

## SMEs in Indonesia: How do market and entrepreneurial approaches shape dynamic capabilities and performance?

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**Abstract:** This study delves into the impact of market orientation and entrepreneurship on dynamic capabilities and SME performance within the Culinary SME sector of West Java Province, Indonesia. The study utilized a quantitative-causal research methodology to gather data from a sample of 420 Culinary (SMEs) that had been operating for a minimum of 5 years. The acquired data was then subjected to analysis using Partial Least Squares Structural Equation Modelling (PLS-SEM). The findings indicate significant potential for market orientation and entrepreneurship to bolster dynamic capabilities and subsequently enhance SME performance. Furthermore, the study found that dynamic capabilities positively influence SME performance. Importantly, the study identifies an indirect pathway through which market orientation and entrepreneurship can augment SME performance by leveraging dynamic capabilities as a mediator. Practical implications emphasize the critical importance for Culinary SMEs to cultivate robust market orientation, harness entrepreneurial potential for strategic risk-taking and innovation, and fortify dynamic capabilities. Strengthening these facets enables SMEs to effectively translate market insights into actionable strategies, thereby fostering sustainable growth in a competitive business landscape. In essence, this research provides valuable insights into the interplay of market orientation, entrepreneurship, dynamic capabilities, and SME performance, offering actionable guidance for Culinary SMEs in West Java Province and beyond to navigate challenges and capitalize on opportunities for sustainable development and competitiveness.

**Keywords:** *Dynamic capabilities, Entrepreneurial orientation, Market orientation, SMEs performance.*

### 1. Introduction

Towards the end of 2019, the world was shocked by the emergence of COVID-19, a virus that quickly spread worldwide [1]. In countries like Indonesia, which are still developing, experts foresaw negative effects on the economy due to COVID-19 [2]. Indonesia's economy saw a significant drop in growth across various industries [2]. Furthermore, during the COVID-19 pandemic, different nations put in place various rules and policies, including social distancing, travel restrictions, and even lockdowns, to control the virus's spread [3, 4]. These actions led to a shift from traditional business methods to digital platforms [5] causing a significant decrease in demand for Indonesian SMEs during the pandemic.

Drawing from a survey conducted by the [Katadata Insight Center](#) [6] it was found that 82.9% of SMEs encountered negative repercussions from the pandemic, with 56.8% being in dire conditions and over 30% witnessing a decrease in revenue. Furthermore, the shift to digital platforms did not ensure survival, as only 13% of SMEs had digital connectivity [6]. According to the Ministry of Communication and Information, out of approximately 64 million SMEs, only around 19 million, or 29%, were capable of

conducting business online [7]. Based on a report by the Boston Consulting Group (BCG) and Telkom Indonesia, a majority of local SMEs faced challenges in digital transformation due to limited financing and inadequate digital training [7]. This resulted in production cutbacks, credit restructuring, salary reductions, and even workforce downsizing [8].

The fast changes in the market have created a gap between what SMEs have and what they need, leading to lower performance. SMEs are super important in Indonesia, contributing 8,573 trillion rupiahs to the Gross Domestic Product (GDP), giving jobs to 97% of the workforce, and attracting up to 60.4% of total investment [9]. So, SMEs really need to use dynamic capabilities [10]. This means they have to be good at adjusting, building up, and changing their skills and resources inside and outside the company. This is crucial for filling the gap and dealing with quick changes in the business world. Dynamic capabilities involve changing and adapting by being good at coming up with new ideas and using market knowledge [11, 12]. Being innovative through entrepreneurship helps SMEs handle these fast changes and come up with new things in their products, services, and how they work [13, 14]. Also, being market-focused in innovation helps businesses create new stuff based on what the market needs [12].

In the past, studies have shown that when companies are good at changing and adapting (called dynamic capabilities), they tend to do better [15]. These dynamic capabilities help small and medium-sized businesses (SMEs) talk to their customers in a special way and get the right information to do well [16, 17]. Also, Buttar & Koçak found that being good at entrepreneurship helps companies develop dynamic capabilities, which then makes them perform better [18]. Being really focused on the market can lead to great businesses, more dedicated employees, better product ideas, and happier customers [19].

Given the vital role of SMEs in Indonesia's economy, which contribute substantially to GDP and employment, it becomes imperative to explore strategies to enhance their resilience and performance amidst rapid market changes. This study seeks to address this imperative by investigating the influence of market orientation and entrepreneurship on the dynamic capabilities and performance of SMEs in Indonesia, with a specific focus on Culinary SMEs in West Java Province.

The research questions guiding this inquiry are as follows: 1) how do market orientation and entrepreneurship influence the dynamic capabilities of Indonesian SMEs? 2) What is the impact of dynamic capabilities on SME performance? 3) To what extent do market orientation and entrepreneurship affect SME performance through the mediation of dynamic capabilities? Through a quantitative-causal research approach and utilizing data from 420 Culinary SMEs with a business history of over five years, this research aims to contribute to helping SMEs become even better, so that it has an impact on increasing Indonesia's economic growth.

The manuscript structure is based on relevant literature regarding market orientation, entrepreneurship, dynamic capabilities, and SME performance. This study also outlines the research methodology, including data collection and analysis techniques. Subsequently, the research presents its findings, elucidating the relationships between the variables under investigation and discussing the research implications of the findings. Finally, the manuscript concludes by summarizing the key findings and emphasizing the importance of cultivating market orientation and entrepreneurship to enhance the resilience and performance of SMEs in Indonesia's evolving business landscape.

## 2. Literature Review

### 2.1. SMEs Performance

The performance of SMEs represents the outcome of their operational activities, which utilize diverse internal resources. As defined by Helfat and Winter [20] SME performance refers to the continuous outcomes managed by the organization's leadership to attain specific goals. This performance can be assessed using financial or non-financial data over a defined period, aimed at achieving profitability [21-23]. Evaluating a company's performance involves various aspects, including its growth trajectory, financial health, operational efficiency, and customer satisfaction [24, 25]. Moreover, SME performance encompasses the overall organizational effectiveness required to systematically meet stakeholder needs,

enhance the organization's capabilities, and efficiently fulfill its obligations [26]. Strong performance in SMEs reinforces their pivotal role as the backbone of the national economy [27].

### 2.2. *Dynamic Capabilities*

Dynamic capabilities, often abbreviated as DC, refer to a company's ability to perform critical functions such as identifying external opportunities, acquiring external resources, adjusting internal processes, and enhancing existing resources [28, 29]. However, having excellent resources alone is not sufficient; companies must also possess dynamic capabilities to effectively leverage these resources [30]. Dynamic capabilities are of interest because they contribute to overall company improvement [31]. Within their dynamic capabilities, business owners must possess the ability to identify and seize opportunities in their environment (sensing capability). They should also be adept at enhancing organizational performance by acquiring new knowledge and modifying existing practices (learning capability). Additionally, they need to implement new ideas effectively and foster collaboration among employees (integrating capability). Moreover, they should possess the skills to manage tasks, resources, and activities in innovative ways (coordinating capability) [32, 33]. Eriksson proposes two main ways to understand dynamic capabilities [34]. One approach focuses on specific aspects such as products, technology, and inter-firm collaborations [34] while the other emphasizes general knowledge, providing insights into the functioning of dynamic capabilities [34].

### 2.3. *Entrepreneurial Orientation*

In the contemporary business landscape, entrepreneurial orientation (EO) serves as a fundamental foundation for SMEs before they embrace market orientation. EO entails the application of entrepreneurial principles by business units to achieve success [35, 36]. It is fostered through activities such as product development, innovation, and navigating market competition [36, 37]. Conversely, market orientation is characterized by companies that pioneer marketing innovations, engage in high-risk ventures, and proactively pursue innovations [38, 39]. Within the realm of entrepreneurial orientation, our efforts should focus on exploring new opportunities through experimentation and creative endeavors, resulting in the development of innovative products or enhancements to existing ones [39-41]. Additionally, in the context of market orientation, we should take a proactive approach to product development by leveraging emerging technologies [14, 41, 42] and allocating resources to projects with potentially unforeseen outcomes [14, 43]. This proactive approach to corporate initiatives, aimed at achieving a prominent position in competitive markets [39, 43] facilitates SMEs in seamlessly adopting a market-oriented approach [36, 44].

### 2.4. *Market Orientation*

Market orientation (MO) refers to a company's diligent efforts to comprehend customers' needs and ensure their long-term satisfaction, thereby providing them with valuable offerings [45, 46]. It encompasses the company's endeavors to create and maintain superior customer value while taking into account the interests of other stakeholders involved in the company's development and response to market information [46, 47]. Effective implementation of market orientation leads to improved business performance, enhanced employee dedication, the generation of innovative product ideas, and increased customer satisfaction [19]. Rooted in marketing theory, the concept of market orientation emphasizes the enhancement of customer-provider relationships through organizational culture, shared values, and understanding of customer interests [48, 49]. Given its significance in navigating intensified competition and influencing SMEs, market orientation prompts SMEs to prioritize activities related to market intelligence generation, dissemination, and responsiveness [36, 50-53].

### 2.5. *Hypothesis Development*

A study conducted by Hernández-Linares, et al. [15] revealed a correlation between a company's performance and its ability to adapt and change, referred to as dynamic capabilities. They found that

different facets of dynamic capabilities contribute to improved company performance. Similarly, Tseng and Lee [54] study demonstrated that a company's sensing ability is linked to the performance of SMEs [54], as SMEs can engage more intimately with customers, facilitating the acquisition of crucial information [15, 17]. Effective use of dynamic capabilities, especially in learning and application, has also been linked to better performance, which helps small businesses deal with competency issues more quickly and successfully [15, 16].

Research by Buttar and Koçak [18] suggests that entrepreneurship plays a pivotal role in cultivating dynamic capabilities and enhancing company performance. Ahmad, et al. [55] further highlight that entrepreneurial behavior forms the basis for improving business performance by necessitating a market focus to unlock value creation potential. Moreover, findings from Lekmat, et al. [56] indicate that entrepreneurship significantly impacts business performance indirectly through the development of marketing skills. Karimi and Taherzadeh [57], as well as Hoque, also identify indirect effects on international SME performance through networking, learning, and cultural orientation [39, 57].

Connections between market orientation, dynamic capabilities, and business performance have also been established [15], highlighting that a market-focused approach can lead to improved business performance Mustafa, et al. [19]. Al Asheq and Hossain [58] affirm that customer and brand orientation positively influence company performance, while Lekmat, et al. [56] demonstrate a direct and indirect positive association between market orientation and business performance [44]. Thus, attention to the market, customers, and brands [58] as well as learning and entrepreneurship, positively influence SME performance through knowledge and innovation [59].

Based on all these ideas and prior research, here are the hypotheses for this study:

*H<sub>1</sub>: How well SMEs perform is directly influenced by paying attention to the market.*

*H<sub>2</sub>: How well SMEs perform is directly influenced by being entrepreneurial.*

*H<sub>3</sub>: How well SMEs perform is directly influenced by having dynamic abilities.*

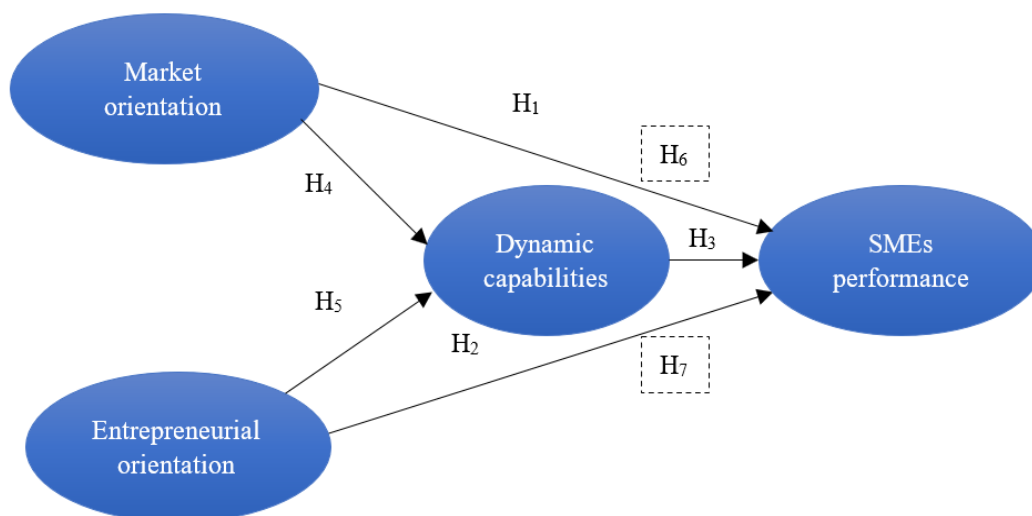
*H<sub>4</sub>: Dynamic abilities are directly influenced by paying attention to the market.*

*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 serve as a mediator in the relationship between being entrepreneurial and SMEs' performance.*

Figure 1 Illustrates the conceptual framework of the study.



**Figure 1.**  
Conceptual framework of the study.

### 3. Methods

#### 3.1. Research Design

This research adopts a quantitative descriptive approach with a causal perspective, aligning with the methodology outlined by Karunia, et al. [60]. The primary objective is to genuinely understand a specific situation and investigate cause-and-effect relationships among various research factors [61, 62].

#### 3.2. Participants

The study focuses on SMEs within the culinary sector operating in the West Java Province, specifically those with a business history exceeding five years. The sample comprises 420 SMEs, chosen using random sampling to ensure fairness and accuracy.

#### 3.3. Data Collection

Data collection occurred over a single timeframe spanning from May 2022 to September 2023. Several variables were assessed, including SME performance, dynamic capabilities, entrepreneurial orientation, and market orientation. Each variable was evaluated using a Likert five-point scale, a common measurement method in research [63, 64].

#### 3.4. Research Technique

To validate hypotheses and assess relationships between variables, Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis was employed, following recommendations from experts in the field [64, 65].

This technique systematically tests and confirms research hypotheses, providing insights into the interplay between factors influencing SME performance.

#### 3.5. Model Introduction

This research uses the PLS-SEM model to comprehensively examine the relationships [66, 67] between market orientation, entrepreneurship, dynamic capabilities, and SME performance.

Unlike previous studies, this model allows for a nuanced understanding of causal relationships and the impact of each variable on SME outcomes, providing valuable insights for both academia and industry stakeholders.

## 4. Results and Discussion

#### 4.1. Results

Referring to the practical guidelines for assessing convergent validity in the outer model, it is evident that the loading factor values of all research indicators exceed 0.7, thus meeting the criteria for convergent validity [63, 68].

Moving on to another examination within the outer model, which pertains to discriminant validity, cross-loading values are observed. The results reveal that the construct values, when compared to their respective indicators, are higher than the correlation values with other constructs. Moreover, these constructs possess AVE (Average Variance Extracted) values exceeding 0.5, thereby signifying compliance with the standards for discriminant validity [63, 68].

In the final evaluation of the outer model, the assessment of reliability demonstrates that the Cronbach's alpha and composite reliability values for all variables surpass 0.7, thus confirming the model's consistency and reliability [63, 68].

Table 1 Presents a summary of findings from the outer model.



**Table 1.**  
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
Market orientation (MO)								
MO1	0.936	0.845	0.983	0.985	0.902	0.894	0.838	0.806
MO2	0.951				0.918	0.874	0.839	0.862
MO3	0.936				0.869	0.832	0.764	0.812
MO4	0.938				0.918	0.845	0.809	0.825
MO5	0.947				0.933	0.856	0.863	0.836
MO6	0.932				0.873	0.789	0.786	0.734
MO7	0.961				0.931	0.851	0.866	0.837
MO8	0.926				0.922	0.797	0.827	0.850
MO9	0.970				0.935	0.822	0.843	0.872
MO10	0.968				0.946	0.818	0.845	0.877
MO11	0.982				0.947	0.814	0.830	0.868
MO12	0.956				0.931	0.829	0.836	0.860
Entrepreneurial orientation (EO)								
EO1	0.954	0.804	0.966	0.966	0.738	0.869	0.701	0.754
EO2	0.955				0.760	0.885	0.770	0.781
EO3	0.937				0.784	0.876	0.768	0.795
EO4	0.943				0.881	0.923	0.887	0.859
EO5	0.946				0.851	0.923	0.812	0.822
EO6	0.941				0.801	0.901	0.769	0.779
EO7	0.940				0.875	0.898	0.825	0.885
Dynamic capabilities (DC)								
DC1	0.953	0.805	0.980	0.982	0.806	0.790	0.877	0.800
DC2	0.957				0.899	0.862	0.912	0.869
DC3	0.936				0.782	0.781	0.900	0.807
DC4	0.947				0.811	0.769	0.905	0.820
DC5	0.941				0.807	0.846	0.918	0.846
DC6	0.938				0.830	0.814	0.950	0.869
DC7	0.907				0.824	0.788	0.876	0.797
DC8	0.924				0.826	0.783	0.888	0.797
DC9	0.938				0.845	0.824	0.926	0.844
DC10	0.932				0.811	0.812	0.937	0.841
DC11	0.844				0.770	0.759	0.838	0.755
DC12	0.924				0.761	0.743	0.882	0.778
DC13	0.905				0.739	0.726	0.846	0.733
SMEs performance (SP)								
SP1	0.928	0.787	0.969	0.974	0.750	0.712	0.747	0.822
SP2	0.936				0.830	0.786	0.801	0.869
SP3	0.918				0.822	0.820	0.812	0.868
SP4	0.903				0.735	0.756	0.703	0.801
SP5	0.951				0.798	0.809	0.823	0.921
SP6	0.912				0.778	0.804	0.755	0.880
SP7	0.900				0.864	0.819	0.835	0.907
SP8	0.954				0.855	0.837	0.845	0.952
SP9	0.946				0.887	0.868	0.864	0.931
SP10	0.943				0.828	0.815	0.835	0.905

Upon presenting the structural model or inner model, the outcomes obtained indicate that the Adjusted R-Square values for dynamic capabilities and SMEs' performance are 0.833 and 0.886, respectively. These values are approaching 1, thus leading to the conclusion that they exert a substantial impact [64]. The R-Square test findings also suggest that MO and EO can comprehensively explain DC, accounting for 83.3%, and that MO, EO, and DC can comprehensively explain SP, accounting for 88.6%. The evaluation of the Goodness of Fit (GoF) index yields a result of 0.864, surpassing 0.36. This denotes

a strong suitability for the GoF [63, 68]. In the scrutiny of the R-Square, the computed F-values for dynamic capabilities and SMEs' performance are 555.08 and 172.92, respectively, both of which surpass the critical F-value of 2.7. This signifies that the exogenous variables in this study collectively have the potential to influence their endogenous counterparts [63, 68].

Table 2 presents a summary of findings from the inner model.

**Table 2.**

Overview of findings from the inner model.

Constructs	R-square	R-square adjusted	F-count	GoF
SMEs performance	0.891	0.886	172.92	$\sqrt{AVE \times R^2} =$ 0.864
Dynamic capabilities	0.838	0.833	555.08	

To sum up, after conducting hypothesis testing using resampling bootstrap, the results indicate that both market orientation and entrepreneurial orientation have a positive and significant impact on dynamic capabilities and the performance of SMEs. Importantly, dynamic capabilities strongly influence SMEs' performance. Moreover, dynamic capabilities play a role in mediating the effects of market orientation and entrepreneurial orientation on SMEs' performance. T-statistics values exceeding 1.96 and p-values below 0.05 confirm the validation or acceptance of all hypotheses examined in this study [63, 68].

Table 3 presents a summary of results from significance testing.

**Table 3.**

Summary of results from significance testing.

Path	Original sample	Sample mean	Std. dev.	T-statistics	P-values	Results
MO → SP	0.380	0.379	0.124	3.062	0.002	Verified
EO → SP	0.287	0.287	0.102	2.807	0.005	Verified
DC → SP	0.310	0.311	0.109	2.832	0.005	Verified
MO → DC	0.569	0.567	0.102	5.566	0.000	Verified
EO → DC	0.367	0.367	0.106	3.466	0.001	Verified
MO → DC → SP	0.176	0.175	0.068	2.581	0.010	Verified
EO → DC → SP	0.114	0.116	0.056	2.025	0.043	Verified

#### 4.2. Discussion

The outcomes of this investigation strongly uphold the initial hypothesis, demonstrating a notably positive and significant impact of market orientation on SMEs' dynamic capabilities. This implies that SMEs boasting a robust market orientation tend to possess heightened abilities in identifying market opportunities, accessing pertinent market information, and adapting their resources to changing business landscapes. These findings align with previous research by Chien and Tsai [16] and Coviello and Munro [17] which underscores how market orientation enables SMEs to effectively engage with customers and secure competitive advantages. When interrelating dimensions, the robust correlation between the intelligence dissemination dimension of market orientation and the integrating capability dimension of dynamic capabilities signifies a close relationship between SMEs' gathering, disseminating, and processing of market insights and their prowess in harmonizing resources and reacting to shifts. This accentuates the importance of SMEs enhancing intra-departmental collaboration to promptly assimilate and deploy market-derived insights within business strategies. Furthermore, SMEs should intensify efforts to accumulate and scrutinizing market intelligence to identify novel opportunities and threats, fostering the capacity to efficiently combine internal resources for swift responses to market fluctuations.

The findings also uphold the second hypothesis, revealing a significant positive influence of entrepreneurial orientation on SMEs' dynamic capabilities. This study indicates that SMEs harboring a

robust entrepreneurial orientation are better equipped to generate innovations, adapt to market shifts, and introduce fresh products and services. This validation resonates with [Buttar and Koçak \[18\]](#) and [Ahmad, et al. \[55\]](#) underscoring how entrepreneurial orientation serves as a foundation for cultivating SMEs' dynamic capabilities. There is a strong link between the proactiveness dimension of entrepreneurial orientation and the integrating capability dimension of dynamic capabilities. This shows how important it is to take a proactive approach when dealing with changes in the market in order to improve dynamic capabilities. This underscores 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 findings of this study confirm the third hypothesis, uncovering a substantial positive impact of dynamic capabilities on SMEs' performance. This affirms the findings of [Hernández-Linares, et al. \[15\]](#) 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 very 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 that SMEs need to consistently 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 this 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. \[19\]](#) 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. 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 findings of this study validate the fifth hypothesis, demonstrating a significant positive influence of entrepreneurial orientation on SMEs' performance. This outcome is in concurrence with earlier research, such as [Al Asheq and Hossain \[58\]](#) suggesting that entrepreneurial orientation can positively impact company performance. SMEs that center on innovation, experimentation, and the development of novel products are more likely to achieve heightened performance by aligning with evolving market demands. There is a strong link between the integrating capability dimension of dynamic capabilities and the learning and growth dimension of business performance. This shows that small and medium-sized businesses (SMEs) need to be able to combine resources and adapt to changes in order to grow. This underscores SMEs' need to develop the capability to integrate various internal and external resources to create more added value while remaining receptive to innovation and change, and responding rapidly.

The results of this study back up our sixth hypothesis, showing that dynamic capabilities play a significant role in how market orientation affects how well SMEs do. This means that it's not just about market orientation directly impacting SME performance; it also does so indirectly by helping SMEs build up dynamic capabilities that make them more responsive to changes in the market. Essentially, SMEs that are good at spotting opportunities in the market and adapting quickly are more likely to perform better. When we look at the different aspects closely, we see that the part of market orientation that's all about being responsive to the market has a strong link with how well a business can learn and grow. In simpler terms, SMEs that can quickly respond to what the market needs tend to grow more. This highlights the big role dynamic capabilities play in turning market responses into actual business growth. For SMEs to do this well, they need to build strong dynamic capabilities, which help them use their resources effectively and adapt to market changes.



The findings of this study also support our seventh hypothesis, which shows that dynamic capabilities play a crucial role in connecting entrepreneurial thinking with how well SMEs do. This means that entrepreneurial orientation doesn't just directly affect SME performance; it also does so indirectly by boosting innovation and the ability to adapt to changes in the business environment. So, SMEs that have a strong entrepreneurial mindset and solid dynamic capabilities are more likely to perform really well. When we look at the different aspects closely, we find that the willingness to take well-thought-out risks, a part of being entrepreneurial, has a strong link with the ability of a business to learn and grow. In practical terms, this means that SMEs willing to take calculated risks tend to grow more. This also highlights the importance of dynamic capabilities in connecting entrepreneurial traits to business performance. To take smart risks and manage them efficiently, SMEs need strong dynamic capabilities.

All these findings underscore the importance of SMEs combining market and entrepreneurial thinking with strong dynamic capabilities for success. Market and entrepreneurial thinking give SMEs a strong foundation to understand the market and be ready to take the necessary risks. But it is its dynamic capabilities that act as the bridge, turning market insights and entrepreneurial spirit into real business success. So, the big lesson here for SMEs looking to do better in business is to focus on building up their dynamic capabilities as a central part of their strategy. By doing this, SMEs can unlock the true potential of their market and entrepreneurial approaches, significantly improving their business performance and ensuring long-term growth and success.

## 5. Conclusions

### 5.1. Conclusion

In this research, we've conducted a thorough examination to investigate how market focus, entrepreneurial spirit, dynamic capabilities, and business performance are interrelated within small and medium-sized enterprises (SMEs) in Indonesia. The findings from our study offer valuable insights into the factors that impact the success of SMEs and emphasize the crucial role of dynamic capabilities as an intermediary factor. The outcomes of our hypothesis testing indicate that both market orientation and entrepreneurial orientation have significant and positive connections with the performance of SMEs. In this context, SMEs' orientations towards the market and entrepreneurship empower them to quickly adapt to market changes and take calculated risks to foster innovation, ultimately leading to improved performance. Additionally, dynamic capabilities play a robust role as intermediaries between market/entrepreneurial orientations and business performance, showcasing the organization's ability to adjust strategies in response to the dynamic business landscape.

### 5.2. Implication

The study's practical implications make it clear that small and medium-sized businesses need to focus on the market, use their entrepreneurial spirit to take smart risks and come up with new ideas, and improve their flexibility so they can turn market responses into actions that lead to long-term growth. These endeavors can assist Indonesian SMEs in adeptly addressing challenges within the competitive and ever-evolving business realm. In essence, this study offers a profound perspective on how market orientation, entrepreneurial orientation, and dynamic capabilities interact and contribute to the business performance of Indonesian SMEs. With an improved understanding of these dynamics, SMEs are poised to navigate future challenges and seize opportunities more effectively.

### 5.3. Suggestion

For Indonesian SMEs, the recommendations entail deepening their comprehension of market opportunities and customer needs through ongoing market orientation initiatives. Additionally, SMEs should foster an innovation-driven culture and controlled risk-taking to reinforce entrepreneurial orientation. It is equally vital for SMEs to establish robust dynamic capabilities by investing in human resource development, technology, and adept management of collaborations with business partners and suppliers. As for future research, broadening the scope of the sample to encompass diverse industry sectors

could yield findings that better represent the varied characteristics of Indonesian SMEs. Subsequent studies could also delve into contextual factors that might moderate the relationships among the variables under scrutiny. Furthermore, integrating external factors like governmental regulations and economic conditions could provide a more comprehensive understanding of their impact on SME performance.

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### Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

### Competing Interests:

The authors declare that they have no competing interests.

### Authors' Contributions:

All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

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