# How strategic orientation shapes MSE performance: The mediating role of innovation ambidexterity

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***ABSTRACT***

*This study examines the effect of strategic orientation on micro and small enterprise (MSE) performance in the food and beverage subsector, with innovation ambidexterity as a mediator. Using a quantitative explanatory approach, survey data were collected from food and beverage MSE owners in Semarang City and analyzed using Partial Least Squares - Structural Equation Modeling (PLS-SEM). The results show that entrepreneurial orientation positively and significantly affects MSE performance, whereas market orientation has no significant direct effect. Innovation ambidexterity positively and significantly affects MSE performance, while mediating the effects of both entrepreneurial and market orientations. This study is limited to one subsector and cross-sectional data. Future research could incorporate digital orientation, organizational learning, and environmental dynamism, examine other subsectors or regions, and employ longitudinal designs to capture changes in these relationships.*

***Keywords:*** *Strategic Orientation; Innovation Ambidexterity; Micro and Small Enterprises*

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## INTRODUCTION

Micro and Small Enterprises (MSEs) are widely recognized as a key driver of economic growth, employment generation, and social welfare, particularly in developing economies (Rezazadeh et al., 2016; Ulas, 2019). In Indonesia, MSEs contribute more than 60 percent of national Gross Domestic Product and employ approximately 97 percent of the workforce, underlining their strategic role in supporting economic resilience and inclusive development (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2025). However, despite this contribution, many MSEs continue to face structural challenges such as limited access to capital, resource constraints, weak innovation capability, and increasing competitive pressure (Shah et al., 2019; Fatima et al., 2020).

Within this context, the Food and Beverage (FnB) subsector has emerged as one of the most active segments of urban MSEs, including in Semarang City. Recent economic conditions have intensified operational challenges for FnB MSEs due to rising production costs, inflation in food-related commodities, and heightened market competition (bisnis.com, 2025). These pressures make business performance a critical issue for ensuring sustainability and long-term survival. Business performance reflects a firm's ability to achieve strategic objectives and sustain operations over time (Isichei et al., 2020). For MSEs, performance is closely linked to how effectively business owners formulate and implement strategic decisions in response to environmental changes. One strategic concept frequently discussed in the literature is strategic orientation, which refers to organizational tendencies that guide firms in allocating resources and responding to market dynamics (Covin & Wales, 2019).

Strategic orientation in MSEs is commonly expressed through entrepreneurial orientation and market orientation. Entrepreneurial orientation emphasizes innovativeness, proactiveness, and risk-taking as mechanisms for identifying and exploiting new opportunities (Głodowska et al., 2019). Although numerous studies have reported a positive relationship between entrepreneurial orientation and firm performance (Jiang & Yang, 2016; Fatima & Bilal, 2020; Putnins & Sauka, 2020), other findings indicate that this relationship is not always consistent, particularly in specific sectors and contexts (Isichei et al., 2020; Nofiani et al., 2021). Market orientation focuses on how firms generate, disseminate, and respond to information regarding customer needs and competitor actions (Bamfo & Kraa, 2019). Firms with strong market orientation tend to create superior customer value and improve performance outcomes (Martínez Azúa et al., 2025). While several studies confirm a positive effect of market orientation on MSE performance (Buli, 2017; Wójcik-Karpacz, 2021), other studies report inconclusive or insignificant results, suggesting that the relationship requires further empirical clarification (Siregar, 2024).

These mixed findings point to a research gap concerning the mechanism through which strategic orientations influence MSE performance. Prior research suggests that organizational capabilities may mediate this relationship (Wales et al., 2013; Nofiani et al., 2021). Innovation ambidexterity, defined as the ability to balance exploratory and exploitative innovation activities, has been proposed as a key capability in this process (Mashahadi et al., 2016). Innovation ambidexterity is particularly relevant for resource-constrained MSEs, as it enables firms to adapt to dynamic market conditions while using resources efficiently (Stei et al., 2024). Empirical studies indicate that innovation ambidexterity contributes positively to firm performance, although some findings are insignificant (Genc et al., 2019; Yan et al., 2021). Moreover, entrepreneurial orientation

and market orientation have been shown to play a significant role in strengthening innovation ambidexterity (Singh & Singh, 2024; Martinez-Azua et al., 2025).

Drawing on Dynamic Capability Theory (Teece et al., 1997; Teece, 2020), this study examines the influence of entrepreneurial orientation and market orientation on the performance of MSEs in the FnB subsector in Semarang City, with innovation ambidexterity as a mediating variable. The findings are expected to provide empirical insights into how strategic orientations are transformed into improved business performance through innovation capability.

## LITERATURE REVIEW, RESEARCH FRAMEWORK, AND HYPOTHESES

Entrepreneurial orientation reflects a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking (Głodowska et al., 2019). In the context of Micro and Small Enterprises (MSEs), entrepreneurial orientation enables business owners to identify opportunities, respond proactively to market changes, and take calculated risks to sustain competitiveness. Prior empirical studies report that entrepreneurial orientation positively influences firm performance by encouraging innovation and opportunity exploitation (Jiang & Yang, 2016; Putnins & Sauka, 2020; Fatima & Bilal, 2020). However, several studies reveal inconsistent results, suggesting that the effect of entrepreneurial orientation on performance may vary across sectors and contexts (Isichei et al., 2020; Nofiani et al., 2021). Based on these arguments, the following hypothesis is proposed:

*H1: Entrepreneurial orientation has a positive and significant effect on MSE performance*

Market orientation refers to a firm's capability to generate, disseminate, and respond to market intelligence related to customer needs and competitor actions (Bamfo & Kraa, 2019). Market-oriented firms tend to align their products and services with market demand, leading to improved customer satisfaction and performance outcomes. Previous studies provide empirical evidence supporting the positive effect of market orientation on MSE performance (Buli, 2017; Wójcik-Karpacz, 2021). Nevertheless, some findings indicate insignificant relationships, implying that market orientation alone may not automatically translate into superior performance without supporting capabilities (Siregar, 2024). Therefore, the following hypothesis is formulated:

*H2: Market orientation has a positive and significant effect on MSE performance.*

Innovation ambidexterity refers to a firm's capability to balance exploration and exploitation activities simultaneously (Mashahadi et al., 2016). For MSEs operating under resource constraints, this capability is crucial for maintaining flexibility while ensuring operational efficiency. Prior empirical research indicates that innovation ambidexterity positively affects firm performance by enabling firms to adapt to environmental changes without sacrificing stability (Genc et al., 2019; Wiratmadja et al., 2021). However, some studies report non-significant results, highlighting the need for further empirical validation (Yan et al., 2021). Based on this reasoning, the following hypothesis is proposed:

*H3: Innovation ambidexterity has a positive effect on MSE performance.*

From a dynamic capability perspective, entrepreneurial orientation encourages firms to engage in exploratory activities while simultaneously improving existing operations. Firms with strong entrepreneurial orientation are more likely to allocate

resources toward experimentation and innovation, which supports the development of innovation ambidexterity (Zhang et al., 2016). Empirical studies indicate that entrepreneurial orientation significantly enhances a firm's ability to balance exploratory and exploitative innovation activities (Ghantous & Alnawas, 2020). Accordingly, the following hypothesis is proposed:

*H4: Entrepreneurial orientation has a positive and significant effect on innovation ambidexterity among FnB MSEs in Semarang City.*

Market orientation enables firms to respond effectively to changes in customer preferences and competitive dynamics. By continuously monitoring market information, firms can align exploratory innovation with market needs while refining existing products and processes. Previous studies suggest that market orientation positively influences innovation ambidexterity by facilitating knowledge integration and adaptive learning (Zhou et al., 2021; Ghantous & Alnawas, 2020). Thus, the following hypothesis is formulated:

*H5: Market orientation has a positive effect on innovation ambidexterity among FnB MSEs in Semarang City.*

Strategic orientations may not directly translate into improved performance unless firms possess the capability to transform strategic intent into innovation outcomes. Innovation ambidexterity is argued to function as a mediating mechanism that enables entrepreneurial and market orientations to enhance performance effectively (Wales et al., 2013; Nofiani et al., 2021). Firms with strong strategic orientations are more likely to develop balanced innovation activities, which subsequently improve performance. Therefore, the following hypotheses are proposed:

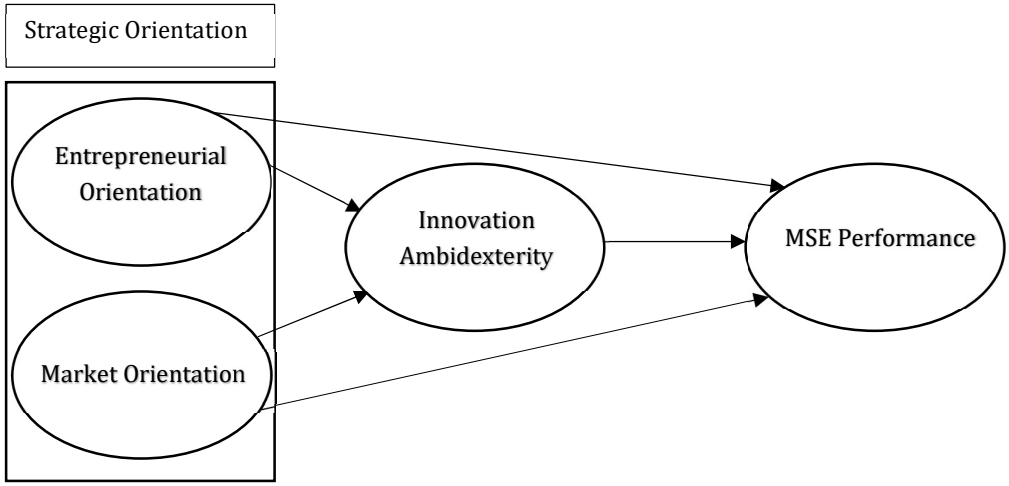
*H6: Innovation ambidexterity mediates the relationship between entrepreneurial orientation and MSE performance.*

*H7: Innovation ambidexterity mediates the relationship between market orientation and MSE performance.*

## Research Framework

Based on Dynamic Capability Theory (Teece et al., 1997) which explains how firms adapt to changing environments by integrating, building, and reconfiguring internal and external competencies, this study proposes a research framework in which entrepreneurial orientation and market orientation influence MSE performance both directly and indirectly through innovation ambidexterity. Teece (2020) further identifies sensing, seizing, and transforming as key dynamic capability processes. Innovation ambidexterity enables MSEs to balance exploratory and exploitative innovation activities, thereby linking strategic orientations to business performance.

The proposed research framework summarizes the hypothesized relationships among the variables examined in this study, as presented in Figure 1.




Source : Developed for research purposes, 2026

**Figure 1**
**Research Framework**

## METHOD

This study uses a quantitative explanatory research design (Hair et al., 2019) to examine the relationships between entrepreneurial orientation, market orientation, innovation ambidexterity, and business performance. The scope of the study focuses on Micro and Small Enterprises (MSEs) in the Food and Beverage (FnB) subsector located in Semarang City, Indonesia.

The population consists of owners or managers of active FnB MSEs. The sample was determined using the minimum sample size requirement for Partial Least Squares Structural Equation Modeling (PLS-SEM), which follows the ten-times rule, referring to the largest number of structural paths directed at a construct in the model (Hair et al., 2019). Based on this criterion, a total of 100 respondents were included in the analysis.

A convenience sampling technique was applied (Stratton, 2021), to recruit respondents who were accessible and willing to participate, provided that they met the study's eligibility criteria, including involvement in business management and strategic decision-making. Data were collected using a structured questionnaire adapted from previous studies and measured using a Likert scale. Data analysis was conducted using PLS-SEM with SmartPLS software to evaluate the measurement model and test the proposed hypotheses (Hair et al., 2019).

## RESULTS AND DISCUSSION

According to Hair et al. (2019), the outer model was evaluated to assess the validity and reliability of the measurement model. Convergent validity was examined through outer loading values and Average Variance Extracted (AVE) (Hair et al., 2019). The results indicate that all indicators have outer loading values above the minimum threshold of 0.70, with a few indicators slightly above 0.69, which are still considered acceptable in exploratory research. The AVE values for all constructs exceed 0.50, confirming adequate convergent validity. Specifically, business performance shows an AVE of 0.567, entrepreneurial orientation 0.550, market orientation 0.657, and innovation ambidexterity 0.591.

Reliability testing was conducted using Cronbach's Alpha (CA) and Composite Reliability (CR) (Hair et al., 2019). All constructs demonstrate satisfactory internal consistency, with CA values exceeding 0.70 and CR values above 0.80. Business performance shows CA and CR values of 0.848 and 0.887, entrepreneurial orientation 0.794 and 0.859, market orientation 0.895 and 0.920, and innovation ambidexterity 0.930 and 0.941. These results indicate that all constructs meet the reliability criteria. The reliability assessment results for all constructs are summarized in Table 1.

**Table 1**
**Outer Model Evaluation**

| Variable | Measurement Item | Outer Loading | CA | CR | AVE |
|---|---|---|---|---|---|
| MSEs Performance | KU 1 | 0.715 | 0.848 | 0.887 | 0.567 |
| | KU 3 | 0.757 | | | |
| | KU 4 | 0.768 | | | |
| | KU 5 | 0.697 | | | |
| | KU 6 | 0.829 | | | |
| | KU 7 | 0.745 | | | |
| Entrepreneurial Orientation | OK1 | 0.801 | 0.794 | 0.859 | 0.550 |
| | OK 2 | 0.705 | | | |
| | OK3 | 0.708 | | | |
| | OK 4 | 0.703 | | | |
| | OK6 | 0.784 | | | |
| Market Orientation | OP 1 | 0.801 | 0.895 | 0.920 | 0.657 |
| | OP 2 | 0.869 | | | |
| | OP 3 | 0.833 | | | |
| | OP 4 | 0.821 | | | |
| | OP 5 | 0.793 | | | |
| | OP 8 | 0.741 | | | |
| Innovation Ambidexterity | AI 2 | 0.755 | 0.930 | 0.941 | 0.591 |
| | AI 3 | 0.709 | | | |
| | AI 4 | 0.777 | | | |
| | AI 5 | 0.781 | | | |
| | AI 6 | 0.710 | | | |
| | AI 7 | 0.749 | | | |
| | AI 8 | 0.787 | | | |
| | AI 9 | 0.799 | | | |
| | AI 10 | 0.875 | | | |
| | AI 11 | 0.729 | | | |
| | AI 12 | 0.774 | | | |

Source : Data analyzed, 2026

Discriminant validity was evaluated using the Fornell–Larcker criterion (Ghozali, 2023). The square root of AVE for each construct exceeds its correlations with other constructs, indicating adequate discriminant validity. Innovation ambidexterity (0.769), business performance (0.753), entrepreneurial orientation (0.742), and market orientation (0.811) all demonstrate sufficient discriminant properties. The results of the Fornell–Larcker criterion assessment are presented in Table 2.

**Table 2**
**Fornell Larcker**

| | IA | MP | EO | MO |
|---|---|---|---|---|
| IA | 0.769 | | | |
| MP | 0.616 | 0.753 | | |
| EO | 0.66 | 0.574 | 0.742 | |
| MO | 0.775 | 0.561 | 0.623 | 0.811 |

Source : Data analyzed, 2026

Discriminant validity was further confirmed using the Heterotrait–Monotrait Ratio (HTMT) (Ghozali, 2023). All HTMT values are below the recommended threshold of 0.90, with the highest value observed between innovation ambidexterity and market orientation (0.845). These results indicate that all constructs are empirically distinct. The results of the HTMT assessment are presented in Table 3.

**Table 3**
**Heterotrait–Monotrait Ratio**

| | IA | MP | EO | MO |
|---|---|---|---|---|
| IA | | | | |
| MP | 0.672 | | | |
| EO | 0.761 | 0.679 | | |
| MO | 0.845 | 0.616 | 0.744 | |

Source : Data analyzed, 2026

Overall, the measurement model meets the criteria for validity and reliability, allowing further analysis of the structural model.

The evaluation of multicollinearity using the Variance Inflation Factor (VIF) shows that all indicator values range between 1.485 and 4.782, which are below the critical threshold of 5.00. This result indicates that multicollinearity is not a concern in the measurement model and that the indicators adequately represent their respective constructs without redundancy (Hair et al., 2019). The highest VIF value is observed for indicator AI10 (VIF = 4.782), which remains within the acceptable range, suggesting that innovation ambidexterity indicators are sufficiently distinct while still capturing the underlying construct (Hair et al., 2019). The VIF values for all indicators are summarized in Table 4.

**Table 4**
**Variance Inflation Factor (VIF)**

| | VIF |
|---|---|
| MP 1 | 2.998 |
| MP 3 | 3.338 |
| MP 4 | 1.804 |
| MP 5 | 1.488 |

| | VIF |
|---|---|
| MP 6 | 2.364 |
| MP 7 | 1.858 |
| EO 1 | 1.892 |
| EO 2 | 1.546 |
| EO 3 | 1.590 |
| EO 4 | 1.485 |
| EO 6 | 1.714 |
| MO 1 | 2.081 |
| MO 2 | 3.202 |
| MO 3 | 2.816 |
| MO 4 | 2.230 |
| MO 5 | 2.149 |
| MO 8 | 1.728 |
| IA 2 | 3.109 |
| IA 3 | 2.678 |
| IA 4 | 3.032 |
| IA 5 | 2.805 |
| IA 6 | 2.036 |
| IA 7 | 2.192 |
| IA 8 | 2.680 |
| IA 9 | 2.847 |
| IA 10 | 4.782 |
| IA 11 | 2.825 |
| IA 12 | 2.636 |

Source : Data analyzed, 2026

The results of hypothesis testing indicate that entrepreneurial orientation has a positive and significant effect on MSE performance (H1). The path coefficient of 0.269, supported by a p-value of 0.003 and a t-value of 2.790, confirms statistical significance. The 95% confidence interval ranges from 0.106 to 0.421 and does not include zero, indicating that the effect is stable and consistently positive. This finding suggests that stronger market orientation contributes directly to improved MSE performance in the food and beverage subsector.

In contrast, market orientation does not have a significant direct effect on MSE performance (H2). Although the path coefficient is positive (β = 0.134), the relationship is not statistically significant (p = 0.149; t = 1.042). The confidence interval ranges from −0.065 to 0.351, which crosses zero, indicating that the direct influence of entrepreneurial orientation on MSE performance is not consistent. The findings further show that innovation ambidexterity has a significant positive effect on MSE performance (H3). The path coefficient of 0.335 is statistically significant (p = 0.001; t = 2.998), with a confidence interval between 0.147 and 0.510. The entirely positive interval confirms that innovation ambidexterity plays an important role in enhancing MSE performance.

Regarding the determinants of innovation ambidexterity, entrepreneurial orientation has a positive and significant effect on innovation ambidexterity (H4). This relationship is supported by a path coefficient of 0.290, a t-value of 3.422, and a p-value below 0.001. The confidence interval (0.132–0.414) further indicates a stable and reliable effect. Similarly, market orientation shows a strong and significant effect on innovation ambidexterity (H5). The path coefficient of 0.595, along with a high t-value of 7.621 and a p-value below 0.001, indicates a substantial relationship. The confidence interval ranging from 0.470 to 0.726 confirms the robustness of this effect.

The mediation analysis demonstrates that innovation ambidexterity mediates the relationship between market orientation and MSE performance (H6). The indirect effect

is significant (β = 0.097; p = 0.018; t = 2.099), with a confidence interval between 0.035 and 0.181, indicating a supported mediating role. Finally, innovation ambidexterity also mediates the relationship between entrepreneurial orientation and MSE performance (H7). The indirect effect is significant (β = 0.199; p = 0.004; t = 2.680), with a confidence interval ranging from 0.089 to 0.332. The absence of zero within the interval confirms that entrepreneurial orientation contributes to MSE performance primarily through innovation ambidexterity.

The results of hypothesis testing and mediation analysis for hypotheses are summarized in Table 5.

**Table 5**
**Hypotheses Testing**

| Hypotheses | Path Coefficient | p-value | T-Statistic | 95% Confidence Interval Ranges | | Result |
|---|---|---|---|---|---|---|
| | | | | Lower Bound | Upper Bound | |
| H1: EO→MP | 0.269 | 0.003 | 2.790 | 0.106 | 0.421 | Supported |
| H2: MO→MP | 0.134 | 0.149 | 1.042 | -0.065 | 0.351 | Not Supported |
| H3: IA→MP | 0.335 | 0.001 | 2.998 | 0.147 | 0.510 | Supported |
| H4: EO→IA | 0.290 | 0.000 | 3.422 | 0.132 | 0.414 | Supported |
| H5: MO→IA | 0.595 | 0.000 | 7.621 | 0.470 | 0.726 | Supported |
| H6: EO→IA→MP | 0.097 | 0.018 | 2.099 | 0.035 | 0.181 | Supported |
| H7: MO→IA→MP | 0.199 | 0.004 | 2.680 | 0.089 | 0.332 | Supported |

Source : Data analyzed, 2026

The coefficient of determination ($R^2$) indicates that the model has a moderate to substantial explanatory power. The $R^2$ value for innovation ambidexterity is 0.653, meaning that market orientation and entrepreneurial orientation jointly explain 65.3% of the variance in innovation ambidexterity. This suggests that strategic orientation plays a strong role in shaping innovation ambidexterity among MSEs. Meanwhile, the $R^2$ value for MSE performance is 0.436, indicating that innovation ambidexterity, market orientation, and entrepreneurial orientation explain 43.6% of the variance in performance, which is considered moderate and acceptable for behavioral and management research. The coefficient of determination ($R^2$) values for innovation ambidexterity and MSE performance are summarized in Table 6.

**Table 6**
**R Square**

| | R-square |
|---|---|
| MP | 0.436 |
| IA | 0.653 |

Source : Data analyzed, 2026

The effect size ($f^2$) analysis provides insight into the relative contribution of each exogenous variable. The effect of entrepreneurial orientation on MSE performance ($f^2$ = 0.069) and innovation ambidexterity on MSE performance ($f^2$ = 0.069) can be categorized as small to moderate, while the effect of market orientation on MSE performance is weak ($f^2$ = 0.012). In contrast, the effect of market orientation on innovation ambidexterity is strong ($f^2$ = 0.624), indicating that market orientation is a key driver of innovation

ambidexterity. The effect of entrepreneurial orientation on innovation ambidexterity is moderate ($f^2$ = 0.148), reinforcing its supporting role.

The effect size ($f^2$) values for the relationships among the study variables are summarized in Table 7.

**Table 7**
**F Square**

| Variable | Effect Size |
|---|---|
| EO → MP | 0.069 |
| MO → MP | 0.012 |
| IA → MP | 0.069 |
| EO → IA | 0.148 |
| MO → IA | 0.624 |

Source : Data analyzed, 2026

The model's predictive relevance ($Q^2$) further supports its robustness. The $Q^2$ values for innovation ambidexterity (0.631) and MSE performance (0.341) are both greater than zero, indicating that the model has strong predictive relevance for innovation ambidexterity and moderate predictive relevance for MSE performance. These results confirm that the model is not only explanatory but also capable of predicting endogenous constructs.

The predictive relevance ($Q^2$) values for innovation ambidexterity and MSE performance are presented in Table 8.

**Table 8**
**Q Square**

| | $Q^2$predict |
|---|---|
| IA | 0.631 |
| MP | 0.341 |

Source : Data analyzed, 2026

Finally, the model fit assessment using SRMR yields a value of 0.085. Although this value slightly exceeds the conservative threshold of 0.08, it is still considered acceptable in PLS-SEM, particularly for complex models and exploratory research contexts. Therefore, the overall model fit can be regarded as adequate and suitable for explaining the relationships among the studied constructs.

The results of the SRMR model fit assessment are presented in Table 9.

**Table 9**
**Standardized Root Mean Square Residual**

| | Estimated model |
|---|---|
| SRMR | 0.085 |

Source : Data analyzed, 2026

## CONCLUSION AND SUGGESTION

This study concludes that entrepreneurial orientation plays a direct role in improving MSE performance in the food and beverage subsector. The findings indicate that micro and small enterprises with stronger entrepreneurial orientation tend to achieve better performance outcomes, reflecting the importance of proactive behavior, innovativeness, and risk-taking in supporting business sustainability. In contrast, market orientation

does not show a significant direct effect on MSE performance, suggesting that attention to customer and market information alone is not sufficient to directly enhance performance among MSEs in this context.

However, the results further demonstrate that both entrepreneurial orientation and market orientation significantly influence innovation ambidexterity, which in turn contributes positively to MSE performance. This indicates that strategic orientation becomes more effective when it is translated into balanced innovation activities that combine the exploitation of existing capabilities with the exploration of new opportunities. In this regard, innovation ambidexterity functions as a key mechanism that links strategic orientation to performance improvement, particularly for MSEs operating under resource limitations. Overall, this study highlights that entrepreneurial orientation has both a direct and indirect contribution to MSE performance, while market orientation contributes indirectly through innovation ambidexterity. The main contribution of this study lies in clarifying the different pathways through which entrepreneurial orientation and market orientation affect MSE performance, emphasizing the mediating role of innovation ambidexterity in the context of micro and small enterprises.

Future research could extend the proposed model by incorporating digital orientation, organizational learning, and environmental dynamism. Digital orientation is worth examining because the adoption of digital technologies may help food and beverage MSEs improve operational processes, access broader markets, and respond to changing customer needs. Organizational learning could provide further insight into how MSEs acquire and apply knowledge to support exploratory and exploitative innovation, thereby strengthening innovation ambidexterity.

Environmental dynamism could also be examined as a moderating variable because changes in customer preferences, competitive conditions, and market demands may influence how entrepreneurial orientation and market orientation contribute to innovation ambidexterity and business performance. Future studies could further test the proposed model across different subsectors or regional settings to assess the generalizability of the findings and employ longitudinal designs to capture changes in strategic orientations, innovation ambidexterity, and MSE performance over time.

These extensions would provide a more comprehensive understanding of the organizational capabilities and environmental conditions that shape the relationship between strategic orientations and MSE performance.

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