong (0.925 to 0.936). Therefore, all dimensions of the SMEs textile performance variable exceed the standard threshold (0.70), suggesting excellent reliability overall. Convergent validity is confirmed by the majority of dimensions exceeding the 0.50 criteria.

Table 2 Fornell-Lacker Criterion and Good of Fit Test Results

	Adversity Quotient	Entrepreneurial Orientation	SMEs Textile Performance
Adversity Quotient	0.754		
Entrepreneurial Orientation	0.638	0.771	
SMEs Textile Performance	0.105	0.125	0.930
Good of Fit		0.413	

The degree to which a construct differs from other constructs in the model is assessed using the Fornell-Larcker criterion. Each construct's correlation with every other construct gets higher when the square root of its Average Variance Extracted (AVE), researchers establish discriminant validity. Table 2 shows that the square root of the Average Variance Extracted (AVE) for the adversity quotient is 0.754, for entrepreneurial orientation it is 0.771, and for SMEs Textile Performance, it is 0.930. Additionally, inter-construct correlations between adversity quotient and entrepreneurial orientation are 0.638, between adversity quotient and SMEs textile performance are 0.105, and between entrepreneurial orientation and SMEs textile performance are 0.125. Additionally, the AVE's square root for each construct is higher than its connection with the others. Consequently, discriminant validity is established by the Fornell-Larcker criterion.

The structural model's overall fit to the data can be determined by goodness-of-fit. Researchers use the Goodness of Fit (GoF) value to assess the model's overall explanatory capacity. A GoF value of < 0.1 is considered poor, 0.1–0.25 indicates a small fit, 0.25–0.36 is considered a moderate fit, and > 0.36 is considered a substantial fit. Table 2 reported a

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Goodness-of-Fit Index (GoF) of 0.413. Since the GoF value is 0.413, the model demonstrates substantial fit to the data.

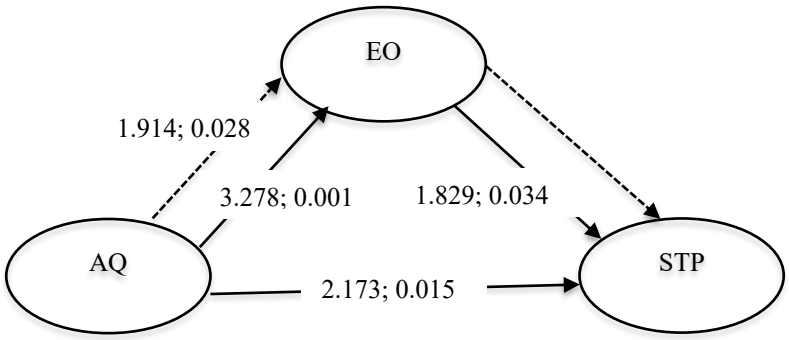

Figure 2 Inter-Constructs Corellations

Table 3 Structural Test Results

Hypothesis	Relationship	Path Coefficient	Std Error	T -Value	P-Value	Decision
H1	Adversity Quotient → Entrepreneurial Orientation	0.242	0.074	3.278	0.001	Can be eccepted
H2	Entrepreneurial Orientation → SMEs textile Performance	0.186	0.102	1.829	0.034	Can be eccepted
H3	Adversity Quotient → SMEs textile Performance	0.172	0.079	2.173	0.015	Can be eccepted
H4	Adversity Quotient →> Entrepreneurial Orientation → Firm Performance	0.045	0.024	1.914	0.028	Can be eccepted
Total Effect	Adversity Quotient → SMEs Textile Performance	0.217	0.079	2.759	0.003	Can be eccepted

Direct effects measure the immediate influence of an independent variable on a dependent variable, without considering mediating variables. Table 3 outlines Hypothesis 1, which states that the adversity quotient significantly influences entrepreneurial orientation. This finding leads to a p-value of 0.001 (very significant), a t-value of 3.278 (significant), and a path coefficient of 0.242. Therefore, significant relationships were tested. Furthermore, Table 3 illustrates that Hypothesis 2, which claims that the performance of SMEs in the textile industry is greatly influenced by entrepreneurial orientation, is accurate. This finding leads to a p-value of 0.034 (significant), a t-value of 1.829 (significant), and a route coefficient of 0.186. As a result, substantial relationships have been evaluated. In addition, Table 3 illustrates how the adversity quotient has a substantial effect on the textile performance of SMEs, supporting

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Hypothesis 3. This finding corresponds to a p-value of 0.015 (significant), a t-value of 2.173 (significant), and a route coefficient of 0.172. As a result, substantial relationships underwent evaluation.

A third variable mediates the relationship between two variables, resulting in indirect effects. Table 3 outlines Hypothesis 4, which asserts that the adversity quotient significantly influences the textile performance of SMEs through entrepreneurial orientation. This result refers to a path coefficient of 0.045, a t-value of 1.914 (borderline significant), and a p-value of 0.028 (significant). Therefore, significant relationships were tested. Furthermore, the inclusion of the mediator in the model results in full mediation if the significance of the direct relationship between the independent and dependent variables diminishes. Partial mediation occurs if the direct effect remains significant alongside the mediated effect. Table 3 illustrates that the t-value for Hypothesis 4, which asserts the affect of the adversity quotient on SMEs textile performance through entrepreneurial orientations, is 1.914, while the impact of the adversity quotient on SMEs textile performance is 2.173. Therefore, since both effects are significant, the relationship reflects partial mediation.

Discussion

The significant influence of the adversity quotient (AQ) on entrepreneurial orientation (EO), as evidenced by a p-value of 0.001, t-value of 3.278, and path coefficient of 0.242. The results has several practical implications. The results highlight the importance of internal psychological readiness to navigate uncertainty, risk, and market pressure. SME owners should be encouraged to develop a growth mindset and strengthen their capacity to manage adversity. This can be achieved through personalised coaching, peer-group mentoring, or participating in structured programmes focusing on emotional intelligence, adaptability, and resilience in business. Additionally, government agencies, industry associations, and SME training centres could design interventions such as mindset workshops, stress adaptability training, and decision-making under pressure to foster higher AQ among SME owners and managers. This, in turn, cultivates a proactive, innovative, and opportunity-seeking mindset essential for business growth. The hypothesis test results validate and bolster the findings of earlier studies by Changbong & Junghee (2019), Pong & Fong (2023), Achmadi (2022).

The significant relationship found between EO and SME performance ($p = 0.034$, $t = 1.829$, path coefficient = 0.186), textile SMEs should be encouraged to integrate entrepreneurial practices into their core business operations. This has several layered practical implications. SME owners must be empowered to shift from routine, production-centric operations toward a strategic entrepreneurial model. Implementing market diversification strategies, targeting both domestic and international niches (e.g., fashion-tech, uniform industries). Entrepreneurial orientation must be institutionalised within SMEs. This can be supported through structured mentoring programs connecting experienced textile entrepreneurs with early-stage SMEs. Additionally, Trade Associations and Business Forums (e.g., API, KADIN) can provide EO-strengthening platforms by organising innovation expos and trade missions, allowing SMEs to showcase capabilities and network. Kiyabo & Isaga (2020), Makhloufi et al. (2024), Kraus et al. (2023), and Gomes et al. (2022) have confirmed and supported these results with their previous research. According to research by Cho & Lee (2020), the variabel of entrepreneurial orientation substantially impacts business performance, namely both the financial and non-financial outcomes of SMEs. This study's results align with earlier studies by Chen et al. (2020) and Chowdhury & Audretsch (2021).

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The direct and significant effect of AQ on SME performance (p = 0.015, t = 2.173, path coefficient = 0.172) reinforces the importance of resilience-based leadership within SMEs. The statistically significant direct effect of the Adversity Quotient (AQ) on SME performance highlights the critical role of resilience-based leadership in enhancing organisational outcomes, especially in the context of Indonesia's textile industry, which faces frequent operational and market disruptions. Owners with high AQ demonstrate greater persistence, adaptability, and decision-making under pressure. Therefore, SMEs must actively embed resilience thinking into their leadership practices. Pong & Fong (2023), Ramadani et al. (2023), and Safi'i et al. (2021) have confirmed and supported these results in their previous research. Furthermore, the research hypothesis test results validate the findings of Jaafar (2017) and Hutagalung (2018). Siswanti et al. (20221) study indicates the results that business actors that have high adversity abilities have a better ability to maintain their business.

The hypothesis test results show that the adversity quotient variable, when mediated by the entrepreneurial orientation variable, significantly influences the SMEs textile performance variable. The finding that entrepreneurial orientation (EO) partially mediates the relationship between adversity quotient (AQ) and SME performance has important practical implications for policy, capacity development, and leadership practices in Indonesia's textile SME sector. This result underscores the need for SME owners to not only develop high resilience (AQ) but also translate that psychological strength into concrete entrepreneurial behaviours such as innovation, market scanning, and calculated risk-taking. Without actively applying entrepreneurial orientation, the impact of AQ on business performance remains sub-optimal. Thus, owners must be trained to channel adversity into action, using obstacles as catalysts for strategic exploration and innovation. Development agencies and training centres should design integrated learning modules that combine AQ enhancement (e.g., adaptability, perseverance, coping mechanisms), EO application (e.g., opportunity identification, innovative execution), and Performance management (e.g., KPIs and feedback loops). These modules ensure that SMEs do not stop at resilience but move toward opportunity-driven behaviour in the face of adversity. According to Ku's (2020) research, an association among SMEs' textile performance and human resource management is one of the few in which entrepreneurial orientation plays a mediating function. The adversity quotient's both direct and indirect advantages on SMEs' textile performance, along with positive and significant hypothesis test results, imply that this association is partially mediated by entrepreneurial inclination. This indicates that the variable of orientation of entrepreneurial strengthens the effect of the quotient of adversity on SMEs textile performance.

CONCLUSION

The Indonesian textile industry, a cornerstone of the national economy, is pivotal in driving economic activities and contributing to GDP. Despite its critical role, the industry faces substantial challenges that threaten its growth and competitiveness. This study addresses these challenges by examining the association among the adversity quotient, orientation of entrepreneurial, and the SMEs performance in the textile sector. By understanding these dynamics, the study offers valuable insights for improving performance and resilience in this important sector.

The recent findings of the hypothesis tests reveal significant relationships between the core variables. First, the adversity quotient significantly influences entrepreneurial orientation, underscoring the significance of resilience and problem-solving skills in molding

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entrepreneurial behaviors. SMEs' textile performance significantly benefits from entrepreneurial orientation, highlighting the crucial role of entrepreneurial strategies in achieving success. Furthermore, entrepreneurial orientation directly links the adversity quotient to SMEs' performance, amplifying its impact on performance.

The theoretical inference of these findings extends the understanding of how psychological and entrepreneurial factors interplay to drive performance in SMEs. This study enriches the literature by demonstrating the mediating function of orientation of entrepreneurial in linking the adversity quotient to performance in SMEs and offering a nuanced perspective on resilience and innovation. Practically, the findings emphasise the importance of training programs and initiatives to enhance the adversity quotient and entrepreneurial orientation of SME leaders and workers, enhancing the Indonesian textile industry's ability to compete.

The best way to deal with the challenges faced by the industry, a multi-faceted strategy is essential. Policymakers and industry stakeholders should focus on fostering a supportive ecosystem for SMEs by offering training to enhance resilience (adversity quotient) and entrepreneurial skills. Additionally, creating platforms for knowledge sharing and collaboration among SMEs can enhance innovative practices, allowing them to more successfully compete in international markets.

Future research should explore additional variables that could influence SMEs' performance, such as technological adoption, market dynamics, and government policies. We recommend longitudinal studies to acquire better understanding of the temporal impacts of adversity quotient and entrepreneurial orientation on performance. Moreover, expanding the research to other sectors could provide comparative insights and validate the generalisability of the findings across different industries and contexts.

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