



## SMEs Performance: Market Orientation, Entrepreneurship, and Dynamic Capabilities in Indonesia

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### Abstract

This research seeks to explore the influence of market orientation and entrepreneurship on the dynamic capabilities and performance of small and medium-sized enterprises (SMEs) in Indonesia. The focus of the study is specifically on culinary SMEs situated in the Jabodetabek Region, utilizing a quantitative-causal research methodology. The sample consists of 220 culinary SMEs with a business history exceeding 5 years, and data analysis was carried out using the PLS-SEM approach. The findings from the analysis of these 220 culinary SMEs reveal the potential of market orientation and entrepreneurship to enhance dynamic capabilities and SME performance. Moreover, the study highlights the positive impact of dynamic capabilities on SME performance and identifies an indirect pathway through which market orientation and entrepreneurship can amplify SME performance by utilizing the mediating role of dynamic capabilities.

## 1. INTRODUCTION

At the end of 2019, the world faced an unprecedented challenge with the outbreak of COVID-19, a virus that quickly spread globally (Zampier, Stéfani, & Dias, 2022). Indonesia, a developing nation, experienced significant economic setbacks as a result of the pandemic (Hudaefi, Caraka, & Wahid, 2021). Various sectors, particularly small and medium-sized enterprises (SMEs), were severely affected, with a marked decline in growth (Hudaefi et al., 2021). Governments worldwide, including Indonesia, implemented measures like social distancing, travel restrictions, and lockdowns to contain the virus (Bolislis et al., 2021; Gerke, Shachar, Chai, & Cohen, 2020). These restrictions led to a dramatic shift in business operations, moving from traditional to digital platforms (Susanto et al., 2021). However, this shift proved challenging for many SMEs, particularly in Indonesia, where digital integration was not widespread.

According to the Katadata Insight Center (2020), 82.9% of Indonesian SMEs suffered negative effects during the pandemic, with 56.8% facing severe hardship, and over 30% reporting a drop in revenue. Despite efforts to embrace digital solutions, only 13% of SMEs were digitally connected (Katadata Insight Center, 2020). Out of the approximately 64 million SMEs in Indonesia, only 19 million, or 29%, had the capability to operate digitally (Ahdiat, 2022). The majority of these enterprises struggled with limited financing and inadequate digital training, which impeded their ability to transition successfully to online platforms (Ahdiat, 2022). As a result, SMEs were forced to reduce production,

restructure credit, cut salaries, and downsize their workforce (Pusparisa, 2020).

Given the crucial role SMEs play in Indonesia's economy contributing 8,573 trillion rupiahs to GDP, providing employment for 97% of the workforce, and accounting for 60.4% of total investment (Limanseto, 2021). it is essential to address their struggles in adapting to rapid market changes. One potential solution is leveraging dynamic capabilities, which enable firms to adapt, build, and reconfigure internal and external resources to remain competitive in volatile environments (Teece & Pisano, 2003). These capabilities allow businesses to continuously innovate and align their offerings with shifting market demands (Helfat & Peteraf, 2003; Teece et al., 1994).

While previous studies have highlighted the importance of dynamic capabilities for business performance (Hernández-Linares, Kellermanns, & López-Fernández, 2021), there is limited research on how these capabilities, particularly market focus and entrepreneurship, influence the performance of SMEs in Indonesia, especially during crises like the COVID-19 pandemic. Many studies focus on large corporations or SMEs in developed markets, leaving a gap in understanding how SMEs in emerging economies, like Indonesia, navigate market dynamics through entrepreneurship and innovation.

Entrepreneurship and innovation help SMEs respond to rapid changes by introducing new products, services, and business processes (Chien & Tsai, 2012; Coviello & Munro, 1995). By aligning business operations with market needs, SMEs can achieve better performance (Teece et al., 1994). However, the specific mechanisms by which market focus and entrepreneurship contribute to the success of Indonesian SMEs remain underexplored. This study aims to examine the influence of market focus and entrepreneurship on the performance of SMEs in Indonesia. Given the central role SMEs play in Indonesia's economy, understanding these relationships can offer valuable insights into how SMEs can improve their competitiveness and resilience in the face of market disruptions.

## 2. LITERATURE REVIEW

The success of Small and Medium-sized Enterprises (SMEs) is the result of various internal resources working together in business processes. According to Helfat & Winter (2011), a company's performance refers to the continuous outcomes achieved by management to meet specific objectives. Performance can be assessed using financial or non-financial information over a defined period, with the aim of generating profits (Moerdiyanto, 2011; Rhodes, Hung, Lok, Lien, & Wu, 2008; Ulum, Ghazali, & Chariri, 2008). When a company faces changes and decisions, its performance can be evaluated by assessing its growth, learning, financial status, daily operations, and customer satisfaction (Kristinawati & Tjakraatmadja, 2018; Venkatraman & Ramanujam, 1986). Additionally, company performance involves overall organizational effectiveness in meeting stakeholders' needs, enhancing capabilities, and fulfilling requirements efficiently (Fahmi, 2013). Strong performance in SMEs reinforces their crucial role as the backbone of the national economy (Widjaja, Alamsyah, Rohaeni, & Sukajie, 2018).

Dynamic capabilities, often referred to as DC, refer to a company's ability to do essential things: identifying opportunities outside the company, acquiring external resources, adjusting internal processes, and improving its own resources (Barreto, 2010; Noronha, Martins, Iamamoto, Bidin da Silva, & Vieira Silva, 2023). Having excellent resources alone is not enough; companies need dynamic capabilities to effectively utilize these resources (Eisenhardt & Martin, 2000). People are interested in dynamic capabilities because they can help companies perform better overall (Schilke, 2014). Within dynamic capabilities, business owners need to identify and understand opportunities in the surrounding world (sensing capability), learn new things and adapt within the company (learning capability), put new ideas into action and collaborate effectively (integrating capability), and manage tasks, resources, and activities in innovative ways (coordinating capability) (Pavlou & El Sawy, 2011; Zahra, Sapienza, & Davidsson, 2006). Additionally, Eriksson (2014) identifies two main perspectives on dynamic capabilities, one focusing on specific elements like products, technology, and collaboration among companies, and the other examining general knowledge to understand how dynamic capabilities function.

In the contemporary era, Entrepreneurial Orientation (EO) serves as a foundational step for SMEs before adopting a market orientation. EO is the practice of applying entrepreneurial principles within a business unit to achieve success (Duru, Ehidihamen, & Chijioke, 2018; Idrusa, Abdussakira, & Djakfar, 2020). It is nurtured through activities like product development, product innovation, and navigating market competition (Idrusa et al., 2020; Kozubíková, Sopková, Krajčík, & Tyll, 2017). Market orientation, on the other hand, is embodied by companies engaging in marketing innovations, undertaking high-risk ventures, and being pioneers in proactive innovations (Hoque, 2018; Miller, 1983). Within entrepreneurial orientation, efforts are directed towards uncovering fresh opportunities through experiments and creative pursuits leading to novel products or enhancing existing ones' technical attributes (Hoque, 2018; Kosorukova et al., 2023; Mohamood & Hanafi, 2013). In the context of market orientation, a proactive stance in product development by leveraging emerging technologies and allocating more resources to projects yielding unforeseen outcomes is essential (Cantaleano, Rodrigues, & Martins, 2018; Kosorukova et al., 2023; Nachucho et al., 2023) These initiatives accelerate the establishment of a market-oriented approach for SMEs, aiding them in achieving a prominent position in competitive landscapes (Hoque, 2018; Wiklund & Shepherd, 2003).

Market orientation (MO) involves a company's efforts to understand customer needs and ensure long-term customer satisfaction, delivering something valuable (Becherer, Halstead, & Haynes, 2001; Putri, Sari, & Ratnawati, 2019). It can also be defined as a company's activities to create and sustain superior customer value while considering other stakeholder interests related to company development and market information response (Putri et al., 2019; Sen, 2006). A well-executed market orientation leads to improved business, more dedicated employees, innovative product ideas, and happier customers (Mustafa, Rehman, Zaidi, & Iqbal, 2015). Market orientation is integral in facing intensified competition and influencing SMEs, prompting them to consider market intelligence generation, dissemination, and responsiveness in all actions (Budinska & Taborecka-Petrovicova, 2018; Jaworski & Kohli, 1993; Kohli & Jaworski, 1990).

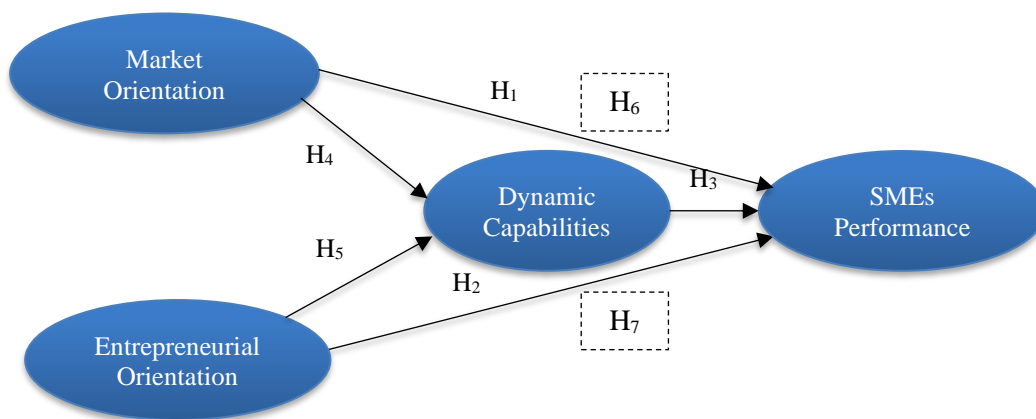
A study by Hernández-Linares and their team in 2021 found a connection between a company's ability to adapt and change, termed dynamic capabilities, and its overall performance. They discovered that different aspects of dynamic capabilities contribute to improved company performance. Another study by Tseng & Lee in 2014 found that a company's ability to sense things is linked to how well SMEs perform. SMEs can interact more personally with customers, making it easier for them to obtain important information (Coviello & Munro, 1995; and Hernández-Linares et al., 2021). Moreover, if a company excels at learning and applying its knowledge, it performs better. Therefore, if SMEs effectively utilize their dynamic capabilities, they can address competency issues more efficiently, contributing to their success (Chien & Tsai 2012; Hernández-Linares et al. 2021).

The research by Buttar & Koçak (2011) suggests that being entrepreneurial is crucial for developing dynamic abilities and improving a company's performance. Additionally, Ahmad et al. (2019) show that entrepreneurial behavior is the foundation for boosting business performance by focusing on the market to unlock potential for creating value. Meanwhile, Lekmat et al. (2018) discover that being entrepreneurial significantly affects business performance indirectly through marketing skills. Karimi & Taherzadeh (2016), and Hoque (2018) also find that there are indirect effects on international SME performance through networking, learning, and cultural orientation.

Connections exist between paying attention to the market and dynamic capabilities, as well as between market orientation and business performance (Hernández-Linares et al., 2021), where focusing on the market can lead to better business performance (Mustafa et al., 2015). Additionally, Asheq & Hossain (2019) establish that thinking about customers and brands positively affects company performance. Lekmat et al. (2018) find that paying attention to the market directly and indirectly affects business performance, and there's a positive link between them (Hussain, Rahman, & Shah, 2016). In this regard, paying attention to the market, customers, brands (Asheq & Hossain, 2019), as well as learning and being entrepreneurial, positively influence SME performance through knowledge and innovation (Wahyuni, Sara, & Amerta, 2019).

Building on these ideas and prior research, the following hypotheses are proposed for this study:

- H<sub>1</sub>: The performance of SMEs is directly influenced by paying attention to the market.
- H<sub>2</sub>: The performance of SMEs is directly influenced by being entrepreneurial.
- H<sub>3</sub>: The performance of SMEs is directly influenced by having dynamic abilities.
- H<sub>4</sub>: Dynamic abilities are directly influenced by paying attention to the market.
- H<sub>5</sub>: Dynamic abilities are directly influenced by being entrepreneurial.
- H<sub>6</sub>: Dynamic abilities play a role as a mediator in the relationship between paying attention to the market and SMEs' performance.
- H<sub>7</sub>: Dynamic abilities play a role as a mediator in the relationship between being entrepreneurial and SMEs' performance.



**Figure 1. Conceptual Framework of the Study**

### 3. METHODS

#### Research Design

This study adopted a quantitative descriptive approach with a causal perspective (Karunia, Darmawansyah, Dewi, & Prasetyo, 2023). The primary aim was to understand the specific conditions faced by Small and Medium-sized Enterprises (SMEs) in the culinary sector in the Jabodetabek region and explore cause-and-effect relationships between various research factors (Karunia, Budiaji, Suzana, Dewi, & Prasetyo, 2023; Karunia, Darmawansyah, Prasetyo, Triyadi, & Ariawan, 2023).

#### Data Collection and Instrument Development

The study targeted SMEs in the culinary industry with over five years of operational history. We employed random sampling to select a sample size of 220 SMEs. Data were collected between May 2022 and September 2023 through a structured survey. The survey method involved a detailed questionnaire distributed to SME owners and managers, who were considered the most knowledgeable about the business's strategic decisions.

The questionnaire consisted of items related to four key variables: Market Orientation (MO), Entrepreneurial Orientation (EO), Dynamic Capabilities (DC), and SME Performance (SP). These variables were operationalized based on validated constructs from previous studies to ensure reliability and validity. Each variable was measured using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), which is a widely accepted method for capturing respondents' attitudes and perceptions (Hair, Black, Babin, & Anderson, 2018; Sarstedt, Radomir, Moisescu, & Ringle, 2022).

**Table 1. Research Instruments**

Items	Questionnaire list
<b>Market Orientation (MO)</b>	
MO1	The SME conducts surveys with customers to determine which menu items are currently in demand.
MO2	The SME conducts surveys with customers to determine what kind of service customers need.
MO3	The SME periodically detects changes that can support business processes (such as technology, menu trends, etc.).
MO4	All employees have the same knowledge of current market developments.
MO5	The SME periodically reviews new menu items released according to customer preferences.
MO6	The SME periodically reviews new service programs based on customer needs.
MO7	The menus sold are adjusted to market developments (such as customer preferences, current menu trends, etc.).
<b>Entrepreneurial Orientation (EO)</b>	
EO1	Each year, the SME introduces new products.
EO2	Each year, the SME launches new service programs.
EO3	The SME develops new menus according to market preferences.
EO4	The SME creates new service programs based on customer needs.
EO5	The SME dares to take new opportunities that have never existed before in similar businesses.
<b>Dynamic Capabilities (DC)</b>	
DC1	The SME seeks to identify current societal needs.
DC2	The SME learns new ways to make business processes more efficient.
DC3	The SME learns new ways to improve business productivity.
DC4	The SME utilizes technological advancements based on current market needs.
DC5	The SME manages the implementation of new business processes for all employees according to their capabilities.
<b>SMEs Performance (SP)</b>	
SP1	The profit from sales meets the targets set by the SME.
SP2	Users of the product are satisfied with the quality provided by the SME.
SP3	The SME runs its business processes efficiently.
SP4	The SME continuously innovates to improve productivity.
SP5	Employees complete tasks more quickly after receiving training.

#### Data Analysis Techniques

We used Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze the relationships between the variables and validate our research hypotheses. PLS-SEM was chosen due to its robustness in handling complex models and its ability to manage small to medium sample sizes, making it ideal for our study (Ghozali, 2014; Sarstedt et al., 2022). This technique enabled us to test the cause-and-effect relationships between market orientation, entrepreneurial orientation, dynamic capabilities, and SME performance systematically.

Before conducting the analysis, we tested the validity and reliability of the constructs using Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE) (Hair et al., 2018). These statistical tests ensured that the measurement items were consistent and that they accurately captured the constructs they were intended to measure (Hair et al., 2018; Sarstedt, Hair, Nitzl, Ringle, & Howard, 2020). PLS-SEM also allowed us to identify the direct and indirect effects of market orientation and entrepreneurial orientation on SME performance, providing a comprehensive understanding of how dynamic capabilities mediate these relationships.

## 4. RESULTS AND DISCUSSION

### Results

Referring to the practical guidelines for evaluating convergent validity in the external model, it is apparent that the loading factor values of all research indicators are above 0.7, meeting the convergent validity criteria (Hair et al., 2018; Sarstedt et al., 2020). Shifting to another examination within the external model related to discriminant validity, cross-loading values are examined. The results show that the construct values, when compared to their respective indicators, are higher than the correlation values with other constructs. Furthermore, these constructs have AVE values exceeding 0.5, indicating compliance with discriminant validity standards (Hair et al., 2018; Sarstedt et al., 2020). In the final assessment of the external model, the evaluation of reliability demonstrates that Cronbach's alpha and composite reliability values for all variables exceed 0.7, confirming the model's consistency and reliability (Hair et al., 2018; Sarstedt et al., 2020).

**Table 2. Summary of Findings from the Outer Model**

Variable and items	Loading	AVE	Cronbach's alpha	Composite reliability	X <sub>1</sub>	X <sub>2</sub>	Z	Y
<b>Market Orientation (MO)</b>								
MO1	0.902	0.858	0.972	0.977	0.887	0.878	0.836	0.873
MO2	0.948				0.935	0.847	0.842	0.812
MO3	0.927				0.891	0.783	0.767	0.716
MO4	1.000				0.944	0.852	0.850	0.815
MO5	0.965				0.939	0.794	0.820	0.826
MO6	0.975				0.942	0.817	0.832	0.849
MO7	0.959				0.946	0.797	0.828	0.859
<b>Entrepreneurial Orientation (EO)</b>								
EO1	0.949	0.815	0.943	0.957	0.753	0.880	0.758	0.768
EO2	0.950				0.777	0.886	0.765	0.792
EO3	0.959				0.841	0.923	0.808	0.813
EO4	0.958				0.788	0.913	0.776	0.756
EO5	1.000				0.867	0.912	0.830	0.862
<b>Dynamic Capabilities (DC)</b>								
DC1	1.000	0.844	0.953	0.964	0.791	0.776	0.907	0.797
DC2	0.958				0.829	0.766	0.914	0.813
DC3	0.960				0.816	0.836	0.940	0.847
DC4	1.000				0.853	0.825	0.931	0.824
DC5	0.927				0.821	0.803	0.955	0.843
<b>SMEs Performance (SP)</b>								
SP1	1.000	0.831	0.959	0.967	0.720	0.752	0.710	0.844
SP2	1.000				0.793	0.805	0.825	0.941
SP3	0.965				0.850	0.831	0.839	0.964
SP4	0.962				0.879	0.865	0.871	0.926
SP5	1.000				0.830	0.809	0.820	0.915

In presenting the structural model or inner model, the results obtained reveal that the Adjusted R-Square values for dynamic capabilities and SMEs' performance are 0.824 and 0.852, respectively. These values are approaching 1, indicating a substantial impact (Sarstedt et al., 2022). According to the R-Square test findings, it can be inferred that DC can be comprehensively explained by MO and EO, accounting for 82.4%, while SMEs' Performance (SP) can be comprehensively explained by MO, EO, and DC, accounting for 85.2%. Moving on to the evaluation of the GoF index, a result of 0.838 is achieved, surpassing 0.36. This indicates a strong fit for the GoF (Hair et al., 2018; Sarstedt et al., 2020). In the examination of the R-Square, the calculated F-values for DC and SP are 318.09 and 193.60, respectively, both exceeding the critical F-value of 2.7. This suggests that the exogenous variables in this study collectively have the potential to influence their endogenous counterparts (Hair et al., 2018; Sarstedt et al., 2020).

**Table 3. Overview of Findings from the Inner Model**

Constructs	R-Square	R-Square Adjusted	F-Count	GoF
SMEs Performance	0.852	0.845	318.09	$\sqrt{AVE \times R^2} = 0.838$
Dynamic Capabilities	0.824	0.819	192.60	

In conclusion, following the application of hypothesis testing through resampling bootstrap, the outcomes indicate that both MO and EO exert a positive and significant impact on DC and SP. Notably,

dynamic capabilities strongly influence SMEs' performance. Additionally, DC act as a mediator in the impact of MO and EO on SP. These findings are substantiated by t-statistics values surpassing 1.96 and p-values below 0.05, confirming the validation or acceptance of all hypotheses examined in this study (Hair et al., 2018; Sarstedt et al., 2020).

**Table 4. Summary of Results from Significance Testing**

Path	Original Sample	Sample Mean	Std. Dev.	T-Statistics	P-Values	Results
MO → SP	0.294	0.298	0.124	2.372	0.018	Verified
EO → SP	0.324	0.319	0.110	2.950	0.003	Verified
DC → SP	0.342	0.345	0.112	3.066	0.002	Verified
MO → DC	0.551	0.557	0.117	4.706	0.000	Verified
EO → DC	0.381	0.371	0.120	3.165	0.002	Verified
MO → DC → SP	0.189	0.191	0.074	2.552	0.011	Verified
EO → DC → SP	0.130	0.129	0.063	2.081	0.038	Verified

## Discussion

In summary, the results of this study strongly support the initial hypothesis, demonstrating a significantly positive impact of market orientation on the dynamic capabilities of SMEs. This suggests that SMEs with a strong market orientation tend to excel in identifying market opportunities, accessing relevant market information, and adapting their resources to changing business landscapes. These findings align with prior research by Chien & Tsai (2012), Coviello & Munro (1995), emphasizing how market orientation enables SMEs to effectively engage with customers and gain competitive advantages. When examining the interrelationships between dimensions, the strong correlation between the intelligence dissemination dimension of market orientation and the integrating capability dimension of dynamic capabilities signifies a close connection between SMEs' gathering, disseminating, and processing of market insights and their ability to harmonize resources and respond to shifts. This emphasizes the importance of enhancing intra-departmental collaboration within SMEs to promptly assimilate and deploy market-derived insights within business strategies. Additionally, SMEs should intensify efforts to accumulate and analyze market intelligence to identify new opportunities and threats, fostering the ability to efficiently combine internal resources for swift responses to market fluctuations.

The study also supports the second hypothesis, revealing a significant positive influence of entrepreneurial orientation on SMEs' dynamic capabilities. It indicates that SMEs with a robust entrepreneurial orientation are better equipped to generate innovations, adapt to market shifts, and introduce fresh products and services. This finding resonates with Ahmad et al. (2019), Buttar & Koçak (2011), highlighting how entrepreneurial orientation serves as a foundation for cultivating SMEs' dynamic capabilities. The notable correlation between the proactiveness dimension of entrepreneurial orientation and the integrating capability dimension of dynamic capabilities underscores the value of proactive stances in navigating market changes to enhance dynamic capabilities. This emphasizes SMEs' need to cultivate the ability to spot forthcoming market changes and trends, enabling proactive responses. Furthermore, SMEs should be adept at rapid and efficient responses, including optimal utilization of available resources.

The study confirms the third hypothesis, uncovering a substantial positive impact of dynamic capabilities on SMEs' performance. This affirms the findings of Hernández-Linares et al. (2021) that dynamic capabilities contribute to elevated firm performance. SMEs that display adaptability, innovation, and responsiveness to environmental shifts tend to excel due to their heightened effectiveness in addressing market challenges. When correlating dimensions, the pronounced correlation between the responsiveness dimension of market orientation and the learning and growth dimension of business performance underscores that SMEs' capacity to address market needs can have a positive effect on business growth. This suggests SMEs need to consistently fathom and swiftly address customer needs for enhanced satisfaction and loyalty. Furthermore, SMEs should cultivate a culture that encourages continual innovation and learning to sustain competitiveness.

The findings of the study substantiate the fourth hypothesis, illustrating a significant positive effect of market orientation on SMEs' performance. This discovery aligns with earlier literature such as Mustafa et al. (2015), revealing that market orientation can yield superior businesses, more effective product innovations, and heightened customer satisfaction. SMEs with a robust market orientation can tailor their products and services to customer needs, thereby enhancing their performance. Correlating dimensions, the pronounced correlation between the risk-taking dimension of entrepreneurial orientation and the learning and growth dimension of business performance indicates that risk-embracing SMEs tend to achieve superior growth. This highlights SMEs' need to encourage employees to innovate and take controlled risks in developing novel products and services. However, while embracing risk is vital, SMEs must also formulate plans and mechanisms to effectively manage potential risks.

The study's results confirm the fifth hypothesis, revealing a substantial positive impact of entrepreneurial orientation on SME performance. This aligns with prior research, such as Asheq & Hossain (2019), indicating that entrepreneurial orientation can enhance company performance. SMEs focusing on innovation, experimentation, and the creation of new products are more likely to achieve heightened performance by adapting to evolving market demands.

When examining dimensions, the strong correlation between the integrating capability dimension of dynamic capabilities and the learning and growth dimension of business performance emphasizes that SMEs' ability to integrate resources and respond to shifts influences business growth. This underscores the need for SMEs to cultivate the capability to integrate various internal and external resources, creating added value while remaining open to innovation, change, and rapid responses.

The findings of this study support our sixth hypothesis, demonstrating that dynamic capabilities play a crucial role in how market orientation impacts SME performance. This implies that market orientation not only directly affects SME performance but also indirectly assists SMEs in developing dynamic capabilities, enhancing their responsiveness to market changes. Essentially, SMEs adept at identifying market opportunities and adapting quickly are more likely to perform well. Close examination of different aspects reveals a strong link between the market orientation component focused on responsiveness to the market and a business's ability to learn and grow. In simpler terms, SMEs that swiftly respond to market needs tend to experience more significant growth. This underscores the pivotal role dynamic capabilities play in translating market responses into tangible business growth. To excel in this aspect, SMEs must build robust dynamic capabilities, enabling effective resource utilization and adaptation to market changes.

The study's outcomes also validate our seventh hypothesis, highlighting the substantial role of dynamic capabilities in connecting entrepreneurial thinking with SME performance. This suggests that entrepreneurial orientation not only directly impacts SME performance but also indirectly enhances innovation and the ability to adapt to changes in the business environment. SMEs with a strong entrepreneurial mindset and solid dynamic capabilities are more likely to perform exceptionally well. A closer look at different aspects reveals a strong link between the willingness to take well-thought-out risks, an element of entrepreneurialism, and a business's capacity to learn and grow. In practical terms, SMEs willing to take calculated risks are more likely to experience growth. This emphasizes the critical importance of dynamic capabilities in bridging entrepreneurial traits with business performance. To navigate risks effectively, SMEs must prioritize the development of strong dynamic capabilities.

In summary, these findings underscore the importance of a combination of market and entrepreneurial thinking, coupled with robust dynamic capabilities, for SME success. Market and entrepreneurial thinking provide a solid foundation for understanding the market and being prepared to take necessary risks. However, dynamic capabilities serve as the crucial bridge, transforming market insights and entrepreneurial spirit into tangible business success. Therefore, the key takeaway for SMEs aiming for better business outcomes is to prioritize the development of dynamic capabilities as a central element of their strategy. Through this approach, SMEs can unlock the true potential of their market and entrepreneurial initiatives, significantly enhancing business performance and ensuring sustained growth and success.

## 5. CONCLUSIONS

In this study, we conducted a comprehensive investigation to explore the interconnectedness of market focus, entrepreneurial mindset, dynamic capabilities, and business performance within small and medium-sized enterprises (SMEs) in Indonesia. The insights derived from our research shed light on the factors influencing the success of SMEs, underscoring the pivotal role played by dynamic capabilities as an intermediary element. The results of our hypothesis testing reveal significant and positive associations between both market orientation and entrepreneurial orientation with the performance of SMEs. In this context, the orientations of SMEs towards the market and entrepreneurship empower them to swiftly adapt to market dynamics and make informed risks for fostering innovation, ultimately leading to enhanced performance. Furthermore, dynamic capabilities emerge as robust intermediaries between market/entrepreneurial orientations and business performance, showcasing the organization's capacity to adjust strategies in response to the dynamic business landscape.

The practical implications derived from this study underscore the necessity for SMEs to cultivate a robust market orientation, leverage entrepreneurial potential for prudent risk-taking and innovation, and reinforce dynamic capabilities to effectively translate market responses into actions fostering sustainable growth. These efforts can assist Indonesian SMEs in skillfully addressing challenges within the competitive and ever-evolving business environment.

For Indonesian SMEs, the recommendations involve deepening their understanding of market opportunities and customer needs through continual market orientation initiatives. Additionally, SMEs should nurture a culture of innovation and controlled risk-taking to strengthen entrepreneurial orientation. It is equally crucial for SMEs to establish robust dynamic capabilities by investing in human resource development, technology, and adept management of collaborations with business partners and suppliers. In terms of future research, broadening the sample scope to encompass diverse industry sectors could yield findings that better capture the varied characteristics of Indonesian SMEs. Subsequent studies could also explore contextual factors that might moderate the relationships among the variables under examination. Furthermore, the integration of external factors like governmental regulations and economic conditions could provide a more comprehensive understanding of their impact on SME performance.

In essence, this study provides a profound perspective on how market orientation, entrepreneurial orientation,

and dynamic capabilities interact and contribute to the business performance of Indonesian SMEs. With an enhanced understanding of these dynamics, SMEs are well-positioned to navigate future challenges and seize opportunities more effectively.

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