



## DYNAMIC CAPABILITIES AND CATUR PARAMITHA: THE MEDIATION AND MODERATION ROLE FOR BUSINESS PERFORMANCE

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### Abstract

*The inconsistency in findings regarding entrepreneurial orientation and business performance necessitates further exploration to elucidate their relationship and enhance the academic literature. This study examines the roles of dynamic capability and Catur Paramitha in mediating and moderating the impact of entrepreneurial orientation on business performance and assessing their direct effects. Employing a quantitative methodology, the research involves a sample of 300 SMEs in Indonesia, analyzed using SmartPLS software. Results reveal that a robust entrepreneurial orientation enhances the dynamic capabilities of SMEs, fostering unique and valuable resources that contribute to superior business performance. Additionally, dynamic capabilities serve as partial complementary mediators, while Catur Paramitha, representing local wisdom, strengthens the positive impact of entrepreneurial orientation on SME performance. This research underscores the significance of entrepreneurial orientation, dynamic capabilities, and Catur Paramitha as vital organizational resources for achieving optimal business performance.*

### Kata Kunci:

Catur Paramitha;

Kapabilitas dinamis;

Kinerja Bisnis;

Nilai kearifan lokal;

Orientasi kewirausahaan;

### Abstrak

Ketidakkonsistenan temuan hubungan orientasi kewirausahaan dan kinerja bisnis ini mendorong perlunya melakukan investigasi lanjutan untuk memperjelas hubungan kedua konstruk sekaligus menambah literatur relevan. Riset ini bertujuan untuk menginvestigasi kapabilitas dinamis dan Catur Paramitha sebagai mediator dan moderator dalam pengaruh orientasi kewirausahaan pada kinerja bisnis dan juga menguji pengaruh orientasi kewirausahaan, kapabilitas dinamis, dan Catur Paramitha pada kinerja bisnis. Penelitian ini menggunakan pendekatan kuantitatif yang melibatkan 300 unit UKM kerangka sampel di Indonesia dan dianalisis dengan software SmartPLS. Hasil temuan mengindikasikan tingkat orientasi kewirausahaan yang kuat akan meningkatkan kemampuan dinamis UKM organisasi, sehingga tercipta sumber daya unik, langka, dan berharga sebagai kompetensi inti untuk menciptakan kinerja bisnis yang unggul. Selanjutnya, kapabilitas dinamis berperan menambah (mediasi parsial komplementer) pengaruh orientasi kewirausahaan pada kinerja bisnis, dan Catur Paramitha sebagai nilai kearifan lokal memiliki peran memperkuat (moderasi) pengaruh orientasi kewirausahaan pada peningkatan kinerja bisnis UKM. Penelitian ini menyoroti pentingnya peran orientasi kewirausahaan, kapabilitas dinamis, dan Catur Paramitha sebagai sumber daya unggulan organisasi dalam mewujudkan kinerja bisnis yang optimal.

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## INTRODUCTION

Changes in the volatile business environment pose both challenges and opportunities affecting the company's business performance (Chen et al., 2019; Kafetzopoulos et al., 2020), even for SMEs (Han et al., 2023; Sopha et al., 2021). These challenges include increased competition, reduced demand, rising costs, regulatory changes, shifts in consumer behaviour, and operational risks (Sopha et al., 2021). Potential opportunities may involve creating new products and services, entering new markets, improving efficiency, building customer loyalty, and encouraging innovation (Han et al., 2023). SMEs are uniquely positioned to succeed in uncertain markets due to their adaptability and responsiveness to rapid market changes (OECD, 2017). Moreover, SMEs possess unique internal resources, such as specialized skills in human capital (E. A. Khan & Quaddus, 2018), which can influence performance (Tjahjadi et al., 2022). Business performance reflects SMEs' capability to navigate intense competition locally, nationally, and globally, showcasing their creativity and product innovation.

Given the intricate nature of business transaction processes, entrepreneurial orientation emerges as a pivotal determinant in facilitating the success of enterprises, particularly small and medium-sized enterprises (SMEs) (Arshad et al., 2014). It is imperative for SMEs to engage in innovative practices in the development of their products and services (Indrawati et al., 2024). Furthermore, SMEs must adopt a more proactive stance in confronting competitive forces across various dimensions and be willing to undertake risks. The entrepreneurial orientation empowers SMEs to identify and capitalize on opportunities within a competitive landscape, as their capacity for innovation enables them to establish distinctiveness and differentiation from their rivals (Meekaewkunchorn et al., 2021; Octavia et al., 2020). SMEs that embrace a proactive entrepreneurial mindset will enhance their responsiveness to fluctuations in the market and the evolving preferences of consumers, which necessitates a readiness to assume calculated risks, ultimately fostering business growth and expansion (Gull et al., 2021; Wahyuni & Sara, 2020). The capability to function independently (autonomy) and to make swift decisions devoid of bureaucratic impediments gives SMEs a competitive advantage in terms of adaptation and innovation.

Several studies support this statement (Irwin et al., 2018; Meekaewkunchorn et al., 2021; Octavia et al., 2020; Pratono & Mahmood, 2015; Suyanto & Pratono, 2014) who stated that the stronger the entrepreneurial orientation (the more innovative, proactive, and willing to take risks), the better the performance of the SMEs will be, which is shown by the higher their competitiveness and business capabilities. However, some studies do not find a positive relationship between entrepreneurial orientation and performance, suggesting that the relationship between orientation and entrepreneurship may be more complex than the universal linear relationship (Iherobiem et al., 2023; M. A. Khan et al., 2021; Kraus et al., 2011; Rezaei & Ortt, 2018). So, gaps must be immediately addressed, and solutions must be sought to overcome different impacts.

Over the past twenty years, research focusing on the significance of dynamic capabilities has seen substantial growth (Bitencourt et al., 2020). Dynamic capabilities illustrate a firm's proficiency in adjusting, integrating, and reconfiguring its resources, competencies, and skills in response to shifting environmental factors, the rapid pace of innovation, intense competition, and elusive (dynamic) market conditions (Laaksonen & Peltoniemi, 2018; Teece, 2018). Therefore, it can be said that dynamic capabilities can help SMEs to react adequately, efficiently, and promptly to external changes that require a combination of capabilities (Eikelenboom & de Jong, 2019; Weaven et al., 2021). Organizational capabilities are vital in determining how SMEs adapt and thrive in a competitive environment that ultimately affects business performance (Mohaghegh et al., 2021; Prester, 2023; Wilden et al., 2013). The three essential elements of dynamic capabilities are the ability to identify opportunities and threats, take advantage of opportunities, and convert resources to respond to change into organizational capabilities that are vital to helping achieve market expansion, revenue growth, improvement of internal business processes, organizational development, and learning (Heider et al., 2021; Teece, 2018).

The variability in the findings regarding the connection between entrepreneurial orientation and business performance prompts a deeper exploration to elucidate the relationship between these two constructs, while simultaneously contributing to the existing literature and enhancing the overall body of knowledge. Consequently, dynamic capabilities play a crucial role in navigating the intricacies of the relationship between entrepreneurial orientation and business performance (Abbas et al., 2019; Mikalef et al., 2019; Monteiro et al., 2019). In addition, this research model is expanded with situational variables, namely the role of local wisdom values (*Catur Paramitha*) as a moderator, which has never been tested in previous studies. This is done with some consideration. First, *Catur Paramitha* is a border for SMEs to act by the teachings of truth so that business actors do not justify all means to win the competition and help SMEs develop their business well (Gunawan et al., 2023). Second, the application of *Catur Paramitha* can improve the performance and competitiveness of SMEs, as well as establish harmonious and mutually beneficial relationships with customers, partners, and competitors (Rahyuda et al., 2018, 2019). Third, *Catur Paramitha* also helps SMEs develop internal resources based on local cultural values, so this value is an ethical concept and an innovative and sustainable business strategy. In addition, studies on *Catur Paramitha* are still rarely carried out in the SME sector, so there is a gap in this research to be discussed further (Goca et al., 2023; Kertiyasa et al., 2020; Korry et al., 2024).

Develop an entrepreneurial orientation that can be an effective strategy for SMEs to achieve long-term success and growth (Lumpkin & Dess, 1996; Meekaewkunchorn et al., 2021). Proactive SMEs tend to be quicker to spot market opportunities and react to changes in the business environment. Proactiveness helps SMEs anticipate customer needs and market trends to introduce new, more innovative products or services (Iherobiem et al., 2023; Rauch et al., 2009). The risk-taking aspect is also essential for SMEs to pay attention to because it relates to investing in new opportunities with high growth potential. This attitude is necessary for innovation and business expansion, although it must be balanced with good risk management (Kajalo & Lindblom, 2015). SMEs with a strong learning orientation can adapt to change and integrate new knowledge into business practices, which includes error learning, competitors, and industry trends that can all improve business efficiency, effectiveness, and performance (Criado-gomis & Iniesta-bonillo, 2018; Gull et al., 2021; Wiklund & Shepherd, 2005). Entrepreneurial orientation allows SMEs to identify new opportunities, explore, and take advantage of them, so it can be said that entrepreneurial orientation plays a role in shaping the dynamic capabilities of the organization, enabling adaptation, innovation, and effective resource management (Coelho et al., 2022; Jantunen et al., 2005; Jiang et al., 2018). Based on this, we formulate the following hypothesis:

H<sub>1</sub>: entrepreneurial orientation positively impacts dynamic capabilities.

H<sub>2</sub>: Entrepreneurial orientation positively affects business performance.

Dynamic capability refers to an organization's ability to adapt, integrate, and configure the range of organizational resources, competencies, and skills developed by David Teece ((Teece, 2018). Dynamic capabilities enable companies to innovate, adapt to environmental changes, and maintain competitive advantage (Mikalef et al., 2019; Monteiro et al., 2019) and business performance (Bitencourt et al., 2020; Heider et al., 2021). This is done in a changing environment, rapid invitation rates, the nature of intense competition, changing market entry momentum, and challenging market conditions to determine (Eikelenboom & de Jong, 2019; Valdez-Juárez & Castillo-Vergara, 2021; Weaven et al., 2021). In strategic management, dynamic capabilities enable companies to have sustainable business performance by performing three main steps. First is sensing, which is the company's ability to detect environmental changes, opportunities, and threats. Second, seizing opportunities relates to the company's ability to act appropriately to exploit opportunities. Third, configuring knowledge, competencies, and resources relates to the company's ability to change and develop existing resources and competencies to manage change and maintain business performance (Prester, 2023; Wilden et al., 2013). A strong entrepreneurial orientation can ensure that resources are used effectively to achieve strategic goals and adapt to change (Kajalo & Lindblom, 2015; Rezaei &

Ortt, 2018), enabling SMEs to remain relevant and high-performing in changing situations (Aburumman et al., 2021). The hypotheses we propose are as follows:

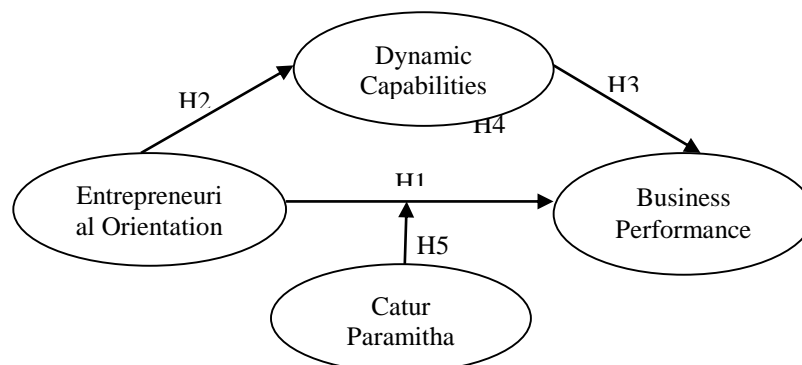
H<sub>3</sub>: Dynamic capabilities have a significant positive influence on business performance.

H<sub>4</sub>: Dynamic capabilities mediate the influence of entrepreneurial orientation on business performance.

*Catur Paramitha* is one of the foundations for carrying out ethics/morals in Hindu community life, which is defined as four kinds of noble and virtuous behavior that can help humans achieve their life goals (Dewi & Romayanti, 2020). *Catur Paramitha* is part of moral teachings that allow humans to create harmonious relationships, mutual understanding, and harmony, consisting of four main components. First, *Maitri* is a concept of wisdom, wherein in a business context, *Maitri* teaches SME owners and management to make wise decisions, consider the long term, and respect ethical values. Second, *karuna* refers to an empathetic attitude towards employees, customers, and business partners. In practicing *karuna*, SMEs can create better relationships and strengthen business sustainability. Third, *upeksa* means peace of mind. This right teaches business owners to be calm and think clearly when facing challenges. With *upeksa*, SMEs can make good decisions and manage stress more effectively. Fourth, *mudita* is a feeling of joy for the success of others. In a business context, this means supporting business partners' success and rejoicing their achievements. Collaboration and support between SMEs can strengthen the entire business ecosystem (Astuti et al., 2018; Dewi & Romayanti, 2020). So, it can be concluded that the value of *Catur Paramitha* is certainly correlated with business activities carried out by SMEs because it involves values, ethics, morals, and norms applied in making decisions (Rahyuda et al., 2019). *Catur Paramitha* helped change the business orientation from focusing only on money to a more sustainable and humane approach. By applying these principles, SMEs can build better relationships with customers, employees, and business partners and achieve better overall performance. Based on this, we formulated the hypothesis as follows:

H<sub>5</sub>: *Catur Paramitha* moderates the influence of entrepreneurial orientation on business performance.

This research represents the initial effort to explore the connection between entrepreneurial orientation and the performance of SMEs, incorporating the mediating and moderating influences of dynamic capabilities and *Catur Paramitha*. It investigates the extent to which dynamic capabilities mediate and *Catur Paramitha* moderates the link between entrepreneurial orientation and the performance of SMEs. The proposed study encompasses four elements to illustrate the constructed model. In this framework, entrepreneurial orientation serves as the independent variable; business performance functions as the dependent variable, while dynamic ability acts as the mediating variable, and *Catur Paramitha* serves as the moderating variable. In this context, dynamic capabilities illustrate the mediation relationship, whereas *Catur Paramitha* illustrates the moderation relationship between entrepreneurial orientation and the business performance of SMEs. Figure 1 illustrates the research model following a thorough literature review to elucidate the model presented below.



Source: Developed by author

**Figure 1. Research Framework**

## RESEARCH METHODS

A study on SMEs in Bali, Indonesia, found that although the tourism sector saw a decline due to the crisis some time ago, SMEs remain the foundation of the island's economy, with the number of Balinese SMEs rising by 6.4% (Armanu et al., 2023). Additionally, SMEs in Bali are highly close to local knowledge values that act as boundaries for business operations (Kertiyasa et al., 2020; Rahyuda et al., 2019). The majority of SMEs operate in a variety of service-related business sectors, trade, agriculture, and non-agricultural industries. A sample of 320 SMEs was selected using cluster sampling techniques from a total population of 16,619 SMEs. A total of 300 research samples and instruments were received and deemed appropriate for processing; 93.75% of the instruments were returned. Due to his ability to represent SMEs and obtain representative data, the company's management or owner is chosen as a research respondent. Data were collected from primary sources by conducting interviews and distributing questionnaires to randomly selected research respondents. This study was measured from four variables. The measurements of each variable are presented in Table 1.

**Table 1.**  
**Variable Measurement**

| Variable                    | Indicator   | Source   |
|-----------------------------|---|--|
| Business Performance        | Marketing<br>Financial<br>Internal business processes<br>Growth and learning  | (Cicea et al., 2019; Nastasia & Mironeasa, 2016)                       |
| Entrepreneurial Orientation | Proactive<br>Innovative<br>Courage to take risks<br>Autonomy<br>Aggressiveness of competition   | (Linares & Fernandez, 2018; Lumpkin & Dess, 1996; Semrau et al., 2016) |
| Dynamic Capabilities        | Opportunity and threat detection (sensing)<br>Seize opportunities<br>Reconfiguration of organizational knowledge, competencies, and resources             | (Heider et al., 2021; Teece, 2018)                                     |
| <i>Catur Paramitha</i>      | <i>Maitri</i> (wisdom and friendship)<br><i>Karuna</i> (sympathetic and affectionate)<br><i>Mudita</i> (peace of mind)<br><i>Upeksha</i> (feeling of joy) | (Astuti et al., 2018; Rahyuda et al., 2018, 2019)                      |

Sources: Developed by Authors, 2023

The measurement of data on these variables used the Likert scale, which is designed to examine how strongly research subjects agree or disagree with research statements with assessment intervals ranging (Sekaran & Bougie, 2016). The questionnaire was piloted with 30 respondents to elucidate statements and instructions. As a result, the questionnaire's language was somewhat modified. Partial least square-structural equation modeling (PLS-SEM), which takes into account the creation of models to investigate the relationship between direct and indirect factors, is used in this study. Furthermore, Hair et al. (2017,2021) suggested that we evaluate the measurement model, hypotheses, and link between variables and the structural model in order to ascertain the validity and reliability of construct variables. Since the purpose of the study was to validate the research model. SEM-PLS was appropriate.

## RESULT AND DISCUSSION

The growth of SMEs in Bali, Indonesia, in the last five years has increased significantly, reaching 41.5%. Judging from the business sector, the most trade reached 58.76%, followed by the agricultural industry at 15.97%, the non-agricultural sector at 14.39%, and various services at 9.88%. The current

entrepreneurship ratio of 3.95% indicates that the number of entrepreneurs in Bali, Indonesia, is relatively high, and, at the same time, insight into the level of innovation, economic growth, and job creation potential in Bali also shows promising results. The demographic characteristics of SMEs in Bali, when viewed from the length of business, can be described that the average SME in Bali has quite high business experience, with 53% having experience for 11-20 years; there are even SMEs that have been running their business for almost 50 years. Most owner/management level SMEs are male (68%), and most (42%) are aged 41-50, indicating maturity in business decisions. This is, of course, inseparable from the ability of SMEs to survive based on the value of local wisdom, as a unique force that distinguishes Balinese SMEs from other SMEs.

PLS was used to test the data, and the validity and reliability of the study construct were examined by outer model analysis. Convergent validity provides the validity indication, since each indicator's loading factor value is greater than or equal to 0.7. Each construct's Cronbach's Alpha (CA) value, Average Variance Extracted (AVE) value, and composite reliability (CR) value all demonstrate the construct's dependability. If the AVE is  $\geq 0.50$  and the CR and CA values are  $\geq 0.70$ , the concept is considered very reliable (Hair et al., 2021). According to Table 2, which presents the results of the outer model test, all four constructs—business performance, dynamic capabilities, Catur paramitha, and entrepreneurial orientation—have CA values above 0.7, CR above 0.7, and AVE above 0.5, indicating that all variables are reliable. Table 2 also shows the loading factor values for all indicators are greater than 0.7, indicating that these indicators validly reflect each construct. Before testing the hypothesis, it is also necessary to look at the predictive relevance model ( $Q^2$ ), which measures how well the observation value is produced by the model (Hair et al., 2017), where the magnitude of  $Q^2$  has a value with a range of  $0 < Q^2 < 1$ , the closer the value of 1 means the better the model. The results of the  $Q^2$  calculation obtained a value of 0.726, getting closer to 1 so that the exogenous latent variable as an explanatory variable (entrepreneurial orientation and dynamic capabilities) was able to predict the endogenous variable, namely business performance or, in other words, prove that this model is considered to have good predictive relevance.

**Table 2.**  
**Outer Model Measurement**

| Variable                    | Indicator | Loading | CA    | CR    | AVE   |
|-----------------------------|-----------|---------|-------|-------|-------|
| Entrepreneurial Orientation | EO1       | 0.816   | 0.861 | 0.900 | 0.643 |
|                             | EO2       | 0.794   |       |       |       |
|                             | EO3       | 0.824   |       |       |       |
|                             | EO4       | 0.802   |       |       |       |
|                             | EO5       | 0.772   |       |       |       |
| Dynamic Capabilities (DC)   | DC1       | 0.885   | 0.895 | 0.934 | 0.826 |
|                             | DC2       | 0.912   |       |       |       |
|                             | DC3       | 0.929   |       |       |       |
| Catur Paramitha (CP)        | CP1       | 0.730   | 0.706 | 0.818 | 0.529 |
|                             | CP2       | 0.711   |       |       |       |
|                             | CP3       | 0.728   |       |       |       |
|                             | CP4       | 0.739   |       |       |       |
| Business Performance (BP)   | BP1       | 0.769   | 0.807 | 0.873 | 0.632 |
|                             | BP2       | 0.798   |       |       |       |
|                             | BP3       | 0.811   |       |       |       |
|                             | BP4       | 0.800   |       |       |       |

Source: Research results, 2023

The importance of the derived parameters provides very useful information regarding the relationship between the research variables. The results of the hypothesis test with a p-value  $\leq 0.05$  are shown in Table 3. Table 3 supports H1, showing that an entrepreneurial mindset greatly and favorably affects business performance ( $\beta = 0.222$ ; p-value = 0.005). The results of testing the effect of entrepreneurial orientation on dynamic capacities were substantial and positive ( $\beta = 0.697$ ; p-value = 0.000), supporting H2. H3 is approved since dynamic capabilities positively and significantly affect business success ( $\beta = 0.369$ ; p-value = 0.000).

The Catur Paramitha moderation test findings are also displayed in Table 3, where the entrepreneurial orientation and Catur Paramitha interaction test yields a value of  $\beta = 0.229$ , p-value = 0.000\* < 0.05. This suggests that in order to support H5, Catur paramitha substantially functions as a moderating variable. Catur paramitha enhances the impact of entrepreneurial orientation on SME business performance, as indicated by a positive value on EO\*CP.

**Table 3.**  
**Structural Estimate of the Variable's Effect**

| Hypothesis                               | Direct effect |         | Indirect effect |         | Total effect |         |
|--|---------------|---------|-----------------|---------|--------------|---------|
|  | $\beta$       | p-value | B               | p-value | $\beta$      | p-value |
| EO $\rightarrow$ BP                      | 0.222         | 0.005*  | 0.257           | 0.000*  | 0.479        | 0.000*  |
| EO $\rightarrow$ DC                      | 0.697         | 0.000*  | -               | -       | 0.697        | 0.000*  |
| DC $\rightarrow$ BP                      | 0.369         | 0.000*  | -               | -       | 0.399        | 0.000*  |
| CP $\rightarrow$ BP                      | 0.133         | 0.019*  | -               | -       | 0.133        | 0.019*  |
| Moderating Effect EO*CP $\rightarrow$ BP | 0.229         | 0.000*  | -               | -       | 0.229        | 0.000*  |

Source: Research results, 2023

Indirect influence tests (Hair et al., 2017) can be used to examine the importance of mediating factors in the model by examining how entrepreneurial orientation indirectly affects SME business performance through dynamic capabilities. The test also looks at the intervention level of mediation variables, such as full mediation, partial mediation, or non-mediation, which relates to the mediation testing stage suggested by Hair et al. (2017). Table 4 shows that the impact of entrepreneurial orientation on SME business performance through dynamic capabilities is significant (indirect effect 0.257 and total influence 0.479; p-value = 0.000). H4 is acceptable since it is determined that dynamic capacities serve as complementing mediators based on the analytical results in Table 3.

**Table 4.**  
**Determination of Mediation Effects**

| Variable                             | Effect                            |                                    |                                    | Result                               |
|--------------------------------------|-----------------------------------|------------------------------------|------------------------------------|--------------------------------------|
|                                      | Exogenous $\rightarrow$ mediation | Mediation $\rightarrow$ endogenous | Exogenous endogenous $\rightarrow$ |                                      |
| EO $\rightarrow$ DC $\rightarrow$ BP | 0,697<br>(Sig.)                   | 0,369<br>(Sig.)                    | 0,222<br>(Sig.)                    | Partial Mediation<br>(Complementary) |

Source: Research results, 2023

The findings and results of the analysis in this study test the hypothesis and confirm previous theories and empirical studies related to variables that predict business performance in SMEs to maintain business extension amid the onslaught of technology and a business environment that is difficult to predict. According to the study's findings, Balinese SMEs' business performance is positively and significantly impacted by entrepreneurial orientation. This means that entrepreneurial orientation encourages business innovation, which can be in the form of developing new businesses, improving

business processes, or creating new unique strategies, thereby increasing business competitiveness and ultimately improving business performance. Entrepreneurial orientation involves risk-taking. In a business context, this could mean investing in new technologies, entering new markets, or implementing untested business strategies. Although risky, it can yield significant rewards and improve business performance if successful. Orientation also involves being proactive, which means anticipating and acting before a situation or opportunity arises. This could mean identifying and exploiting market opportunities before competitors do business. This can provide improved performance for SMEs. This result is consistent with earlier studies (Iniesta-Bonillo, 2018; Rauch et al., 2009), which found that an entrepreneurial mindset improves company performance, while its efficacy varies according on the situation and business climate.. Therefore, SMES need to understand and implement entrepreneurial orientation to best suit the situation and needs of SMEs (Kraus et al., 2011; Semrau et al., 2016).

The findings of earlier studies (Abu-rumman et al., 2021; Chen et al., 2019; Jiang et al., 2018) that found that entrepreneurial orientation can improve the three organizational capabilities—sensing and seizing opportunities, managing threats, and reconfiguration—are supported and confirmed by research results that demonstrate a positive influence and increase entrepreneurial orientation on dynamic capabilities. Businesses with strong environmental scanning skills are able to spot challenges and possibilities for entrepreneurship in a changing environment with speed and efficiency (Bitencourt et al., 2020; Teece, 2018). In order to assist businesses develop, define, recognize, and seize new market possibilities ahead of their rivals, SMEs with a high entrepreneurial oriented viewpoint place a strong emphasis on creating, embracing, and putting into practice innovative and practical ideas, products, and processes (Octavia et al., 2020). According to Monteiro et al. (2019) and Nasution et al. (2021), SMEs with a high entrepreneurial orientation prioritize implementing innovative ideas, new techniques, and procedures. They also exhibit a high level of tolerance for change, which aids in their firms' ability to adapt. SMEs can remove redundant resources that are unable to adapt to complex environments, enable dynamic capabilities embedded in the organization, and reconfigure existing resources to develop the ability to adapt to both new and existing enterprise markets when an organization's external environment undergoes significant changes (Jiao et al., 2010).

Dynamic capabilities significantly influence SME business performance, where organizational capabilities play a key role in determining how SMEs adapt and thrive in a competitive environment so that they can perform at their best. These findings support previous empirical studies (Abbas et al., 2019; Mohaghegh et al., 2021; Prester, 2023) and further emphasize that dynamic capabilities can improve SME business performance. In practice, SMEs that develop dynamic capabilities will be better prepared to face change and perform better (Wilden et al., 2013). Dynamic capability refers to the ability of SMEs to adapt to changes in the business environment. SMEs with dynamic capabilities will adapt more quickly to changes in markets, technology, and policies (Pundziene et al., 2021). Dynamic capability also involves innovation and learning, so SMEs that can produce new products or services, adopt new technologies, and continue to learn will have a competitive advantage and good business performance. SMEs must also be able to combine their knowledge, skills, and assets with resources from partners, suppliers, and business networks so that dynamic capabilities will encourage SMEs to involve the integration of internal and external resources (Agus et al., 2023; Norouzi et al., 2022). Dynamic capabilities enable SMEs to identify opportunities and quickly address threats involving market monitoring, competitor analysis, and responsive action plans to realize high-performance achievements.

The study also demonstrates that the impact of entrepreneurial attitude on the success of SMEs is mediated by dynamic capacities. Accordingly, the results of this study indicate that the relationship between business performance and entrepreneurial approach is partially mediated by dynamic skills. Its function as a complementary mediator attests to the fact that dynamic capabilities mediate the interaction between these two elements and strengthen the impact of entrepreneurial orientation on the performance of SMEs. Furthermore, these results demonstrate that there is more to the relationship between entrepreneurial orientation and firm performance than a simple linear one. Three facets of the dynamic



capabilities of SMEs will be supported by those that are highly autonomous, competitively aggressive, innovative, and business-oriented in the sense of daring to take risks. Based on the company's capacity to take the necessary steps to take advantage of opportunities, SMEs will be better equipped to recognize environmental changes, opportunities, and threats and to take advantage of them. Additionally, in accordance with earlier studies, SMEs will be able to set up knowledge, competencies, and resources pertaining to the company's capacity to adapt and enhance current resources and competencies to deal with changes and sustain business performance (Abu-rumman et al., 2021; Liu et al., 2021; Nasution et al., 2021). Researchers can gain a deeper understanding of the mechanisms or processes that underlie the impact of entrepreneurial orientation on business performance by examining the role of dynamic capability mediation for the relationship between entrepreneurial orientation and SME business performance.

This study found that *Catur Paramitha* is predicted to play a moderation role that strengthens the influence of entrepreneurial orientation on SME business performance. As a result, organizations must pay attention to all aspects that make their business survive, one of which is by applying the values of *Catur Paramitha* to every aspect of their business activities. *Catur Paramitha* is a border for SMEs that influences them to always be proactive in looking for loopholes and taking advantage of opportunities for their business activities (Indrawati et al., 2024). This value is also related to principles or standards that will later give rise to ethics and norms in doing business and provide control for SMEs about things that should not be done in business. In addition, *Catur Paramitha* also petrified SMEs into more humanistic organizations and prioritized partnerships or friendship-based cooperation (Rahyuda et al., 2019) and the achievement of the best performance as a bonus. The ability of SMEs to innovate, be proactive, and compete will be stronger if supported by the application of *maitri*, *karuna*, *mudita*, and *upeksa* as the right local wisdom values so that SMEs have strong organizational values to achieve optimal business performance (Harsoyo et al., 2019; Parameswara et al., 2021). Amid a dynamic change in the business environment, the values contained in *Catur Paramitha* can be the foundation for SMEs to survive and compete healthily. k SMEs that implement *Catur Paramitha* do not make money, the only basis for capitalist competition. The value of local wisdom can transform cannibalism into humanism and friendship-based partnerships or cooperation. (Rahyuda et al., 2019) states that the value of local wisdom is the basis for successful efforts and organizational performance improvement. Improving organizational performance is the result of growing internal resources.

The findings in this research also contribute theoretically to science in human resource management, especially on the theory of RBV and the concept of dynamic capabilities. This research confirms and strengthens the role of intangible resources as core competencies in shaping business performance that leads to competitive advantage (Barney, 1991). The scientific study developed in this study also strengthens the role of dynamic capabilities that can create new ideas to increase the potential of organizations to achieve optimal business performance (Teece, 2018). The role of entrepreneurship orientation is also no less important for SMEs that always target themselves to achieve the best performance (Lumpkin & Dess, 1996; Rauch et al., 2009). The entrepreneurial pattern formed in the organization and supported by the application of *Catur Paramitha values* makes SMEs one of the organizations that will still be able to survive all conditions and changes and have positive implications on their business performance.

The practical implications that can be given to SMEs include helping SMEs understand the application of local wisdom values as a guideline to do business more humanely and not to use all means to achieve performance. Entrepreneurial orientation and strong dynamic capabilities will help SMEs develop more effective strategies for maximum business performance. With good entrepreneurial orientation skills, SMEs can find and take advantage of opportunities amid fierce business competition. In addition, SMEs that can develop innovations and move quickly to face change will perform better. These findings provide recommendations for SMEs to manage the company's resources and capabilities

with high technology in line with the innovation process. SMEs can also develop organizational values that envision and develop employees as valuable assets.

## CONCLUSIONS

This study highlights the importance of dynamic skills, entrepreneurial orientation, and Catur Paramitha as an organization's best resource in order to achieve optimal corporate performance. The application of Catur Paramitha and other local knowledge values can enhance the usage of entrepreneurial orientation to attain the best possible performance for SME companies. The development and use of entrepreneurial principles based on honesty, politeness (maitri), empathy and compassion (karuna), courage and responsibility (mudita), and a high sense of tolerance (upeksa) will make it simpler for SMEs to achieve optimal performance. Furthermore, the application of an entrepreneurial attitude is more effective when supported by adequate dynamic capacities. By using the complementary mediation function of dynamic capabilities, researchers can better understand the underlying mechanisms or processes that influence entrepreneurial orientation on SME performance and learn more about how entrepreneurial orientation affects SME performance.

This study only looked at SMEs in Bali, Indonesia; to improve the generalizability of the findings, future research should be conducted in other areas or nations. It can also compare the business performance of SMEs in developed and developing nations, as well as the entrepreneurial orientation process. Analyzing suggested models from various industries can also help us gain a thorough understanding of business success and its factors. The complementing partial mediating role of dynamic capacities suggests that the impact of entrepreneurial oriented determinants on the performance of SMEs can be mediated by other mediating variables. Since companies need to stay flexible and agile in order to adapt to change and thrive for sustainability, it is possible to examine how strategic agility or flexibility mediates the impact of entrepreneurial orientation on business performance in SMEs in future study.

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