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ANALYSIS OF ENTREPRENEURIAL ORIENTATION ON BUSINESS PERFORMANCE WITH ABSORPTIVE CAPACITY AS AN INTERVENING VARIABLE

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ABSTRACT

This study aims to analyze the influence of entrepreneurial orientation on business performance of fashion MSMEs in Sukabumi with absorptive capacity as an intervening variable. Entrepreneurial orientation, which includes innovation, proactiveness and risk-taking, is believed to play a significant role in improving business performance through the ability of MSMEs to absorb, assimilate and exploit external knowledge. The study used quantitative methods with Partial Least Square (PLS) data analysis techniques. Data were collected through questionnaires involving 100 fashion MSMEs in Sukabumi. The results showed that entrepreneurial orientation has a significant positive influence on absorptive capacity (t-statistic = 28.215, $p < 0.05$) and business performance (t-statistic = 3.610, $p < 0.05$). Absorptive capacity also significantly affects business performance (t-statistic = 4.618, $p < 0.05$) and mediates the relationship between entrepreneurial orientation and business performance (t-statistic = 4.630, $p < 0.05$). The most dominant absorptive capacity dimension is exploitation, which reflects the ability of MSMEs to generate new knowledge-based innovations. The conclusion of this study is that entrepreneurial orientation supported by absorptive capacity can improve the business performance of fashion MSMEs. This research provides practical implications for MSME actors to strengthen entrepreneurial orientation and develop absorptive capacity through training and access to external knowledge.

A. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) have an important and strategic role in the economic growth of a country (Ferdiansyah & Bukhari, 2021) . In 2018, the number of MSMEs in Indonesia was recorded at 64 million units divided into micro, small and medium enterprises. MSMEs contributed 61% to Indonesia's total gross domestic product. In addition, MSMEs also absorb a lot of labor, namely 97% of the total workforce (Ferdiansyah & Bukhari, 2021) .

Fashion is the largest contributor to the performance of the 17 creative economy subsectors, which the Ministry of Cooperatives and MSMEs reported on its performance along with culinary. 2019 was the year with the highest percentage of GDP growth for the apparel and textile industry. Meanwhile, according to the Kemenparekraf publication, before the pandemic period, to be precise in 2019, the creative economy sub-sector contributed at least IDR 1,153.4 trillion GDP or 7.3% of the total National GDP. In this case, the fashion industry is the second sub-sector after culinary which is able to contribute up to 17.26% or IDR 115 trillion.

Business performance is very important for MSMEs where business performance is a measure of how well MSMEs are able to generate coffers of profit (Lorensa & Hidayah, 2022). Business performance is a commonly used indicator to measure the effect of a company's strategy in facing competition (Satwika & Dewi, 2018). The success of a business can be seen through the performance of the business. Performance refers to the level of achievement or achievement of the company in a certain period (Apriani & Handoyo, 2020) . SMEs must continuously seek new ways to improve performance in order to survive in their competition in order to overcome intense competition, namely by increasing entrepreneurial orientation. Anticipation of changes in the competitive environment can also come from the ability of companies to create new ways, generate new knowledge as a result of absorption of external knowledge or their absorptive ability. (Dewanti, 2022).

This is because entrepreneurial orientation is one of the important components in business performance which is seen as a key basis for company success. This can be seen from entrepreneurial values that can help MSMEs to take business risks and tend to take actions based on innovative decisions and act proactively in the face of business competition to continue to use existing opportunities to encourage better business performance (Daniella, 2023) . Entrepreneurial orientation refers to the process by which businesses develop strategies that support the exploration of opportunities in the market (W & Ie, 2023). Companies that focus on exploratory activities, which lead to high-level, proficient entrepreneurial-oriented processes applied to the company, will create new organizational forms, reorganize the market to its advantage and strengthen the company's competitive position (W & Ie, 2023). Meanwhile, empirically, many MSMEs have also not implemented entrepreneurial orientation to the fullest so that they cannot survive in the face of competition (Indah Yuni Astuti, 2022).

Absorptive capacity also has a role in the performance of MSMEs where absorptive capacity is known as the way companies identify and acquire external knowledge that can improve business performance (W & Ie, 2023). According to Cohen & Levinthal in (Ali et al., 2018) who introduced the concept of absorptive capacity, external sources of knowledge are often important for the innovation process, so the ability to exploit external knowledge is very important for the company's capacity to innovate. Ahmed et al., (2020) mentioned about the absorptive capacity being the

capital of the organization not only establishes the system and mechanism of knowledge acquisition, but also paves the way for the translation of acquired knowledge into organizational knowledge finding that the active process of the organization and its internal capabilities are important conditions for effective knowledge acquisition, assimilation, and exploitation organizations. The company's ability to use external knowledge obtained in the company's activities is very important in creating a competitive advantage. The resource-based view states that companies can show better performance and achieve competitive advantage, if they have the ability to utilize resources effectively in exploiting business opportunities ahead of competitors. (Dewanti, 2022) .

The number of fashion MSMEs in Sukabumi based on the data is 100. This has decreased where based on the news, the Sukabumi City Government from 2018 has a Sukabumi Kece program where the number of participants has reached hundreds. This means that in the last few years there are Fashion MSMEs that have had to close due to declining performance. Coupled with pre-research questionnaire data which states the following results:

Table 1. Business Performance of Fashion MSEs in Sukabumi City

No.	MSME	Sales Condition (Scale 1-10)	Employee Growth Condition (Scale 1-10)	Profitability Condition (Scale 1-10)
1	Rock In Line	5	5	4
2	Sahland Sukabumi	4	5	4
3	Upper Market Clothing Store	5	5	5
4	Iqbal Fashion	6	5	5
5	Nurdelis Tailor	5	6	4
6	Screen Printing Convection	5	6	5
7	Amistiker	5	5	5
8	Abah Ema Gallery	5	5	4
9	Batik Kakak	6	6	5
10	Acurva Branding	5	6	5
11	Marvelous	5	6	5
12	Amy's Boutique	4	5	5
13	Feelknit	5	5	4
14	Intercollection	5	5	4
15	Dastermega	5	5	5

Source: Pre-research Questionnaire, 2024

Table 1.1 illustrates the business performance conditions of 15 fashion MSMEs in Sukabumi City based on three main indicators: sales conditions, employee growth, and profitability. Each indicator is measured on a scale of 1 to 10. From this table, it can be seen that most MSMEs show average scores on these indicators, which range from 5 to 6. The sales condition indicator has the highest score of 6 for some MSMEs such as Iqbal Fashion and Batik Kakak, indicating relatively better sales performance than others. However, the majority of MSMEs scored 5, indicating significant room for improvement

in driving sales. The employee growth and profitability indicators show similar patterns. Employee growth reached the highest score of 6 in some MSMEs such as Nurdelis Tailor, Konveksi Sablon, and Acurva Branding, which may reflect increased operational activities or business expansion. However, the profitability scores of most MSMEs are stagnant at 4 to 5. This indicates that despite efforts to increase headcount, the increase in profits has not been significant. Overall, this table reflects that most fashion MSMEs in Sukabumi face challenges in achieving optimal growth in terms of sales, workforce and profitability.

From the pre-research questionnaire above, there is data that most Fashion MSMEs in Sukabumi City are experiencing conditions today (descriptively) with an average score of 5 out of 10 for several conditions related to business performance such as sales conditions, employee growth and profitability.

The research gap in this study is that research conducted by (Layoo & Rahman, 2019) states that entrepreneurial orientation affects business performance. This is also similar to the results of (Calvin Hamel & Andi Wijaya, 2020) . And also absorptive capacity has positive results on business performance (Dewanti, 2022) . Meanwhile, in research (Kale et al., 2019) which dissects the dimensions of each absorptive capacity, the results show that the acquisition dimension has no effect on performance while other dimensions affect performance. Absorptive capacity also mediates the influence between entrepreneurial orientation on competitive advantage (Dewanti, 2022) and also on performance (W & Ie, 2023) , (Ato Sarsah et al., 2020) and (Al-Hakimi et al., 2021) . Based on the above phenomenon, the authors propose the title "Analysis of Entrepreneurial Orientation on Business Performance Through Absorptive Capacity as an Intervening Variable".

B. METHODS

This research uses a strategic management approach. The object of this research is Entrepreneurial Orientation and Absorptive Capacity as independent variables and Business Performance as the dependent variable. The author uses quantitative research methods with descriptive and associative approaches. In taking questionnaires in this study using a semantic differential scale where this scale is used to measure attitudes, but the form is not multiple choice or checklist, but arranged in a continuum line where very positive answers are located on the right side of the line, and very negative answers are located on the left side of the line, or vice versa. For the answer to the score of the respondent's answer, through the category of the total score of each indicator, then categorized the data that has been obtained in calculating the questionnaire, the use of pentabulasian, because the tabulation results must be entered on the line.

The population in this study is MSMEs Fashion Se Sukabumi. Due to the number of population members less than 100, the sampling technique in this study will use saturated sampling where according to (Arikunto, 2010) Saturated sampling is a sampling technique if all the population is used as a sample and is also known as a census, if the population is less than 100 people, then the number of samples is taken as a whole, but if the population is greater than 100 people, then 10-15% or 20-25% of the population can be taken.

This study uses the PLS analysis method, a technique in SEM that can be applied to all data scales without requiring special assumptions or large samples. (Evi, T., &

Rachbini, 2022). The SEM-PLS model is divided into two main components: 1) Evaluation of the outer model (measurement model) includes validity tests: a) Convergent validity, indicators are valid if the value is > 0.7 ; b) Composite reliability, constructs are considered to have high reliability if the composite reliability value is > 0.70 ; c) Cronbach alpha, an indicator is considered reliable if the Cronbach's alpha value reaches or exceeds 0.70 (Ayatulloh & Khairunnisa, 2022). 2) Test the structural model or inner model. The stages of this test include a) R-Square (R^2), the R-Square assessment criteria are 0.75 (high), 0.5 (medium), and 0.25 (low); and b) Hypothesis testing: using the t-statistic and probability value to assess the significance of the path coefficient with p-value < 0.05 as the significant limit. The bootstrapping method is used to evaluate the direct, indirect, and total effects in the model with t-statistic > 1.654 as the significance benchmark (Hair, Dkk., 2023).

C. RESULTS AND DISCUSSION

Hypothesis Test of Direct and Indirect Effect (Specific Indirect Effect)

Table 2. Direct Effect Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Absorptive Capacity -> Business Performance	0.514	0.510	0.111	4.618	0.000
Entrepreneurship Orientation -> Absorptive Capacity	0.878	0.877	0.031	28.215	0.000
Entrepreneurial Orientation -> Business Performance	0.401	0.406	0.111	3.610	0.000

Source: Processed by Researchers, 2024

In the table, it can be seen that the T statistic on entrepreneurial orientation on absorptive capacity shows 28,215. Followed by the t statistic value of absorptive capacity on business performance with a value of 4,618. While the t statistical value of entrepreneurial orientation on business performance only gets a value of 3,610.

The following table shows the indirect effect analysis to measure the role of absorptive capacity in mediating the effect between entrepreneurial orientation and business performance.

Table 3. Test of Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Entrepreneurial Orientation -> Absorptive Capacity -> Business Performance	0.452	0.447	0.098	4.630	0.000

Source: Processed by Researchers, 2024

From the table above, it can be seen that there is a mediating influence between entrepreneurial orientation and business performance through absorptive capacity. The following are the results of data analysis describing the relationship between entrepreneurial orientation variables (X), absorptive capacity (Z), and business performance (Y) based on hypothesis testing that has been done:

Hypothesis 1

Entrepreneurial orientation (X) has a significant influence on absorptive capacity (Z), with a t-statistic of 28.215 and a p-value of 0.000 (t-statistic > 1.654 and p-value < 0.05).

Hypothesis 2

The test results show that entrepreneurial orientation (X) has a significant effect on business performance (Y), with a t-statistic of 3.610 and a p-value of 0.000 (t-statistic > 1.654 and p-value < 0.05).

Hypothesis 3

Absorptive capacity (Z) has a significant positive effect on business performance (Y), with a t-statistic of 4.618 and a p-value of 0.000 (t-statistic > 1.654 and p-value < 0.05).

Hypothesis 4

The test results show that the influence between entrepreneurial orientation (X) and business performance (Y) through absorptive capacity (Z) is proven to be significant, with a t-statistic value of 4.630 and a p-value of 0.000. Statistically, H_0 is rejected and H_a is accepted because the t-statistic is more than 1.654 and the p-value is less than 0.05.

Total Effect

The total effect is obtained from the sum of the direct effect and indirect effect in the research model. The following are the results of the total effect calculation:

Table 3. Total Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Absorptive Capacity -> Business Performance	0.514	0.510	0.111	4.618	0.000
Entrepreneurship Orientation -> Absorptive Capacity	0.878	0.877	0.031	28.215	0.000
Entrepreneurial Orientation -> Business Performance	0.852	0.853	0.038	22.525	0.000

Source: Processed by Researchers, 2024

Table 4.3 shows that the total effect between variables has positive and significant results, with t-statistics > 1.654 and p-value < 0.05. The total effect generated by the entrepreneurial orientation variable on absorptive capacity shows a significant positive value, with a total effect of 0.878. In addition, the entrepreneurial orientation variable also has a significant positive effect on business performance, with a total value of 0.852. Meanwhile, the effect of absorptive capacity on business performance was recorded as significantly positive, with a total value of 0.514.

Total Indirect Effect

The total indirect effect is obtained from the sum of the indirect effects in the research model. The following are the results of the calculation of the total indirect effect:

Table 4. Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Absorptive Capacity -> Business Performance					
Entrepreneurship Orientation -> Absorptive Capacity					
Entrepreneurial Orientation - > Business Performance	0.452	0.447	0.098	4.630	0.000

Source: Processed by Researchers, 2024

In table 4.4, it can be seen that the total indirect effect is 0.452, with significant positive results on the latent variable of entrepreneurial orientation (X) on business performance (Y).

Effect of Entrepreneurial Orientation on Absorptive Capacity

Hypothesis testing results show that entrepreneurial orientation has a significant influence on absorptive capacity, with a t-statistic value of 28.215 and a p-value of 0.000, and an influence coefficient of 0.878. This value indicates that an increase in entrepreneurial orientation can substantially increase the absorptive capacity of Fashion MSMEs in Sukabumi. The dimension of entrepreneurial orientation that has the highest value is proactiveness, which is indicated by the indicator of activeness in exploring market conditions (X1.5). This indicates that MSMEs that are proactive in following market developments and seizing opportunities are able to improve their ability to identify and assimilate external knowledge. In contrast, the dimension with the lowest score is risk-taking, particularly in the indicator of the courage to sacrifice business finances (X1.8), which reflects the hesitation of business actors to invest in uncertain things.

Analytically, these findings support the theory that entrepreneurial orientation through the dimensions of innovation, proactivity, and risk-taking encourages MSME actors to be more open to learning and developing new knowledge, as described by Miller (2019). Entrepreneurial orientation creates an environment that facilitates initiative-taking and exploration of new opportunities, which in turn improves the ability of MSMEs to acquire, assimilate and exploit knowledge. This is in accordance with research conducted by Dewanti (2022), which states that absorptive capacity is influenced by innovation, proactivity, and risk-taking courage. Another study by Kale et al. (2019) also confirmed that entrepreneurial orientation plays a significant role in developing the acquisition and transformation dimensions of absorptive capacity. However, the low score on the risk-taking dimension indicates that some MSME actors may still be reluctant to make decisions that involve financial uncertainty. This is consistent with the findings from Astuti (2022), which states that many MSMEs in Indonesia still do not maximize the application of entrepreneurial orientation, especially in terms of risk-taking.

The results of this study also highlight that entrepreneurial orientation, particularly through the dimension of proactiveness, plays a pivotal role in enabling MSMEs to stay competitive by actively seeking and adapting to external market trends.

The strong association between proactiveness and absorptive capacity underscores the importance of market intelligence and timely decision-making in leveraging opportunities. MSMEs that frequently monitor market conditions and swiftly respond to changes are better positioned to assimilate new knowledge and apply it to enhance their operations. This proactive behavior not only strengthens the absorptive capacity but also serves as a foundational mechanism for sustaining innovation and competitiveness in a dynamic business environment.

Moreover, the findings suggest that the risk-taking dimension requires attention and development to optimize the full potential of entrepreneurial orientation. The reluctance to take financial risks, as reflected by the low scores in risk-taking indicators, may stem from a lack of financial literacy, inadequate access to funding, or a general aversion to uncertainty. To address this gap, targeted interventions such as financial training, access to venture capital, and mentorship programs could be instrumental. Encouraging calculated risk-taking through these means could empower MSMEs to make bolder investments in innovative ventures, thereby unlocking new opportunities for growth and enhancing their absorptive capacity. This aligns with prior research, which emphasizes that balanced risk-taking is critical for the long-term sustainability and success of entrepreneurial ventures.

The Effect of Entrepreneurial Orientation on Business Performance

Hypothesis testing results show that entrepreneurial orientation has a significant influence on business performance, with a t-statistic value of 3.610 and p-value of 0.000, and a coefficient of influence of 0.401. Although the direct effect is not as strong as the relationship with absorptive capacity, this result indicates that entrepreneurial orientation still has an important role in encouraging the improvement of business performance of Fashion MSMEs in Sukabumi. The dimension of entrepreneurial orientation that has the highest value is proactiveness, which is indicated by the indicator of activeness in following market developments (X1.6). This suggests that MSMEs that are more proactive in responding to market changes tend to be able to increase sales, profitability and employee growth. In contrast, the dimension with the lowest score is risk-taking, specifically in the indicator of courage to risk the future for business continuity (X1.9), which indicates that MSME actors are worried about making risky strategic decisions.

Analytically, these findings indicate that MSME actors with high entrepreneurial orientation are better able to identify market opportunities, create innovations, and improve operational efficiency, which in turn has an impact on improving business performance. Entrepreneurial orientation consisting of innovation, proactivity, and risk-taking encourages business actors to be more competitive and adaptive in the face of competition, as stated by Miller (2019). This research is in line with the results of Yuliana & Pujiastuti's research (2018), which states that entrepreneurial orientation has a positive and significant influence on the business performance of MSMEs in Semarang. Research by Farhan et al. (2022) also supports these findings, where entrepreneurial orientation is able to increase sales growth and profitability in food and beverage sector MSMEs in South Jakarta. However, the relatively lower coefficient value compared to the relationship with absorptive capacity suggests that entrepreneurial orientation requires the support of other variables to have a more optimal impact on business performance. One such important variable is absorptive capacity, which is shown to mediate this relationship significantly (Table 4.6). This is consistent with

Dewanti's (2022) findings, which state that the effect of entrepreneurial orientation on business performance will be stronger if supported by the ability to acquire and assimilate new knowledge. The low score on the risk-taking dimension indicates that there are obstacles in the courage of MSME actors to invest or make major innovations that require large capital or face uncertainty. This is consistent with Astuti's report (2022), which notes that MSME actors are often reluctant to take risks due to limited resources and external support.

In addition to the direct relationship, the findings suggest that entrepreneurial orientation contributes to business performance through its ability to foster strategic innovation and adaptability. Proactiveness, as the strongest dimension, allows MSMEs to anticipate market demands and create products or services that align with consumer preferences. This proactive behavior also facilitates better customer engagement and responsiveness, which are critical for building competitive advantages. MSMEs that prioritize market monitoring and rapid response tend to experience greater growth in revenue and employee numbers, indicating that proactiveness not only enhances business performance but also ensures sustainability in dynamic environments.

However, the low performance in the risk-taking dimension highlights a persistent challenge for MSMEs in Sukabumi. This reluctance to take bold actions, such as investing in new markets or innovative technologies, may inhibit their ability to achieve substantial performance improvements. Addressing this requires both structural and cultural interventions. Financial institutions and policymakers can play a key role by offering tailored funding mechanisms and risk-sharing programs to reduce the perceived burden of uncertainty. Additionally, fostering a culture of calculated risk-taking through workshops, mentoring programs, and success stories from other risk-tolerant MSMEs can help build confidence among business actors. By enhancing the risk-taking capacity, MSMEs could unlock untapped potential and achieve higher levels of profitability and market reach. This aligns with prior studies emphasizing that entrepreneurial success often requires balancing calculated risks with proactive market engagement.

The Effect of Absorptive Capacity on Business Performance

The results of hypothesis testing show that absorptive capacity has a significant influence on business performance, with a t-statistic value of 4.618 and a p-value of 0.000, and an influence coefficient of 0.514. This indicates that an increase in absorptive capacity can significantly improve the business performance of Fashion MSMEs in Sukabumi. The absorptive capacity dimension with the highest value is exploitation, which is represented by the ability to create novelty in products (Z1.10). This suggests that MSMEs that are able to process new knowledge into product or service innovation have a greater chance of improving business performance. In contrast, the dimension with the lowest score is acquisition, especially in the indicator of searching for new knowledge (Z1.2), which reflects the challenges of MSME players in accessing external knowledge sources.

Analytically, absorptive capacity allows MSMEs to not only acquire external knowledge but also assimilate, transform and exploit that knowledge to create added value that contributes to business growth. This is in accordance with Cohen & Levinthal's theory which states that absorptive capacity is the firm's ability to recognize the value of new information, assimilate it, and apply it commercially. This finding is also in line with Dewanti's research (2022), which states that absorptive capacity

contributes significantly to improving business performance through strengthening innovation capabilities. High absorptive capacity allows MSMEs to be more flexible in responding to market changes, as described in the research of Kale et al. (2019). The study showed that the dimensions of transformation and exploitation of absorptive capacity play a key role in improving operational efficiency and innovation, which ultimately have an impact on business performance. Similar findings were also reported by Al-Hakimi et al. (2021), who stated that absorptive capacity supports business sustainability through optimizing resource use and creating competitive advantage. However, the low score on the acquisition dimension indicates that Fashion MSMEs in Sukabumi may face limitations in accessing external knowledge, either due to limited networks, resources or technological infrastructure. This condition requires special attention, given that acquisition is a crucial early stage in the process of developing absorptive capacity.

The findings emphasize the critical role of exploitation as a dimension of absorptive capacity in enhancing business performance. Exploitation involves the ability to transform assimilated knowledge into tangible outcomes, such as innovative products or improved services, which directly contribute to market competitiveness. This strong performance in exploitation indicates that many MSMEs in Sukabumi are adept at applying knowledge effectively to create differentiation and deliver value to their customers. For example, MSMEs that innovate in design, materials, or marketing strategies tend to perform better in terms of profitability and market expansion. However, these strengths in exploitation could be further amplified by addressing the weaknesses in earlier stages, such as knowledge acquisition.

The acquisition dimension, as the weakest link, poses a significant challenge for MSMEs aiming to build a robust absorptive capacity. Limited access to external knowledge sources often results from a lack of collaboration with industry players, research institutions, or government programs that can provide the necessary insights and data. To overcome these barriers, initiatives such as forming business clusters, fostering partnerships with academic institutions, or utilizing digital platforms for knowledge sharing could prove beneficial. Moreover, strengthening infrastructure, such as access to technology and training, can help MSMEs enhance their ability to acquire and process new knowledge. By bridging the gap in acquisition, MSMEs in Sukabumi can create a seamless flow of knowledge from identification to exploitation, ultimately boosting their overall business performance. This aligns with prior research highlighting that a holistic development of all dimensions of absorptive capacity is essential for achieving sustained business success.

Absorptive Capacity Mediates Entrepreneurial Orientation to Business Performance

Hypothesis testing results show that absorptive capacity significantly mediates the effect of entrepreneurial orientation on business performance, with a t-statistic value of 4.630 and a p-value of 0.000, and an indirect effect coefficient of 0.452. This shows that entrepreneurial orientation not only has a direct influence on business performance but also has a greater impact when optimized through absorptive capacity. In other words, absorptive capacity strengthens the relationship between entrepreneurial orientation and business performance of Fashion MSMEs in Sukabumi. The dimension of absorptive capacity that contributes most to this mediation is exploitation, which is indicated by the ability to create novelty in services indicator

(Z1.11). This suggests that MSME actors who are able to utilize new knowledge to generate service innovation tend to have better business performance. In contrast, the dimension with the lowest contribution is acquisition, especially in the indicator of value transfer from new knowledge (Z1.3), which reflects the challenges in integrating external knowledge into internal business processes.

Analytically, these findings reinforce the theory that absorptive capacity acts as a catalyst in optimizing entrepreneurial orientation to generate better business performance. High entrepreneurial orientation enables MSME actors to identify market opportunities, while absorptive capacity helps assimilate and integrate new knowledge to create relevant innovations. This study supports the findings of Dewanti (2022), which states that absorptive capacity plays an important role in mediating the relationship between entrepreneurial orientation and competitive advantage, which ultimately improves business performance. Previous research by Kale et al. (2019) also showed that the transformation and exploitation dimensions of absorptive capacity are critical in linking entrepreneurial orientation with business outcomes. In addition, Al-Hakimi et al. (2021) identified that firms with high absorptive capacity are better able to implement innovations that meet market needs, thereby increasing growth and profitability. However, the low contribution of the acquisition dimension indicates that many MSME players are still not optimal in seeking and utilizing external knowledge sources. This suggests the need for interventions, such as innovation-based training and strategic partnerships, to improve MSME players' access to new knowledge. These interventions are important to ensure that entrepreneurial orientation can be fully utilized through absorptive capacity.

The mediating role of absorptive capacity highlights the importance of integrating entrepreneurial orientation with effective knowledge management processes. While entrepreneurial orientation provides the foundation for identifying opportunities and initiating innovation, absorptive capacity ensures that these opportunities are fully leveraged through the systematic acquisition, assimilation, and application of knowledge. This synergy is particularly evident in the exploitation dimension, where MSMEs successfully convert knowledge into actionable outcomes, such as service enhancements or operational improvements. For instance, service-oriented innovations, such as personalized customer interactions or streamlined service delivery, directly contribute to improved customer satisfaction and business performance.

However, the relatively low contribution of the acquisition dimension underscores a significant bottleneck in the knowledge flow. This limitation suggests that while MSMEs in Sukabumi are adept at utilizing available knowledge, they may struggle to proactively seek and internalize new information from external sources. Addressing this issue requires a multifaceted approach, including fostering stronger collaborations with external stakeholders such as suppliers, universities, and governmental agencies. Additionally, creating a more supportive ecosystem for knowledge transfer, such as establishing innovation hubs or knowledge-sharing networks, can empower MSMEs to overcome these barriers. By improving their capacity to acquire and integrate external knowledge, MSMEs can maximize the potential of entrepreneurial orientation, ensuring sustainable growth and competitive advantage. This finding aligns with prior studies emphasizing that a well-rounded development of all absorptive capacity dimensions is crucial for long-term business success.

D. CONCLUSION

Based on the results of research, discussion and data analysis techniques carried out by researchers regarding the effect of entrepreneurial orientation on business performance through absorptive capacity, the following conclusions can be drawn:

1. Entrepreneurial orientation significantly affects the absorptive capacity. This implies that the higher the entrepreneurial orientation of Fashion MSME owners in Sukabumi, the higher the absorptive capacity of MSMEs.
2. Entrepreneurial orientation significantly affects business performance. This implies that the higher the entrepreneurial orientation of Fashion MSME owners in Sukabumi, the higher the business performance of these MSMEs.
3. Absorptive capacity significantly affects business performance. This means that the better the absorptive capacity of Fashion MSMEs in Sukabumi, the better the performance of Fashion MSMEs in Sukabumi.
4. Absorptive capacity significantly mediates the effect of entrepreneurial orientation on business performance. This can be interpreted that entrepreneurial orientation directed through absorptive capacity is able to make a greater contribution to the success and sustainability of MSMEs.

Based on the results of research analysis and discussion, the researcher will provide suggestions that can be input for the better. The suggestions given by researchers are divided into direct theoretical and practical suggestions, which are as follows:

1. Theoretical

Researchers hope that research on the effect of entrepreneurial orientation on business performance through absorptive capacity can help develop insight and knowledge, especially in the field of strategic management.

2. Practical

- a. For further researchers, researchers hope that research can be a reference, especially regarding studies of business performance, entrepreneurial orientation and absorptive capacity.
- b. For MSMEs, researchers hope that owners can understand the results of this research well and then can improve entrepreneurial orientation as the spirit of MSMEs themselves.
- c. For the Government, researchers hope that the government can formulate appropriate MSME development policies based on this research.

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