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ENTREPRENEURIAL ORIENTATION TOWARDS BUSINESS PERFORMANCE THROUGH BUSINESS STRATEGY WITH ENVIRONMENTAL DYNAMICS AND GOVERNMENT POLICY AS MODERATING VARIABLES

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ABSTRACT

This study aims to examine the influence of entrepreneurial orientation on business strategy and organizational performance among halal small and medium enterprises (SMEs) in Malang City. It further investigates the mediating role of business strategy and the moderating effects of environmental dynamics and government policies. Using a quantitative research design, data were collected from halal SMEs in the food and beverage sector through a non-probability (accidental) sampling technique. Structural Equation Modeling (SEM) with Partial Least Squares (PLS) was employed to test the proposed hypotheses. The findings reveal that entrepreneurial orientation significantly affects both business strategy and firm performance. Business strategy mediates the relationship between entrepreneurial orientation and performance, while environmental dynamics do not significantly moderate the effect of strategy on performance. However, government policies strengthen the influence of entrepreneurial orientation on the performance of halal enterprises. The results highlight that a strong entrepreneurial mindset, supported by conducive government policies, can enhance the productivity and competitiveness of halal SMEs operating in creative economy sectors.

JEL: H2, M2, M5.

Keywords: *halal entrepreneurship, creative economy development, SME competitiveness, strategic innovation, policy intervention.*

1. INTRODUCTION

Food and beverages industry is one of the primary manufacturing sectors that significantly contributes to economic development. The food and beverage sector has a high potential to become the focus of SMES development. Culinary, is predicted to be one of the locomotives for the revival of the creative industry in Indonesia (Haryanti, Jiuhardi, & Roy, 2023). According to data, SMEs supply 90% of the nation's food items. Running a food and beverage organization requires business players to comprehend and possess essential success criteria (Setiyawan, Isa, & Wajdi, 2023). The food and beverage industry is one of the primary manufacturing sectors that significantly contributes to national economic growth. This sector holds great potential as a driving force for small and medium enterprise (SME) development. According to Haryanti *et al*. (2023) the culinary subsector is projected to become the *locomotive of Indonesia's creative industry revival*. National data show that SMEs supply approximately 90% of the country's food products, underscoring their crucial role in supporting both the national economy and food security. Malang City, known as a creative hub with an economy driven by 17 subsectors of the creative industry, has a particularly strong potential for developing SMEs, especially in the halal food and beverage sector. Its large Muslim population provides a strategic advantage for halal-based differentiation and market expansion (Dura, Bukhori, & Rosanti, 2025).

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Despite this potential, the performance of halal SMEs in the food and beverage sector remains suboptimal. Previous studies have shown that many SMEs struggle with limited resources, managerial capability, and access to finance, which hinders their ability to translate *entrepreneurial orientation* into measurable business performance—both financial and non-financial (Bagis, Sukma, & Nururly, 2023). Moreover, performance measurement and improvement are complicated by external factors such as regulatory changes, fluctuating raw material prices, and shifting consumer preferences (Fitriati, Purwana, & Buchdadi, 2020). This indicates that a strong entrepreneurial orientation alone does not guarantee success without effective business strategies and supportive external environments.

Entrepreneurial orientation is a remedy for this issue and offers numerous advantages to help SMEs obtain a competitive edge (Lumpkin & Dess, 1996). Business performance is influenced by one of them, entrepreneurial orientation (Rachmawati, Suliyanto, & Suroso, 2022). According to a number of research, an entrepreneurial mindset will lead to better company outcomes (Arzubiaga, Kotlar, De Massis, Maseda, & Iturralde, 2018; Campopiano, De Massis, Rinaldi, & Sciascia, 2017). Campopiano *et al.* (2017) argue that characteristics with an entrepreneurial orientation influence both financial and non-financial performance, while Kusa, Suder, & Duda (2024) said that characteristics associated with an entrepreneurial orientation enhance performance as demonstrated by increased sales and profitability. The relationship between SMEs' success and their entrepreneurial orientation can be mediated by market orientation characteristics (Kassim, 2023). The performance of SMEs is significantly impacted by entrepreneurial orientation (Aloulou, 2018), the success of comprehensive and complex enterprises is connected with both financial and non-financial metrics of entrepreneurial strategy. The main challenge in this article is the first one SME vulnerability**,** many SMEs in food & beverage lack resources, managerial skills, or access to finance, making it hard to translate entrepreneurial orientation into measurable success. The second is measurement complexity linking entrepreneurial orientation to both financial and non-financial outcomes is not straightforward, since these metrics can be influenced by external factors like regulation, consumer trends, or market shocks. The last balancing strategies entrepreneurial orientation alone may not guarantee success studies suggest that it works best when combined with market orientation adding complexity to implementation. The issue is important because SME performance affects the wider economy and creative industries.

The construction of entrepreneurial orientation was first analyzed by Mintzberg (1973) and Khandwalla (1977). Entrepreneurial orientation is considered a conservative concept that can measure entrepreneurship in SMEs (Cuevas-Vargas, Parga-Montoya, & Fernández-Escobedo, 2019). Sungkawati, Hernanik, & Prawoto (2023) a company's chances of satisfying market demand increase with its level of entrepreneurial orientation. An organization's performance can be enhanced the more entrepreneurially oriented it is (Long, 2013; Shan, Song, & Ju, 2016). Entrepreneurial orientation affects business performance. Arzubiaga *et al*. (2018) provided different research results, where entrepreneurial orientation was negatively related to SMES performance. The most interesting thing to discuss is based on theoretical debates in entrepreneurial orientation research. Different scholars highlight different mechanisms: some argue entrepreneurial orientation directly boosts performance (Arabiun, Hosseini, Ziyae, & Tahami, 2025) while others suggest it needs mediators like market orientation (García, Demetrio, Ruíz, & Delia, 2024). This opens up a rich academic debate is entrepreneurial orientation by itself

enough, or must it be combined with other strategies. Next about balance between financial and non-financial outcomes. Entrepreneurial orientation can lead to higher profits and sales, but it also drives innovation, adaptability, and growth culture (Satar & Natasha, 2019). With globalization and digital transformation, EO might determine whether Indonesian SMEs can expand internationally (Huang, Sun, & Fan, 2025).

Although numerous studies confirm that entrepreneurial orientation (EO) positively affects firm performance (Kusa *et al*., 2024; Rachmawati *et al*., 2022) several others report conflicting results. Arzubiaga (2018) and Campopiano (2018) found a negative relationship between EO and SME performance, while Aloulou (2018) argued that EO influences performance only when supported by mediating factors such as strategy or market orientation. These inconsistencies reveal that the relationship between EO and performance is not universally direct or linear implying the presence of contextual variables that shape the strength and direction of the relationship.

One business category with significant potential for economic growth is SMEs, which are hampered by a number of factors. The environment influences the strategy, process, and performance of the organization (Purwanti, Judijanto, & Thalib, 2023). To enhance business performance in a turbulent economic climate, SMEs need to be adaptable while dealing with the outside world. The quantity and degree of environmental changes that a business encounters can be explained by a dynamic environment. Rapid change characterizes a dynamic environment (Shamir & Howell, 1999). A dynamic business environment on the other hand can be a solution for SMEs to anticipate changing situations. A dynamic environment will require companies to integrate, build and also maximize their resources and competencies that come from internal and external sources to performance and gain a long-term competitive edge (Fitriati *et al*., 2020).

A dynamic environment requires companies to integrate, build, and maximize both internal and external resources and competencies to enhance performance and achieve a long-term competitive edge (Fitriati *et al*., 2020). However, the performance of SMEs is not determined by internal capabilities alone; it is also significantly influenced by the broader institutional and policy environment. Government policies, regulatory frameworks, and other external factors such as access to finance, market conditions, and infrastructure support have been shown to play a critical role in shaping the competitiveness and sustainability of SMEs (Purwidianti & Rahayu, 2020; Tambunan, 2019).

Government policies and other external factors also have an impact on SMEs performance. SMEs encounter numerous obstacles, including government policy that impact their operations (Bagis *et al*., 2023). Jauriyah (2020) argue government assistance is crucial for SMEs' growth in the fast-paced business world of today, through competitive strategies and policy formulation. Research by Bakar, Talukder, Quazi, & Khan (2020) highlights government support through policies and subsidies through various government agencies to help address the performance gap of SMEs. Jauriyah (2020) further emphasized that government support has placed SMEs in a conducive position in a competitive business environment, especially in relation to improving competitive strategies and policy formulation. Several studies (Yadewani, Pandi, Syafrani, Nurofik, & Poddar, 2024) show that government policies will affect SMEs performance. Government policy is an crucial element for the expansion of SMEs (Zainuri, Yasin, Amijaya, Wilantari, & Vipindrartin, 2025). Awa, Etim, & Ogbonda (2024) stated the relationship between government policy and industry attractiveness theory and stakeholder theory. According to this

theory, the government makes efforts to help and support through the provision of incentives and also subsidies. Ghozali in stakeholder theory states that the government, society, creditors called stakeholders have a relationship that is directly proportional to SMEs as stakeholders. SMEs need to adopt effective business strategies to take advantage of opportunities and overcome challenges (Hashim, 2011; Mokadem, Saoula, & Kolandaisamy, 2019). Businesses without a strategy will find it challenging to compete. Therefore, SMEs must implement a business strategy to compete effectively and efficiently. Bellamy, Amoo, Mervyn, & Hiddlestone-Mumford (2019) said that SMEs require a strategy because of the wide range of sociocultural and environmental volatility.

Small and Medium Enterprises must adopt effective business strategies to take advantage of opportunities and overcome challenges in volatile environments. Without a clear strategy, SMEs often struggle to compete, particularly given their limited resources and sustainability concerns. Unlike large firms, SMEs cannot easily absorb shocks. Limited access to finance, technology, and skilled workforce makes strategy essential for directing scarce resources effectively (Chen, Sun, & Wang, 2018). Drawing on Porter's (1980) framework, SMEs can choose between differentiation, cost leadership, and focus strategies, or combine these approaches to strengthen their competitiveness. SMEs using differentiation strategies build stronger customer loyalty and improve competitiveness in crowded markets. Evidence suggests that SMEs combining differentiation with cost efficiency achieve higher growth and financial performance than firms relying solely on one approach. This is because hybrid models balance value-added uniqueness with operational affordability (Sharma, Joshi, & Shakya, 2025).

Thus, adopting flexible and hybrid strategies provides SMEs with the adaptability needed to sustain operations, enhance competitiveness, and ensure long-term viability in dynamic markets. Research confirms SMEs that adopt flexible and hybrid models are more resilient to crises, more competitive in international markets, and better aligned with sustainability transitions (Hernandez-perlines, 2019). Strategic flexibility is critical for SME survival and growth. and positions strategy not only as a competitive tool but also as a sustainability mechanism for SMEs. Flexibility enables SMEs to reconfigure resources, shift markets, and adapt offerings under uncertainty. Firms with dynamic capabilities can respond faster to shocks, giving them higher survival rates. Flexibility enables SMEs to reconfigure resources, shift markets, and adapt offerings under uncertainty. Firms with dynamic capabilities can respond faster to shocks, giving them higher survival rates (Hernandez-perlines, 2019).

SMEs can make choices and also combinations in determining business strategies. Forms of strategies that can be used include differentiation strategies, low-cost strategies or focus strategies (Farida & Setiawan, 2022). Strategy concept is differentiation, focus and cost leadership (Porter, 1980). There are several companies that are suitable for using a differentiation strategy where they can increase their competitiveness more when compared to using a low-cost leadership strategy. Suharto (2024) put forward differentiation strategy as their strategic choice because this strategy can provide a broad scope to produce products with more added value. Strategic business development is crucial to the sustainability of SMEs enterprises because their sustainability is extremely limited (Lechner & Vidar, 2014). SMEs that use both differentiation and low-cost strategies expand more quickly than those that don't use any approach. Linton & Kask (2017) stated that SMESs can combine several strategies to improve SMEs performance. Almost every SMEs operate in a changing environment. As a result, further research is needed to determine how innovation and performance might favorably affect management decisions when faced with several

alternatives in unpredictable and dynamic environments. Investigating the elements affecting the success of Malang's halal food SMEs in detail is essential.

Malang is one of Indonesia's growing urban areas, known for its educational institutions, tourism, and SME activity. The region has a large Muslim population, making halal products and services highly relevant for both domestic consumption and tourism (Dwicahyania, Shafira, Maulana, & Mandalia, 2025). SMEs in Malang often struggle with limited resources and competitiveness, so aligning with halal principles provides both market trust and a unique differentiation advantage. The halal industry is a rapidly growing global market, extending beyond food into fashion, cosmetics, pharmaceuticals, and services (Noviyanti & Hakim, 2025). By adopting halal principles, SMEs in can access larger markets, including Muslim-majority consumers, build consumer confidence through compliance with halal standards and differentiate themselves in competitive markets, addressing the earlier problems of sustainability and growth limitations (Hidayat & Witta, 2024). This research is important because it explores how SMEs in Malang can integrate business strategies (differentiation, cost leadership, focus, or hybrid) with halal values to strengthen competitiveness. It addresses the gap between global halal market opportunities and local SMEs' limited readiness to adopt effective strategies.

From a strategic perspective, SMEs in the food and beverage sector often face difficulties in determining the most suitable business strategy. Farida & Setiawan (2022) and Suharto (2024) emphasize that SMEs need flexible strategic approaches—such as differentiation, cost leadership, focus, or hybrid strategies to remain competitive amid market volatility and resource constraints. However, findings by Arzubiaga *et al.* (2018) and Campopiano *et al.* (2018) reveal that the relationship between entrepreneurial orientation and performance is not always positive, suggesting the existence of mediating or moderating factors such as business strategy, environmental dynamics, and government policies. Therefore, adaptive business strategies play a crucial role in linking entrepreneurial orientation with improved organizational performance.

In addition to internal factors, external environmental dynamics and government policies also have a significant impact on SME performance (Purwanti *et al*., 2023; Purwidianti & Rahayu, 2020). Dynamic business environments, characterized by uncertainty, intense competition, and rapid change, require SMEs to continuously adjust and integrate internal and external resources to maintain competitiveness. At the same time, government support through incentives, financing programs, training, and regulatory frameworks plays a vital role in strengthening SME competitiveness (Yadewani *et al.,* 2024). However, the implementation of such policies often remains fragmented and not yet aligned with the specific needs of local SMEs.

Therefore, the central phenomenon that emerges is the imbalance between the vast economic potential of halal SMEs in the food and beverage sector and their limited strategic and adaptive capabilities. While many entrepreneurs possess strong entrepreneurial orientation, they often lack effective business strategies and consistent policy support from the external environment. This misalignment has led to persistent performance gaps and weak competitiveness among halal SMEs in Malang City. Consequently, this study is essential to analyze how entrepreneurial orientation, environmental dynamics, and government policies interact to influence business strategies and organizational performance, particularly among halal food and beverage SMEs in Malang City.

Although a substantial body of literature has examined the relationship between entrepreneurial orientation (EO) and firm performance, the findings remain inconclusive. Several studies have confirmed that EO positively influences both financial and non-financial performance (Kusa *et al*., 2024; Rachmawati *et al.*, 2022; Shan *et al.*, 2016), while others report contradictory evidence showing that EO may have no significant or even negative effects on SME performance (Aloulou, 2018; Arzubiaga *et al*., 2018). These inconsistencies suggest that the relationship between EO and performance is not universally direct but may depend on contextual and strategic factors. Furthermore, there is limited empirical exploration of how business strategy mediates the relationship between EO and performance, particularly among halal SMEs. While several authors, such as Farida & Setiawan (2022) and Suharto (2024) have emphasized the importance of adopting differentiation or cost strategies, few studies have tested how these strategies operationalize entrepreneurial behaviour into measurable performance outcomes.

In addition, previous research has not sufficiently investigated the role of environmental dynamics as a moderating factor. While studies acknowledge that dynamic environments shape organizational adaptability (Fitriati *et al.*, 2020; Purwanti *et al.*, 2023), most treat these conditions as external variables rather than interactive elements influencing strategic effectiveness. Similarly, government policy is widely recognized as an essential external enabler for SME competitiveness (Bakar *et al.*, 2020; Yadewani *et al.*, 2024) yet empirical evidence remains scarce on how such policies strengthen entrepreneurial orientation and enhance performance outcomes—particularly in the halal sector, where regulations and certification frameworks are crucial. Moreover, most previous studies have focused on conventional or manufacturing SMEs, overlooking halal food and beverage SMEs operating within creative economy regions such as Malang City, which possess unique socio-economic characteristics and growth potential (Dura *et al.*, 2025; Noviyanti & Hakim, 2025).

This study aims to contribute to a better understanding of entrepreneurial attitude, environmental dynamics, and government policies as they relate to corporate strategy and organizational success. This study specifically explores the types of business strategies utilized by SMEs and determines whether these strategies can improve their performance. The current literature on SMEs will be supplemented by this research. First, expanding the literature on entrepreneurial attitude, environmental dynamics and government regulations influencing business strategy and organizational success. Second, it aims to provide a broad understanding of the importance of environmental dynamics, government policies, and entrepreneurial orientation for enhancing the performance of SMEs. Third, the results of this study can be used to help policymakers support SMEs through innovative and successful policies. The remainder of this article is structured as follows Section 2 discusses the theoretical framework and empirical studies, while Section 3 details the research methodology. Section 4 presents the findings, and Section 5 provides a discussion of results in light of existing literature. Finally, Section 6 concludes with implications, limitations, and directions for future research. To address the research questions, the study adopts a quantitative approach to ensure robustness and validity of findings**.**

Taken together, these gaps reveal a critical need for a more comprehensive model that integrates internal entrepreneurial orientation with external contextual factors. Thus, this research addresses three main gaps: (1) the empirical gap, reflected in inconsistent evidence on EO's influence on SME performance; (2) the theoretical gap, involving limited integration of business strategy, environmental dynamics, and government policy as mediating and moderating variables;

and (3) the contextual gap, characterized by a lack of studies focusing on halal SMEs within Indonesia's creative economy context. By addressing these issues, this study seeks to contribute both theoretically and practically to understanding how entrepreneurial orientation, business strategy, environmental dynamics, and government policies jointly determine the performance of halal SMEs in Malang City.

2. THEORETICAL FRAMEWORK AND EMPIRICAL STUDIES

Resource Based View (RBV)

Resource theory is a research idea originating from several economic experts from around the world, this principle is believed to be able to receive answers to building competitive advantages for companies (Barney & Clark, 2007). According to Hidayat & Witta (2024), the definition of this theory is the ownership of primary resources that can maintain competitive advantages that have uniqueness such as value and obstacles, where these resources are managed optimally so that they can achieve superior quality. Resource theory explains why companies use special, rare, unexampled and well-structured resources to achieve superior performance. Resource Based View (RBV) in increasing competitive advantage comes from strategic organizational resources (Lubis, 2022). Barney & Clark (2007) the relationship berween resources and company strategy is stated using the grand theory that is implemented in this resource based theory (Lubis, 2022; Oria, Crook, Sirmon, & Wright, 2021; Sugiono, 2018). Strategic orientation is one of the intangible assets owned by a company, which can lead to superior company performance (Dionysus & Arifin, 2020).

This theory is basically a group of resources with qualifications, where both conditions are important factors in determining strategy formulation and performance achievement. Companies will gain and maintain their competitive advantage when they can utilize and change their resources effectively and efficiently where the resources in question include tangible assets and intangible assets so that this will be a potential strategy in improving performance.

Entrepreneurial Orientation and Business Performance

Nguyen-Viet (2023) revealed that the entrepreneurial orientation variable is an organization's strategic orientation, ability to identify specific market factors, and decision-making styles, tactics, and procedures are all considered aspects of entrepreneurial orientation. Entrepreneurial orientation will determine business performance. Innovation in entrepreneurship, helps achieve its maximum potential, provides rewards, encourages a board perspective and educates on entrepreneurship (Tseng & Tseng, 2019). Entrepreneurial approach can improve business performance (Sorama & Joensuu-Salo, 2023). Entrepreneurial orientation is a strategic posture that reflects how entrepreneurial a firm behaves. It typically includes five main dimensions: innovativeness, risk-taking, proactiveness, competitive, aggressiveness, and autonomy (Wales, Kraus, Filser, Stöckmann, & Covin, 2021; Yuza, Syafrizal, & Yeni, 2023)**.**

Entrepreneurial orientation influences business performance through multiple pathways: market advantage through innovativeness and proactiveness create differentiation. Financial Outcomes: Risk-taking (when balanced) yields higher profits and growth. Operational efficiency with autonomy improves responsiveness, flexibility, and morale. Strategic position with ompetitive aggressiveness secures stronger market presence. Dynamic capabilities where

entrepreneurial orientation helps firms adapt and survive in turbulent environments, leading to sustainable performance. There is no significant relationship between entrepreneurial orientation and business performance (Li, Huang, & Tsai, 2009). There is no correlation between entrepreneurial orientation and business performance (Šlogar, Milovanović, & Hrvatin, 2023).

H1: There is an influence of entrepreneurial orientation on the business performance.

Entrepreneurial Orientation and Business Strategy

Strategy is an organizational guideline related to products, market scale and also elements in competitive competition (Thi Thoan, Thuy, & Long, 2024). Nyello & Kalufya (2021) stated that successful SMEs will maximize market orientation where they sell and market their goods to consumers. The future of SMEs in the future related to sustainable competitive advantage will depend on the ability of SMEs must survive and succeed in market competitiveness. As a result, to maintain their market position, SMEs need to create the right plan. According to Porter (1993), to maintain its market-negotiating position, a company must become extremely competitive. There is a significant link between entrepreneurial orientation and corporate strategy. The development of SMEs is important in relation to the innovation that must always be carried out by companies to excel in the competitive market (Farida & Setiawan, 2022).

H2: There is an influence of entrepreneurial orientation on business strategies.

Business Strategy and Business Performance

The growing trend of globalization and technology has made the function and impact of business strategy on organizational performance crucial. Strategic planning is critical for improving an organization's strategy and performance (Yuliansyah, Gurd, & Mohamed, 2017). In addition to consumers and workers, organizational performance is significantly impacted by business strategy (Yuliansyah *et al*., 2017). SMEs favor using distinct yet successful business strategies for this reason. By tracking and analyzing organizational performance, these companies create successful business plans, put them into action, and reap both immediate and long term rewards. In order to achieve this, SMEs prefer to implement distinct but successful business strategies. These business measure and evaluate organizational performance, develop profitable strategies, implement them, and then generate relevant business plans and reaping both immediate and long-term rewards. Effective business strategies lead to long-term business success and growth, which further enhances an organization's competitive position, according to Sophia & Owuor (2015). Additionally, business strategy enhances human resource management, business growth, and business success (Ruiz, Benitez, Castillo, & Braojos, 2024).

H3: There is an influence of business strategy on the business performance.

Entrepreneurial Orientation and Business Performance are Moderated by Government Policies

The government has the responsibility to manage economic resources to be economically profitable and provide benefits to society. The implementation of government policies aimed at regulating the economy through technological involvement and the performance of business is significantly impacted by maintaining customer stability (Yanti, Boihaki, Fatmayanti, & Denni, 2024). Surya, Menne, Sabhan, Suriani, Abubakar, & Idris (2021) emphasized the importance of proactive autonomy, where the government provides support for the development of SMEs through

initiatives such as community training and dissemination of market information. There are several previous studies that discuss the relationship between entrepreneurial orientation, business performance and government policy.

SMEs innovation is influenced by entrepreneurial orientation. Innovation are essentials for small and medium enterprises (SMEs) to drive their performance, including surviving or even growing during economic crises (Makhdoom, Li, & Asim, 2019). Opara (2010) and Yadewani, Pandi, Syafrani, Nurofik, & Poddar (2024) showed that government policies will affect SME performance. The growth of SMEs in both developed and developing countries is significantly influenced by government laws (Zainuri *et al*., 2025). Hadiyati & Mulyono (2017) outline how SMEs will grow if they are supported and effectively managed by usiness related laws and regulations. If govement policies have an impact on SMEs performance, then empowering SMEs through government sponsored programs will boost business performance by fostering competition. SMEs would grow if government policies and business enviroenment laws support and effectively manage them, according to Hadiyati & Mulyono (2017).

H4: Higher performance results from a stronger entrepreneurial mindset combined with efficient governmental regulations.

Entrepreneurial Business Strategy and Business Performance Moderated by Environmental Dynamics

According to contingency theory, a company's ability to adapt to situational elements, such as the environment, determines its success (Çakmak, 2023). Not only large companies can benefit from generic strategies (Porter, 1993) but also SMEs. Additionally, it was shown that the environment had an impact on the relationship between SMEs' performance and company strategy (da Conceiçäo Soares, 2023). In a challenging competitive environment, small companies with a clear strategy tend to outperform similar companies, while in a softer competitive environment, conservative companies or companies with low strategic awareness tend to excel (Farida & Setiawan, 2022). Generic strategy on performance is relatively weak (Pelham, 1999). Wahyono & Hutahayan (2021) discovered that marketing distinctiveness and innovation strategies were positively correlated with market orientation. When measuring corporate strategy, marketing performance is often used as an indicator. Companies always strive for good marketing performance and financial performance. By creating competitive advantages, companies can compete effectively with other companies and maintain customer demand for their products. Therefore, efforts to achieve design excellence have a positive impact on increasing marketing visibility. Indicators like profitability, productivity, and market presence are used to evaluate the performance of business are usually used (van de Ven, Lara Machado, Athanasopoulou, Aysolmaz, & Turetken, 2023).

H5: Higher performance results from a corporate strategy that is more appropriately aligned with the dynamics of its environment.

Business Strategy Mediates Entrepreneurial Orientation on Business Performance

It has been demonstrated that business strategy can mitigate the effects of managerial skill and entrepreneurial attitude on business performance, which is why it is crucial for enhancing corporate performance. Entrepreneurial orientation is a reflection of the behavior shown by SMEs actors, namely innovative, proactive and courage to take risks. Business performance is influenced

by several factors, including entrepreneurial character, managerial ability, marketing, capital, entrepreneurial orientation, HR and business strategy (Agustini, Budi, & Rustiyaningsih, 2023; Butkovic, 2018). When SMEs are able to implement entrepreneurial orientation and manage their businesses well, entrepreneurs to be competitive, they also have to be able properly construct their business plans. The selection of an effective business strategy results in achieving optimal performance. In super competitive conditions like today, only SMEs that have an effective business strategy are able to win the competition. Entrepreneurial orientation reflected in innovative, proactive behavior and courage to take risks contributes to creating an effective business strategy. Likewise, managerial ability greatly supports the creation of an effective business strategy. By implementing management functions in all operational business activities, The effectiveness and efficiency with which SMEs can execute their strategies has an effect on the performance of their businesses. An excellent business plan will have the effect of improving company performance. Previous studies have shown that company strategy can act as a mediator between managerial skill and entrepreneurial orientation and firm performance (Agustini *et al*., 2023; Butkovic, 2018; Zhangm & Zhang, 2017).

H6: There is a mediating influence of business strategy on the relationship between entrepreneurial orientation and business performance.

Relationship between Environmental Dynamics, Business Strategy, and Business Performance

The organization performance, procedures, and strategy are all impacted by the environment (Purwanti *et al*., 2023). To enhance business performance in a turbulent economic climate, SMEs need to be adaptable while dealing with the outside world. The volume and degree of change that a business experiences in environmental circumstances can be explained by a dynamic environment. Rapid change is a characteristic of a dynamic environment (Shamir & Howell, 1999). The positive relationship between growth and entrepreneurial approach might be mediated by the strategic conduct of the organization. Sarwoko (2016) found that market share and the expansion of SMEs are significantly impacted by environmental dynamics. Pelham (1999) said that the competitive environment had an impact on performance both directly and directly. Similarly, research by da Conceição Soares (2023) show that a corporate plan that is environmentally conscious will be more effective in promoting higher business performance the more appropriately it is implemented. Good performance will provide an overview and measure of the level of efficiency of the business being run.

H7: Higher performance results from a business strategy that is more appropriately applied in a dynamic environment.

The novelty of this study lies in its comprehensive integration of entrepreneurial orientation, business strategy, and halal principles within the context of small and medium enterprises (SMEs) operating in Malang City's creative economy sector. Unlike previous studies that typically examine these factors separately or in general SME settings, this research develops a unified structural model that connects internal factors (entrepreneurial orientation and business strategy) with external contextual variables (environmental dynamics and government policy). It uniquely incorporates the halal industry perspective an emerging dimension in entrepreneurship research by exploring how adherence to halal values can serve as both a competitive advantage and a trust-building mechanism in the marketplace.

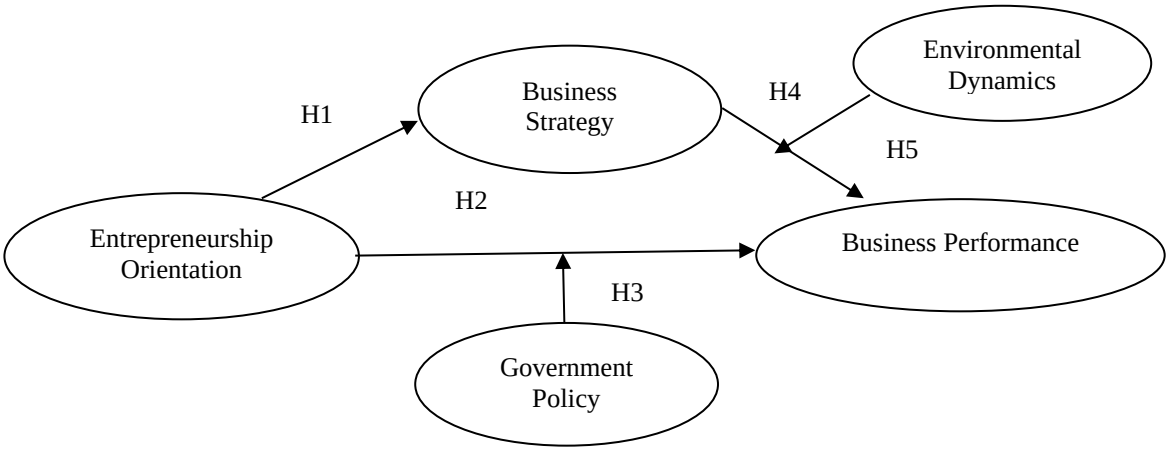

Figure 1. Research Conceptual Framework

3. RESEARCH METHODS

This study uses quantitative approach. With correlation research approach to measure the degree of relationship between two or more variables. Researchers do not attempt to manipulate the variables, but simply measure the closeness of the relationship between them. This study's focus is Malang City's SMEs. Given that Malang City is a creative city, it is thought fitting to choose SMEs there as the subject of the study with an economy supported by 17 creative economy sub-sectors. Halal SMEs in Malang City's food and beverage industry represent the study's population. Nonprobability sampling combined with incidental sampling is the sampling strategy employed in this investigation. The population size in this study is relatively large, so the number is not known for sure and SMEs are always updated and have not entered the latest database. So the technique or formula used is in accordance with the theory by adding the number of statement indicators at least must be multiplied by five to ten. The number of samples is obtained by multiplying the number of indicators, namely eighteen, by ten, so the result is one hundred and eighty.

Data collection is conducted using a questionnaire instrument with a Likert scale of one to five. Micro, small, and medium-sized business owners in Malang City were given questionnaires to complete in order to gather the study's primary data. A total of 180 people made up the sample. Because there were no conflicts of interest during the sample process, objectivity was maintained. Methods for gathering data using two-part questionnaires that were disseminated online. There were two sections to the disseminated online survey. Personal information from commercial entities and their operations is the subject of the first group. If every response to the questions is "yes," the survey will move on to the following section. It is less appropriate to employ this informant as a study model, nevertheless. Based on the factors employed in this study, the informant, the second segment of the question group, was asked the fewest questions. Every questionnaire has been created, tested, and determined to be feasible beforehand.

This study uses three variables: independent, moderating, and dependent. The independent variables in this study are entrepreneurial orientation, environmental dynamics, and government policy. The dependent variable used in this study is business performance. The moderating variables used in this study are environmental dynamics and government policy.

The model used in this study is a causality or influence model. The research hypothesis was proposed using a Structural Equation Model (SEM) approach using Partial Least Squares (PLS). PLS is a component-based structural equation model (SEM) or variance. Descriptive statistical analysis was used in this study to reduce the size of the controlled data and provide insight into the behavioral patterns and backgrounds of the respondents.

Table 1. Measurement of Variables

Variable	Indicator	Item	Sources
Entrepreneurship Orientation	Confidence and optimism	Confidence Optimism	(Andriani, Zona, & Thaib, 2024; Hutahayan, 2019; Purnomo, Permana, Qosasi, Febrian, & Miftahuddin, 2019)
	Work-oriented and result-oriented	Profit-oriented or results Need or thirst for achievement	
	Risk-taking	Able to take risks Love the challenge	
	Originality and future-oriented	Having the ability to lead and get along with others Full of initiative	
	Leadership	Respond to suggestions and criticism Determination of hard work, motivation	
Environmental Dynamics	Promotion competition	Entrance barriers	(Hutahayan, 2019; Porter, 1993)
	Price competition	Threat of substitute products	
	Competition of distribution channels	Buyer strength Supplier strength	
	Raw material competition	Product delivery	
Government Policy	Training frequency	Management training	(Hutahayan, 2019; Yanti *et al*., 2024)
	Easy access to capital	Ease of obtaining capital	
	Partnerships	Ease in increasing cooperation	
Business Strategy	Differentiation strategy	More useful products Special services	(Hutahayan, 2019; Porter, 1993)
	Cost strategy	Production process costs Product distribution costs	
	Focus strategy	Market selection Product Conformity	
Business Performance	Profitability	Business assets Production target	(Hutahayan, 2019)
	Productivity	Employee productivity Sales volume	
	Market	Market position Market growth	

4. DATA ANALYSIS AND DISCUSSIONS

Respondent Description

Table 2 below provides a description of the respondents:

Table 2. Respondent Characteristic

Respondent Characteristics		Frequency	%
Gender	Male	40	22.2
	Female	140	77.8
Age	25 – 30	7	3.9
	31 – 35	26	14.4
	36 – 40	41	22.8
	41- 45	85	47.2
	46 – 50	14	7.8
	51 – 55	7	3.9
Education Level	Junior School	39	21.7
	High School	90	50.0
	Diploma	11	6.1
	Bachelor	34	18.9
	Master	6	3.3
Halal Sertification	2021	32	17.8
	2022	105	58.3
	2023	42	23.3
Business Status	Owner	135	75.0
	Employee	45	25.0
Age of Business	1 – 5 years	56	31.1
	6 – 10 years	85	47.2
	11 – 15 years	25	13.9
	16 – 20 years	14	7.8
Number of Employess	1 – 10 persons	152	84.4
	11 – 50 persons	20	11.1
	51 – 150 persons	8	4.4

Source: Processed Data (2025)

SmartPLS Analysis Results

Evaluation of the Measurement Model (Outer Model)

Convergent Validity

Table 3. Results of the Outer Model Measurement of Reflective Indicators

Variable	Indicator	Loading Factor	Note	Ranking
Business Orientation	Confidence and Optimism	0.733	Valid	5
	Work-oriented and result-oriented	0.778	Valid	4
	Risk-taking	0.847	Valid	1
	Originality and future-oriented	0.831	Valid	2
	Leadership	0.799	Valid	3
Environmental Dynamics	Promotion competition	0.798	Valid	3
	Price competition	0.806	Valid	2
	Competition of distribution channels	0.887	Valid	1
	Raw material competition	0.780	Valid	4
	Training frequency	0.803	Valid	2
Government Policy	Easy access to capital	0.837	Valid	1
	Partnerships	0.771	Valid	3
	Differentiation strategy	0.823	Valid	2
Business Strategy	Cost strategy	0.872	Valid	1
	Focus strategy	0.723	Valid	3
	Profitability	0.771	Valid	3
Business Performance	Productivity	0.893	Valid	1
	Market	0.863	Valid	2

Source: Processed Data (2025)

Based on Table 3 above, all items have an outer loading value greater than 0.70 (valid), implying that all items are pronounced valid. Each variable has a highest-ranking item that reflects the variable. The highest indicator in variable X (business orientation) is X3 (risk-taking) with a loading factor of 0.847. The highest indicator in variable Z1 (environmental dynamics) is Z1.3 (competition of distribution channels) with a loading factor of 0.887. The highest indicator in variable Z2 (government policy) is Z2.2 (easy access to capital) with a loading factor of 0.837. The highest indicator in variable M (business strategy) is M2 (cost strategy) with a loading factor of 0.872 and the highest indicator in variable Y (business performance) is Y2 (productivity) with a loading factor of 0.893.

Discriminant Validity

Table 4. Cross Loading Results

	Environmental Dynamics	**Government Policy**		**Business Performance**	**Business Strategy* Environmental Dynamics**	**Entrepreneurship Orientation**	**Business Strategy**	**Entrepreneur Orientation* Goverment Policy**
Differentiation strategy	0,269	0,677		0,270	0,275	0,352	0,823	0,001
Cost strategy	0,346	0,696	0,320	0,230	0,388	0,872		0,025
Focus Strategy	0,318	0,402	0,181	0,255	0,319	0,723		0,133
Business orientation* Government Policy	0,100	0,098	0,301	0,312	0,230	0,057		1,000
Business strategy* Environmental Dynamics	0,277	0,239	0,052	1,000	0,154	0,310		0,312
Confidence and optimism	0,284	0,213	0,555	-0,007	0,733	0,344		0,223
Work oriented and result oriented	0,477	0,286	0,679	0,130	0,778	0,381		0,182
Risk taking	0,487	0,213	0,768	0,082	0,847	0,302		0,221
Originality and future oriented	0,679	0,221	0,449	0,205	0,831	0,357		0,155
Leadership	0,706	0,234	0,409	0,246	0,799	0,377		0,113
Profitability	0,350	0,312	0,771	0,076	0,645	0,326		0,150
Productivity	0,376	0,325	0,893	-0,003	0,666	0,239		0,276
Market	0,240	0,331	0,863	0,062	0,565	0,259		0,337
Promotion competition	0,798	0,292	0,241	0,191	0,517	0,353		0,082
Price competition	0,806	0,286	0,336	0,195	0,497	0,294		0,044
Competition of distribution channels	0,887	0,253	0,385	0,230	0,537	0,306		0,119
Raw material competition	0,780	0,289	0,264	0,303	0,571	0,324		0,080
Training frequency	0,200	0,803	0,282	0,197	0,176	0,652		0,064
Easy access to capital	0,310	0,837	0,332	0,202	0,284	0,709		0,060
Partnership	0,294	0,771	0,306	0,177	0,240	0,436		0,112

Source: Processed Data (2025)

All items have cross-loading numbers that contribute to the formation of the construct, as shown in the discriminant validity table (cross-loading) presented in Table 4. In particular, this number is consistently greater for each variable compared to the number of loading numbers for other variables. Furthermore, each item's factor loading value is still higher than the variable itself.

Composite Validity

If the construct has a value greater than 0.60, it is deemed dependable. These are the SmartPls findings:

Table 5. Results of Cronbach Alpha, Composite Reliability, and AVE Tests

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Environmental Dynamics	0,837	0,890	0,670
Government Policy	0,726	0,845	0,646
Business Performance	0,795	0,881	0,712
Business Strategy*Environmental Dynamics	1,000	1,000	1,000
Entrepreneurship Orientation	0,859	0,898	0,638
Business Strategy	0,734	0,849	0,653
Entrereneurial Orientation*Government Policy	1,000	1,000	1,000

Source: Processed Data (2025)

The reliability of the variables is further demonstrated by the fact that each variable's Cronbach's Alpha value is higher than 0.7, as shown by the data in Table 5. Additionally, each variable had an AVE value better than 0.5 after the discriminant validity was assessed using Average Variance Extracted (AVE) (Cheung, Cooper-Thomas, Lau, & Wang, 2024). All AVE (Fornell-Larcker Criterion) roots for each construct are greater than their correlations with other variables, as shown in Table 5 above. The larger number on the variable itself is greater than the lower number on the other variables.

Table 6. Fornell Larcker Test Results

	Environmental Dynamics	Government Policy	Business Performance	Business Strategy* Environmental Dynamics	Entrepreneurship Orientation	Business Strategy	Entrepreneur Orientation* Government Policy
Environmental Dynamics	0,819						
Government Policy	0,337	0,804					
Business Performance	0,385	0,383	0,844				
Business Strategy* Environmental Dynamics	0,277	0,239	0,052	1,000			
Entrepreneurship Orientation	0,643	0,294	0,744	0,154	0,799		
Business Strategy	0,383	0,747	0,325	0,310	0,438	0,808	
Entrepreneurship Orientation* Government Policy	0,100	0,098	0,301	0,312	0,230	0,057	1,000

Source: Processed Data (2025)

Structural Model Evaluation (Inner Model)

SmartPLS software is used in this work to create the PLS structural model. The structural diagram is as follows:

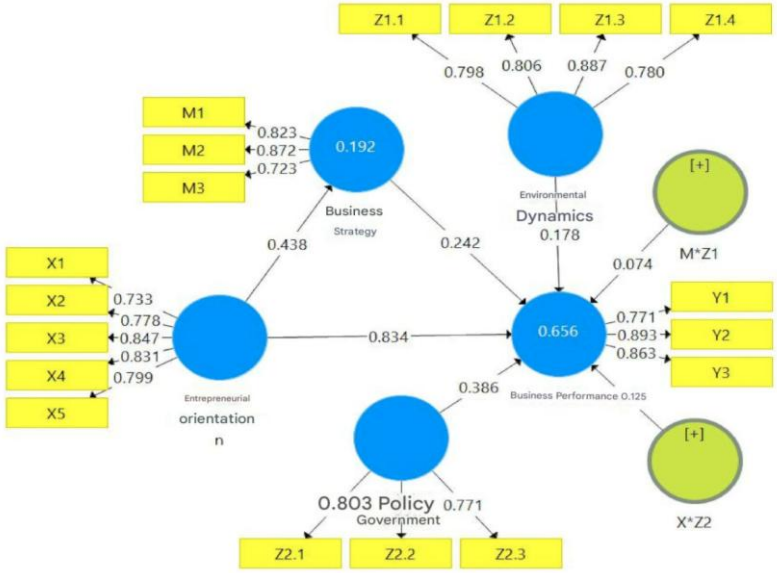

Figure 2. Structural Model Diagram after Data Analysis

Based on Figure 2 above, the following structural model equations are obtained.

$M = 0.438\ X + ei;\ R12 = 19.2\%$

$Y = 0.834\ X + + 0.242\ M + 0.178Z1 + 0.074\ M*Z1 + 0.832Z2 + 0.125X*Z2\ ei;\ R22 = 65.6\%$

With:

X = Entrepreneurial rientation

M = Business Strategy

Z1 = Environmental Dynamics

Z2 = Government Policy

Y = Business Performance

E = Residual

The determination coefficient using R square, predictive relevance using Q square, and the Goodness of Fit Index (GoF) comprise the test used to assess the inner model.

Coefficient of Determination (R2)

The following are the findings of the coefficient of determination (R2):

Table 6. Results of the Coefficient of Determination

Effect	R Square
Entrepreneurship Orientation → Business Strategy	0.192
Entrepreneurship Orientation, Business Strategy, Environmental Dynamics, Government Policy, Business Strategy*Environmental Dynamics, Entrepreneurship Orientation *Government Policy → Business Performance	0.656

Source: Processed Data (2025)

The influence of variable X (entrepreneurial orientation) on variable M (business strategy) is 0.192, or 19.2%, according to the coefficient of determination (R-square) derived from model 1.

According to Model 2, the interplay between M*Z1 and X*Z2 and the effects of X (entrepreneurial orientation), M (business strategy), Z1 (environmental dynamics), and Z2 (government policy) on variable Y (business performance) is 0.656, or 65.6%.

Effect Size (F^2)

The results of the effect size (F2) are as follows:

Table 7. Effect Size Results

Exogenous	Business Strategy		Business Performance	
	F Square	Effect	F Square	Effect
Environmental Dynamics			0.049	Small
Government Policy			0.185	Medium
Business Strategy*Environmental Dynamics			0.016	Small
Entrepreneurial Competency	0.238	Medium	0.988	Big
Business Strategy			0.062	Small
Entrepreneurship Orientation*Government Policy			0.040	Small

Source: Processed Data (2025)

The ratio of exogenous to endogenous variable variety, or effect magnitude, is shown by the F square value. It comes into three categories: small (0.02–0.15), medium (0.15–0.35), and large (more than 0.35).

The SMSR value must be less than 0.05 in order for the model to meet the model fit requirements (Cangur and Ercan, 2015). However, the fit model has the following limitations or specifications: RMS Theta or Root Mean Square Theta value <0.102, NFI value > 0.9, and SRMR or Standardized Root Mean Square value <0.10 or 0.08.

Goodness of Fit Index (GoF)

The results of the Fit Summary test are as follows:

Table 8. Fit Summary Results

	Estimated Model
SRMR	0,094
d_ULS	2,210
d_G	2,178
Chi-Square	1642,207
NFI	0,995
Rms Theta	0.962

Source: Processed Data (2025)

Hypothesis Testing Results

Direct Influence

The results of the hypothesis testing are presented in Table 9 below:

Table 9. Results of Regression Weight Analysis (Direct Effect)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Entrepreneurship Orientation -> Business Performance	0.834	0.825	0.081	10.310	0.000
Entrepreneurship Orientation -> Business Strategy	0.438	0.443	0.066	6.642	0.000
Business Strategy -> Business Performance	0.242	0.237	0.087	2.785	0.006

Source: Processed Data (2025)

Hypothesis 1. Entrepreneurial Orientation has a Positive Effect on Business Performance

Table 9 shows that variable X (entrepreneurial approach) significantly increases variable Y (business performance), with a T-statistics value more than the critical threshold (10.310 <1.96) and p-values smaller than α (0.000 <0.05). A positive coefficient suggests that Halal SMESs in Malang City's food industry can improve variable Y (business performance) by boosting variable X (entrepreneurial orientation).

Hypothesis 2. Entrepreneurial Orientation has a Positive Effect on Business Strategy

With p-values smaller than α (0.000 <0.05) and a T-statistics value above the critical threshold (6.642>1.96), Table 9 demonstrates that variable X (entrepreneurial orientation) has a positive and substantial impact on variable M (business strategy). A positive correlation suggests that Halal SMESs in Malang City's food industry can greatly improve their company performance (variable M) by increasing variable X (entrepreneurial orientation).

Hypothesis 3. Business Strategy has a Positive Effect on Business Performance

Table 9 shows that variable M (business performance) has a positive and substantial impact on variable Y (business performance), with a T-statistics value more than the critical value (2.785> 1.96), and p-values smaller than α (0.006<0.05). A positive coefficient indicates that an increase in variable M (business performance) can significantly improve variable Y (business performance) for Halal SMESs in Malang City's food industry.

Moderation Role

The moderation model has a hypothesis that the interaction variable of the exogenous variable with the moderating variable affects the endogenous variable. The results of the model equation without the moderating variable are as follows:

$M = 0.438\ X + ei;\ R12 = 19.2\%$

$Y = 0.747\ X + 0.101\ M + ei;\ R32 = 55.7\%$

In comparison to the model equation following the moderating variable, the R Square value prior to the moderating variable of environmental dynamics and government actions is lower. Table 10 displays the findings of the examination of how governmental regulations and environmental factors moderate the impact of entrepreneurial orientation on company success.

Table 10. Moderation Role

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Environmental Dynamics -> Business Performance	0,178	0,160	0,090	1,971	0,049
Government Policy -> Business Performance	0,386	0,379	0,084	4,604	0,000
Business Strategy*Environmental Dynamics -> Business Performance	0,074	0,083	0,068	1,078	0,282
Entrepreneurship Orientation*Governemnt Policy -> Business Performance	0,125	0,130	0,059	2,117	0,035

Note :
* : moderating relationship

Hypothesis 4. Environmental Dynamics Moderate Business Strategy on Business Performance

With p-values above α (0.282 > 0.05) and a T-statistics value below the critical threshold (1.078 < 1.96), Table 10 shows that the interaction variable M*Z1 has no appreciable effect on variable Y (business performance). Z1, or environmental dynamics, has no moderating effect on the link between business performance (Y) and firm strategy (M). The direct effect test of environmental dynamics on business performance, however, reveals a positive and substantial effect, with p-values below α (0.049 < 0.05) and T-statistics over the threshold value (1.971 > 1.96). Environmental dynamics is therefore an antecedent and predictor in this instance.

Hypothesis 5. Government Policy Moderates the Influence of Entrepreneurial Orientation on Business Performance

With a T-statistics value below the critical threshold (2.117 > 1.96) and p-values more than α (0.035 < 0.05), Table 10 shows that the interaction variable X*Z2 has a substantial impact on variable Y (business performance). Variable Z2 (government policy) moderates the association between X (entrepreneurial orientation) and Y (business performance). Government policy has a significant impact on corporate success, according to the results of the direct influence test because the p-values are less than α (0.000 < 0.05) and the T-statistics are larger than the crucial value (4.604 > 1.96). In this instance, government policy functions as a quasi-type moderator by relating to criteria and predictors and interacting with them.

Role of Mediating

The results of the analysis of business strategies that moderate the effect of entrepreneurial orientation on business performance are shown in Table 11.

Table 11. Results of the Analysis of Indirect Effects / Mediation Tests

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Entrepreneurship Orientation -> Business Strategy -> Business Performance	0,106	0,105	0,042	2,554	0,011

Source: Processed Data (2025)

Hypothesis 6. Business Strategy Mediates the Influence of Entrepreneurial Orientation on Business Performance

According to Table 11, the influence of X (entrepreneurial approach) on Y (business performance) is mediated by the variable M (business strategy). With p-values below α (0.011 < 0.05) and a T-statistics value over the threshold value (2.554 > 1.96), the results demonstrate a substantial indirect influence. Since entrepreneurial orientation can affect business performance both directly and indirectly through business strategy, the business strategy variable has a partly mediating role in this connection. Table 12 below provides an explanation of the hypothesis testing summary based on the test results:

Table 12. Summary of Hypothesis Testing Results in General

Hypothesis	Notes	Result
1	Entrepreneurship Orientation → Business Performance	Accepted
2	Entrepreneurship Orientation → Business Strategy	Accepted
3	Business Strategy → Business Performance	Accepted
4	Business Strategy *Environmental Dynamics → Business Performance	Rejected (Environmental Dynamics as Antecedent)
5	Entrepreneurship Orientation * Government Policy → Business Performance	Accepted (quasi moderator)
6	Entrepreneurship Orientation → Business Strategy → Business Performance	Accepted (parsial moderator)

Discussion

Entrepreneurial Orientation on Business Performance

The results of the study show that business performance is significantly improved by entrepreneurial orientation. A strategic decision-making approach known as entrepreneurial orientation empowers entrepreneurs to act and manage their businesses strategically while putting an emphasis on innovation (Wahyudono, 2023). Entrepreneurial orientation will determine business performance. Entrepreneurship that is innovative reaches its full potential, yields benefits, fosters a wide viewpoint, and imparts knowledge about entrepreneurship (Tseng & Tseng, 2019). Effective and efficient resource allocation results in business performance, which can be regularly assessed against predetermined goals thanks to a comprehensive and methodical management procedure (Wahyudono, 2023). The formulation of strategies may benefit from the existence of an entrepreneurial mindset. Entrepreneurial orientation assists organizations in organizations in developing strategies to surpass their competition, resulting in improved business success. Nguyen, Huynh, Lam, Le, & Nguyen (2021) revealed that the entrepreneurial orientation variable is the maximum orientation carried out by SMESs in relation to products, target markets, taking chances when making business decisions to keep things available on the market. Business performance can be enhanced by an entrepreneurial mindset (Sorama & Joensuu-Salo, 2023). Li *et al*. (2009) and Lumpkin & Dess (1996) found that business performance and entrepreneurial orientation are positively correlated. Implementing a strong entrepreneurial perspective may improve firm performance, according to the study's findings. The factors that affect business performance are stronger entrepreneurial behavior in terms of seeking opportunities through a proactive attitude in estimating future possibilities, continuing to compete to win the competition, innovating, and being free to run a business for oneself without assistance from others. The study findings support and align with those of other research projects, including those by Budiati, Untoro, Wahyudi, & Mugi (2021), Kraus, Rigtering, Hughes, & Hosman (2012), Machmud & Sidharta (2016), and Pranowo *et al.* (2020) demonstrated the positive impact of entrepreneurial orientation on a company business performance.

Entrepreneurial Orientation on Business Strategy

The study findings demonstrate that an entrepreneurial mindset significantly improves corporate strategy. Business strategy demonstrates the organization’s capacity to develop strategies, carry out planned strategies, and perform assessments to gather input for developing future strategies through an analysis of the internal and external surroundings, where they sell and

market their items to consumers, according to Nyello & Kalufya (2021). SMEs' future in terms of sustainable competitive advantage will depend on their capacity to withstand and prosper in market competition. Companies must establish exceptional competitiveness to preserve their negotiating position in the market (Porter, 1993). In order to seize possibilities in a corporate climate that is changing quickly, every industry participant needs to be extremely sensitive and agile. The ability to take advantage of this opportunity is compatible with the Dynamic Capability Theory. An organization's ability to integrate, grow, and reconfigure both internal and external skills in the face of rapid environmental changes is known as its dynamic capabilities (Priyono, Nursyamsiah, & Darmawan, 2019; Teece, Pisano, & Shuen, 1997). Creating innovation requires more than just being sensitive when seizing possibilities, the correct plan must be develop so that, once seizing possibilities; the correct plan must be develop so that, once put into practice, the innovation can compete and be embraced by customers, bringing in money for the business. A business must be able to execute a plan that sets it apart from its competitors in order to compete in the market. Businesses can adjust to current environmental changes by putting into practice an entrepreneurially oriented strategy. Supriadi, Ahman, Wibowo, Furqon, & Subagia (2020) demonstrate how strategic flexibility is impacted by entrepreneurial orientation. Sarkosi, Mire, & Tricahyadinata (2022) discovered that strategic agility is impacted by entrepreneurial orientation. Business strategy and entrepreneurial orientation are significantly correlated. SMEs development is crucial in light of innovation, which businesses must always pursue in order to succeed in the competitive marketplace (Farida & Setiawan, 2022). Innovation and aggressiveness are the entrepreneurial orientation traits that have the biggest effects on business strategy, according to this study, since they enable entrepreneurs to create winning business plans. This result supports the study of Lechner & Vidar (2014) who emphasized that small and medium-sized businesses must have high degrees of entrepreneurial orientation behavior in order to carry out business planning activities.

Business Strategy on Business Performance

According to the study's findings, business strategy greatly enhances an organization's performance. The increasing trend of technology and globalization has made business strategy essential to the functioning of organizations. The increasingly growing business scope requires a more strategic approach to overcome major challenges. Strategic planning is crucial for enhancing the organization performance and strategy (Yuliansyah *et al*., 2017). Business strategy has a significant impact on organizational performance in addition to consumers and workers (Yuliansyah *et al*., 2017). SMEs favor using distinct yet successful business strategies for this reason. According to Sophia & Owuor (2015) a successful business plan leads to long-term expansion and success, which strengthens an organization position in the market. Company success is directly triggered by company strategy, which also enhances human resource management and business expansion (García *et al*., 2024). Performance is positively impacted by business strategy. This outcome is also consistent with studies by Ibrahim & Lucky (2014) which found that SMEs with formal business strategies outperform those without any formal business plans. Business performance can be enhanced by business strategy (Barney & Clark, 2007; Porter, 1993). This study finds a direct correlation between business strategy and firm performance, suggesting that small businesses ability to develop and execute successful strategies has a significant impact on their ability to survive or fail (Yuliansyah *et al*., 2017). According to the study's findings, a strong business strategy can improve an organization's success. The results of

this investigation and the proof that backs up the theory are in line with da Conceição Soares, (2023) and Ramadan & Ahmad (2020) all of which demonstrate the impact of business strategy on business success.

Environmental Dynamics Moderate the Business Strategy on Business Performance

The study's findings show that the relationship between corporate strategy and business performance cannot be changed by outside factors. This makes it clear that the organization cannot profit from business strategy. The better a company plans and implements its business strategy, the better it should perform, and the better it manages environmental uncertainty, the better it will perform. This indicates that corporate strategy cannot be strengthened by environmental uncertainty in relation to firm performance. This study's findings contradict the research (Junaidi, Lubis, Effendi, & Fadli, 2021). According to the study, the contingency theory of company performance is inaccurate. Contingency theory states that how well a company's strategy adapts to the external business environment determines its chances of survival and success. If SMEs can continue to adjust their capabilities to environmental unpredictability, they can win the competition and enhance their organizational performance in both the financial and non-financial sectors. According to a number of studies, businesses that employ defender strategies can thrive in highly uncertain environments because they can concentrate on their current markets and products while reducing costs, leading in price, quality improvement, and service, all of which improve performance. The business plan must align with the company's contingent circumstances, including environmental uncertainty, in order to meet the established goals.

Government Policy Moderates the Entrepreneurial Orientation on Business Performance

The study findings suggest that the relationship between business performance and entrepreneurial inclination may be altered by government policy. A company's ability to adjust to shifting conditions, particularly those related to the environment, is critical to its success (Çakmak, 2023). Generic techniques can help SMEs as well as major corporations (Porter, 1993). Furthermore, it was shown that the environment has an impact on the relationship between SMEs' performance and their business plan (da Conceição Soares, 2023). Small businesses with a defined strategy typically perform better than similar businesses in a competitively demanding environment, whereas conservative or less strategically conscious businesses typically perform better in a softer competitive climate (Farida & Setiawan, 2022). The study's findings suggest that the government has no impact in SMEs' growth when it comes to the relationship between business performance and entrepreneurial orientation. The findings of the study support empirical data showing that the government helps existing SMEs grow. Financial and non financial government support can influence SMEs performance directly or indirectly through fostering entrepreneurial orientation. The crucial question of how government policy can effect entrepreneurial orientation and SMEs performance at the same time has been the subject of numerous studies (Prasannath, Adhikari, Gronum, & Miles, 2024). In order to improve performance, government assistance programs aim to help SMEs overcome both financial and non-financial barriers (Nakku, Agbola, Miles, & Mahmood, 2020). Through direct capacity-building management assistance and indirect institutional, regulatory, and economic environment shaping that better supports SMEs demands, government support aids SMEs in their inception, growth, and expansion. There has been growing evidence that government policy enhances SMEs performance both directly (Ban, Chankoson, & Wang, 2025; Park, Lee, & Kim, 2020) and indirectly (Nakku *et al*., 2020) through the development of entrepreneurial orientation.

Business Strategy Mediates the Entrepreneurial Orientation on Business Performance

The study's findings suggest that the association between entrepreneurial orientation and business performance may be mediated by company strategy. The ability of business strategy to mediate the effects of managerial skill and entrepreneurial mindset on business performance demonstrates the critical function that it plays in enhancing business success. Small business actors' innovative, proactive, and risk-taking behaviors are reflected in their entrepreneurial approach (Butkovic, 2018). When SMEs are able to implement entrepreneurial orientation and manage their businesses well, entrepreneurs must also be able to develop their business strategies effectively in order to compete. Due to the fact that business development requires the ability to recognize possibilities and risks in the business environment, small and medium-sized business owners need to have the appropriate business plan.

The selection of an effective business strategy results in achieving optimal performance. In super competitive conditions like today, only SMEs that have an effective business strategy are able to win the competition. According to earlier research, managerial skill and entrepreneurial orientation can be mediated by business strategy in relation to company performance (Butkovic, 2018; Zhangm & Zhang, 2017). Business success depends as much on business actors capacity to develop the right company plan as it does on their application of a sound entrepreneurial mindset (Fidelis, Chukwuka, & Cyprian, 2025). In order for the business plan to have an effect on business sustainability that is, improving SMEs performance, the ability to carry out the right business plan is a prerequisite for SMEs. Business performance is the extent to which organizational operations can be carried out to achieve objectives in accordance with the previously specified capabilities, plans, policies, visions, and missions.

5. CONCLUSIONS, RECOMMENDATIONS, AND LIMITATIONS

The study conclusion, which is based on data analysis and discussion of the issue of what elements can enhance the performance of halal SMEs in Malang City's food industry, indicates that SMEs' entrepreneurial orientation influences the success of SME enterprises. SMEs' business strategy is influenced by their entrepreneurial mindset. The performance of SMEs' businesses is influenced by the business plan they implement. Environmental considerations do not lessen the effect of business strategy on the performance of Halal SMEs. Accordingly, halal SMEs actors that are willing to take chances can boost productivity independently of the dynamics of their business environment, specifically the competition in distribution channels. Government policy reinforces the effect of an entrepreneurial attitude on Halal SMEs' performance.

The novelty of this study lies in its integration of halal principles with entrepreneurial orientation and Porter’s business strategies in the context of SMEs in Malang’s food and beverage sector, a creative economy hub with a large Muslim population. Unlike prior studies that examined these factors separately or in general SME settings, this research develops a comprehensive model that links entrepreneurial orientation, business strategy, and performance, while testing the moderating roles of government policy and environmental dynamics. The findings reveal that government policy significantly strengthens the entrepreneurial orientation–performance link, while environmental dynamics do not moderate strategy–performance, challenging the applicability of contingency theory in this context. By situating the analysis in the growing halal

market and providing actionable insights for policy support, the study contributes both theoretical and practical originality compared to earlier research.

The practical implications of this study suggest that halal SME actors should strengthen their entrepreneurial orientation particularly risk-taking, innovation, and proactiveness while adopting cost or hybrid strategies to boost productivity and competitiveness, rather than relying on external environmental changes. Halal certification and compliance also provide differentiation and consumer trust in an expanding global market. For policymakers, the findings emphasize the importance of targeted interventions such as easier access to finance, specialized training, and halal-focused subsidies, since government policy significantly enhances the link between entrepreneurial orientation and SME performance. Theoretically, the study enriches the entrepreneurship literature by confirming both the direct and mediated effects of entrepreneurial orientation on performance, while challenging contingency theory by showing that environmental dynamics do not moderate the strategy–performance relationship in this context. It also advances business strategy literature by demonstrating the effectiveness of cost and hybrid strategies for resource-constrained SMEs, highlighting the unique role of government policy as a quasi-moderator, and positioning the halal economy as a distinctive lens for testing and extending established strategy frameworks.

This study has several limitations that should be addressed in future research. First, it focuses only on halal food and beverage SMEs in Malang City, which limits the generalizability of findings to other regions, industries, or non-halal SMEs. Second, the use of nonprobability and incidental sampling may not fully capture the diversity of the SME population. Third, the research relies on cross-sectional survey data, which restricts causal inference and does not account for performance changes over time. Fourth, the model emphasizes entrepreneurial orientation, government policy, and environmental dynamics, but other important variables. Future research could expand by applying longitudinal or comparative designs across different regions and sectors, integrating additional variables and using probability-based sampling for broader representativeness.

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