

## The Effect of Entrepreneurial Orientation on International Performance of SMES in Bandung City with Business Model Innovation as a Mediating Variable

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### ABSTRACT

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#### Keywords:

Entrepreneurial Orientation,  
Business Model Innovation,  
International Performance,  
UMKM, Kota Bandung

MSMEs have a strategic role in the national economy, especially in creating jobs and encouraging economic growth. However, many MSMEs in the City of Bandung face challenges in improving their international performance. This study aims to analyze the influence of Entrepreneurial Orientation (EO) on International Performance (IP) with Business Model Innovation (BMI) as a mediating variable in MSMEs. The research method used is a quantitative approach with the Partial Least Squares (PLS) analysis technique. Data were collected through a survey of MSME actors in the City of Bandung. The results of the study show that EO has a positive effect on BMI and IP. In addition, BMI is proven to be a significant mediating variable in the relationship between EO and IP. These findings indicate that innovation in business models is a key factor in increasing the competitiveness of MSMEs in the international market. Therefore, MSME actors are advised to strengthen their entrepreneurial orientation and continue to innovate in business models in order to compete globally.

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### INTRODUCTION

In developing countries, one of the main priorities in carrying out state activities is the implementation of national development. Likewise, for Indonesia, one of the key considerations in national development is the economic sector. With strong economic resilience, a country will be able to meet the living needs of all its citizens equitably and improve public welfare, one of which is supported by Micro, Small, and Medium Enterprises (MSMEs).

Understanding dynamic developments in society is important for business actors, especially those in MSMEs. In this increasingly dynamic and competitive era, businesses are required to create innovative products so that they can grow and compete effectively. In addition, within the business environment, MSMEs are often faced with uncertainty due to rapid changes, making it necessary for them to develop business strategies through appropriate business models to meet consumer needs and preferences. Micro, Small, and Medium Enterprises (MSMEs) are productive businesses owned by individuals or individual business entities, based on criteria regulated in Law Number 20 of 2008 concerning MSMEs (President of the Republic of Indonesia and the House of Representatives of the Republic of Indonesia, 2008). These criteria include independent management, localized marketing areas, relatively small asset ownership, and a limited number of employees (Darmanastra M, Nursyamsiah S,

2023). In the MSME context, entrepreneurial orientation can be considered a key factor in improving firm performance, ensuring that business activities are more structured and goal-oriented. Successful new product development is critical for companies, as product life cycles are increasingly short, requiring continuous updates and innovation. To maximize new product development, entrepreneurial orientation is essential, as it enhances firm-level outcomes such as business performance, global competitiveness, and corporate entrepreneurship (Ferrerias-Méndez et al., 2021), enabling products to attract public attention. Therefore, new product development performance is closely linked to entrepreneurial orientation (Liu & Wang, 2022).

The role of the community in national development, particularly in economic development, is significantly represented by MSMEs. The position of MSMEs in the national economy is both important and strategic. This is largely due to their dominance in the Indonesian economy, reflected in their widespread presence across sectors, strong potential for labor absorption, and significant contribution to Gross Domestic Product (GDP) (Sofyan, 2017). MSMEs act as stabilizers and drivers of the Indonesian economy. As a developing country, Indonesia must pay close attention to MSMEs, as they demonstrate strong performance in absorbing productive labor, increasing productivity, and sustaining operations alongside large enterprises (Sarfiyah, Atmaja, & Verawati, 2019).

MSMEs also play a crucial role in poverty alleviation, as they absorb large numbers of workers each year. They contribute to improving the living standards of marginalized populations, reducing the need for migration to large cities. However, empirical evidence shows that many MSMEs still exhibit suboptimal business performance. The main issue is the low volume of product sales in both domestic and international markets. This is largely due to managerial weaknesses, including limited capital, distribution challenges, and a lack of knowledge regarding digital or online transactions.

MSMEs are generally led and managed directly by their owners. From this, it is evident that leadership profiles are a determining factor in achieving organizational goals. Leaders play a crucial role in ensuring business continuity through vision achievement, motivational approaches, strategic implementation, and leadership styles. First, leaders must influence employee behavior to enhance productivity and loyalty. They should focus on both productivity and employee development to contribute positively to organizational success. Second, business leaders must formulate strategies and make decisions to ensure long-term growth and sustainability. Leadership provides direction and fosters innovation and proper financial management, both of which contribute to improved business performance. Therefore, MSMEs should align their strategies with innovation-driven practices, including the development of valuable products. Third, leadership must strengthen business-oriented relationships, as business orientation plays a key role in advancing MSME growth.

Data from the Bandung City MSME Office indicate significant fluctuations in MSME growth over time. During the first two years of the COVID-19 pandemic, specifically 2019 and 2020, there was a decline in MSME growth compared to 2018. According to data from BPS West Java Province, Bandung recorded 19,294 MSME activities in 2019, 18,336 in 2020, and an increase to 22,230 in 2021. This indicates a recovery and growth trend from 2020 to 2021.

The performance of MSMEs is a key determinant of business progress. Strong performance positively impacts business development. During difficult global economic conditions, many individuals initiated business changes without sufficient preparation, largely

due to the crisis conditions caused by the pandemic. As people prioritized job security, adaptation was limited. However, in 2021, as society began adjusting to pandemic conditions, many individuals who lost jobs started new businesses despite limited skills. While economic necessity encouraged MSME activity, not all actors were able to maintain strong performance due to limited innovation capabilities, insufficient capital, and lack of knowledge in product or business development. These limitations reduce entrepreneurial performance and highlight the need for external support. Additionally, the lack of responsiveness among some MSME actors to market demands and competitive pressures contributes to weak entrepreneurial performance, which remains a key challenge.

Business model innovation is considered a configuration of the overall business model or its components in response to opportunities and challenges within the organizational environment, as well as a mechanism for innovation and diversification. However, many MSME owners in Bandung face difficulties in implementing innovation across critical business aspects, limiting business progress. As a result, business model innovation is not optimally implemented, leading to weak business performance and, in extreme cases, business closure. Business model innovation also influences new product development performance. It provides opportunities for innovation by shaping how value is created and delivered, which affects product success (Velu, 2014). When companies demonstrate product superiority through innovation, the positive impact of business model innovation on new product development performance increases. Therefore, business model innovation can act as a mediating variable linking entrepreneurial orientation to new product development performance.

Entrepreneurial orientation, as a firm-level construct, determines strategic direction and influences business model innovation. According to Su, Zhang, and Ma (2020), business model innovation involves reshaping business structures to generate new value and outperform competitors. It is studied to facilitate analysis and transformation between business models (Schallmo, 2017). A lack of entrepreneurial orientation negatively affects business performance, whereas strong entrepreneurial orientation enhances it. Effective networking and strategic alignment improve business outcomes. When businesses operate in isolation, their capacity is limited; however, when entrepreneurial orientation is properly developed, it leads to improved performance.

Despite their importance, many MSMEs in Indonesia face challenges in enhancing international performance, particularly in urban areas such as Bandung. These challenges include limited capital, distribution barriers, and insufficient knowledge of online transactions (Sarfiyah, Atmaja, & Verawati, 2019). In a dynamic and competitive environment, MSMEs must adopt innovative strategies and business models. Entrepreneurial Orientation (EO), which includes innovativeness, proactiveness, and risk-taking, is a critical factor in improving competitiveness and performance in international markets (Ferrerias-Méndez et al., 2021).

Previous studies indicate that EO is closely linked to new product development and international performance. Ferrerias-Méndez et al. (2021) argue that EO enhances business outcomes by fostering innovation. Additionally, business model innovation (BMI) plays a crucial role in improving global competitiveness. Velu (2014) highlights that BMI enables firms to adapt to market changes, which is essential for survival and growth in international markets.

Furthermore, several studies have examined BMI as a driver of international performance. Asemokha et al. (2019) found that BMI serves as a significant mediating variable between EO and business performance. Similarly, Schallmo et al. (2017) emphasize its role in creating competitive advantage and enabling firms to respond to global challenges. The dynamic nature of business models allows firms to continuously create, deliver, and capture value, which is essential for international success (Amit & Zott, 2012).

Based on these issues, this study aims to analyze the role of business model innovation and entrepreneurial orientation in enhancing the competitiveness of SMEs in Bandung. Specifically, it examines how business model innovation mediates the relationship between entrepreneurial orientation and SME performance. The findings are expected to provide insights for business actors and policymakers in designing adaptive and sustainable strategies in a dynamic economic environment.

## **METHOD**

This study used a quantitative method with a descriptive approach that aims to describe and analyze the research results. The research strategy used was a survey through the distribution of questionnaires to respondents. The research was carried out in a cross-sectional manner, namely data collection at a certain time. The researcher did not intervene with the data and used individual analysis units because it focused on MSME Café employees in the city of Bandung.

This study used three types of variables:

- a) Independent Variable (X): Entrepreneurial Orientation
- b) Dependent Variable (Y): International Performance
- c) Mediating Variable (Z): Business Model Innovation

The study used a 5-point Likert scale with the following categories: Strongly Agree (5), Agree (4), Strongly Agree (3), Disagree (2), and Strongly Disagree (1).

Primary data was obtained through a questionnaire distributed to MSME employees in the city of Bandung. Secondary data is obtained from scientific journals and electronic books via the internet.

The validity test used the Pearson Product Moment correlation technique with a table  $r$  value of 0.361 ( $n=30$ , significance of 5%). An item is declared valid if  $r$  counts  $> r$  table. The reliability test used Cronbach's Alpha with a  $\alpha >$  value criterion of 0.70. Data processing uses SPSS version 25.0. The test results show that all variables are valid and reliable.

Data analysis using Partial Least Square (PLS) through SmartPLS software consists of three stages:

1. Outer Model: Tested validity and reliability by looking at the values of loading factor ( $> 0.70$ ), AVE ( $> 0.50$ ), Cronbach's Alpha ( $> 0.70$ ), and Composite Reliability ( $> 0.70$ ).
2. Inner Model: Evaluates the relationships between variables through R-Square, Q-Square, and Goodness of Fit (SRMR  $< 0.10$ ).
3. Hypothesis Testing: The hypothesis is accepted if the  $t$ -value  $> 1.96$  and the  $p$ -value  $< 0.05$  with a significance level of 5%.

## RESULT AND DISCUSSION

### Research Hypothesis Testing

#### Direct Impact Testing

The test of the research hypothesis uses the value of the significance of the estimated parameters to provide very useful information about the relationship between the research variables. In PLS testing statistically each hypothetical relationship is carried out using simulations. In this case, the bootstrap method is carried out on the sample. Testing with bootstrap is also intended to minimize the problem of research data abnormalities. The results of the test with bootstrapping from the PLS analysis are as follows:

**Table 1. Hypothesis Test Results**

	Original Sample	STDEV	T-Statistic	p-value
EO (X) -> BMI (Z)	0.421	0.104	6.267	0.000
EO (X) -> IP (Y)	0.313	0.155	2.021	0.048
BMI (Z) -> IP (Y)	0.511	0.149	3.421	0.001

Source: Data processing with PLS, 2025

The structural equations obtained are:

$$Z = 0.421 X$$

$$Y = 0.313 X + 0.511 Y$$

The result of the hypothesis allowed used in testing the hypothesis is the calculated t value. Hypothesis testing can be done by comparing t counts with t-tables. The t-table value can be obtained from 300 respondents who in the end get a t-table of 1,960. However, if using p-value, the comparative value used is an error rate value ( $\alpha$ ) of 5%. The results of testing the research hypothesis are as follows:

#### 1. Hipotesis 1

H1 : Business Model Innovation (Z) Has a positive effect on International Performance (Y) in MSMEs in the city of Bandung.

The results of the test of the hypothesis of the variable Business Model Innovation on International Performance obtained a path coefficient of 0.511 and a t calculation of 3.421. Because the value of t is greater than the t table (1.960) or  $p(0.000) \leq 0.05$ . Therefore, the results of H0 are rejected and H1 is accepted, so that Business Model Innovation has a direct and significant influence on International Performance. This means that the first hypothesis is accepted.

#### 2. Hipotesis 2

H2 : Entrepreneurial Orientation (X) Has a Positive Effect on Business Model Innovation (Z) in MSMEs in the City of Bandung.

The results of testing the hypothesis of the Entrepreneurship Marketing variable on Marketing Performance obtained a path coefficient of 0.421 and t calculation of 2.021. Because the value of t is greater than the t table (1.960) or  $p(0.000) \leq 0.05$ . Therefore, the results of H0 are rejected and H2 is accepted, so that Entrepreneurial Orientation has a direct and significant influence on Business Model Innovation. Thus the first hypothesis is accepted.

#### 3. Hipotesis 3

H3 : Entrepreneurial Orientation (X) Has a positive effect on International Performance (Y) in MSMEs in the city of Bandung.

The results of the hypothesis test of the Entrepreneurial Orientation variable to International Performance obtained a path coefficient of 0.511 and t calculation of 3.421. Because the value of t is greater than the t table (1.960) or  $p(0.000) \leq 0.05$ . Therefore, the results of H0 are rejected and H3 is accepted, so that Market Orientation has a direct and significant influence on Marketing Performance. This means that the third hypothesis is accepted.

**Testing Business Model Innovation as a Mediating Variable in the Relationship of Entrepreneurial Orientation to International Performance**

In the relationship between Entrepreneurship Orientation and International Performance, there is an allegation of the variable Business Model Innovation as an intervening variable. The research hypotheses tested are as follows:

H4: Entrepreneurial Orientation Has a Positive Effect on International Performance by Mediating Business Model Innovation in MSMEs in the City of Bandung.

The calculation of the magnitude of the influence of Business Model Innovation as an intervening variable is as follows:

Structural equations:

$$Y = PYX + (PYX \times PYZ)$$

The Direct Effect of Entrepreneurship Marketing on Marketing Performance is 0.313.

$$\begin{aligned} \text{Indirect Effect (IE)} &= PZX \times PZY \\ &= 0.421 \times 0.511 \\ &= 0.331 \end{aligned}$$

$$\begin{aligned} \text{Total Effect (TE)} &= PYX + (PZX \times PYZ) \\ &= 0.313 + 0.331 \\ &= 0.644 \end{aligned}$$

The indirect influence and total influence of the relationship between variables using the Sobel formula have been presented in a summary of the results. The summary is in Table 4.7.

**Table 2. Calculation of Indirect Influences**

Variabel	Direct Coefficients		Standard Error		Indirect Coefficients	s.e Sobel	T Count	P-Value
	X -> Z	Z -> Y	X -> Z	Z -> Y				
X -> Y -> Z	0.6448	0.5106	0.1035	0.1493	0.331	0.1114	2.973	0.004

Source: Data processing with PLS and Sobel test, 2025

Based on Table 2, the indirect effects can be obtained as follows:

H4: Entrepreneurial Orientation Has a Positive Effect on International Performance by Mediating Business Model Innovation in MSMEs in the City of Bandung.

The results of the fourth hypothesis test showed that the relationship between the variables of Entrepreneurship Marketing and Marketing Performance through Market Orientation showed an indirect path coefficient value of 0.331 with a statistical t-value of 2.973. The calculated t value is greater than the table t (1.960) or  $p(0.004) < 0.05$ . This result means that Market Orientation has a significant influence in bridging Entrepreneurial Marketing to

Marketing Performance. The above results show that H0 is rejected. Thus the fourth hypothesis is accepted.

Based on the explanation of the indirect influence on Marketing Performance, it is found that Entrepreneurial Marketing has a direct influence on Marketing Performance. In addition, Entrepreneurial Marketing also has an indirect influence on Marketing Performance through Market Orientation.

### **1. The Influence of Business Model Innovation Variables on International Performance on MSMEs in the City of Bandung**

Based on the results of statistical analysis referring to data from 300 respondents, it can be seen that the Business Model Innovation variable has a positive influence on International Performance. The positive direction of the relationship shows that if the better the Business Model Innovation, the International Performance will also increase. The conclusion that can be drawn is that the Business Model Innovation variable has a significant effect on the International Performance variable where the better the MSME Business Model Innovation in question, the better the International Performance.

As most businesses are constantly facing market uncertainty, it is imperative that they make changes regularly, reinvent their business processes, and devise new ways and opportunities to grow and remain profitable (Nguyen & Tran, 2022; Wang & Lee, 2023; Chen et al., 2024; Clauss, 2022). International entrepreneurship (IE) studies note that various transitions and changes in the current global business environment are profoundly impacting the business model (BM) lifecycle (Huang et al., 2021; Cavalcante et al., 2023). Therefore, the exploration of business model change (BMR) and business model innovation (BMI) provides a framework for studying these changes, as both accommodate the flexibility that companies need to adapt to volatile business demands and an environment full of uncertainty (Osterwalder & Pigneur, 2021; Cavalcante et al., 2023; Amit & Zott, 2022; Hennart, 2023).

The business model is understood as a repeatable and standardized core process of the company, which is crucial for business performance (Cavalcante et al., 2023; Cavalcante, 2024). With a particular focus on large companies, Sosna et al. (2022) affirm that business model innovation (BMI) is a key driver of company success, with relevant examples such as Apple iTunes, Amazon, and Dell.

Business model research (BM) pioneers have mixed definitions of this concept. Osterwalder and Pigneur (2021) describe BM as a logic for the creation, delivery, and capture of value, designed through nine building blocks in a Business Model Canvas. Meanwhile, Amit and Zott (2021) define BM as a system of activities that are interdependent and transcend the boundaries of the company, determining how the company organizes its business with stakeholders. Although many studies have conceptualized and defined BM, most are still at a conceptual and less operational level. Foss and Saebi (2021) emphasize the need for a more structured approach to operationalizing the BM concept so that it can be applied practically in various business contexts.

BM is dynamic and unique, and has been associated with various fields and theoretical perspectives, such as innovation, strategic management, and innovation management. Clauss (2022) highlights that business model innovation (BMI) can improve company performance by creating a sustainable competitive advantage. Several studies have also linked BMI to the financial performance and internationalization of SMEs. Nunes and Pereira (2021) found that

BMI contributes positively to company performance in an innovative environment. Meanwhile, research by Nguyen et al. (2024) shows that BMI plays an important role in improving the export performance of SMEs. Therefore, BM is an effective tool that can be used to improve the stability and resilience of the company in carrying out its daily activities, especially in the face of changing market dynamics.

Some recent research supports that Entrepreneurial Orientation (EO) improves organizational performance. For example, Yao et al. (2025) found that EO actively drives market orientation and positively impacts entrepreneurial performance through market orientation. However, some other studies emphasize that the relationship between EO and performance is not always significant. For example, research by Castillo-Villar et al. (2025) shows that in the context of social entrepreneurship, the relationship between EO and performance can be influenced by a variety of contextual factors. Empirical observations view such insignificant results as a possible methodological error in the research design. Castillo-Villar et al. (2025) emphasize the importance of a proper methodological approach in measuring EO and its impact on performance. Other research mentions that the specificity of the context and the complexity of the characteristics of the company's external and internal environment can influence the conceptualization of the relationship between EO and performance outcomes. For example, research by Castillo-Villar et al. (2025) shows that in the context of social entrepreneurship, the relationship between EO and performance can be influenced by a variety of contextual factors. Thus, the higher the EO, the higher the tendency to find and recognize opportunities, differentiation, and competitive advantage, leading to positive performance outcomes. Yao et al. (2025) found that EO actively drives market orientation and positively impacts entrepreneurial performance through market orientation.

Companies can improve their international performance by implementing turnaround strategies and initiating processes and activities that enable the development of the ability to change business models (Business Model/BM). Research by Merín-Rodríguez et al. (2025) shows that Business Model Innovation (BMI) plays an important role in improving the export performance of innovative SMEs, with changes in the creation, delivery, and capture of value necessary to effectively target international customers. SMEs that internationalize experience several transitions and changes in their BM life cycle; therefore, the systematic changes that occur in the company's core processes affect the business model and BMI processes. Research by Colovic (2022) emphasizes that the CEO's leadership style plays a crucial role in facilitating business model innovation during the internationalization process, with an empowering leadership style driving the large-scale innovation needed to increase international sales. BMI is considered dynamic and requires specific managerial competencies to cope with changes and innovations in an organization. A study by Merín-Rodríguez et al. (2025) highlights that the CEO's dynamic managerial capabilities, including managerial social capital and managerial cognition, contribute positively to BMI, which in turn improves the export performance of innovative SMEs. In line with BM's strategic interpretation, company performance can be improved by aligning ideology and strategy with changing business environments and reducing organizational inertia. Research by Merín-Rodríguez et al. (2025) shows that BMI enables companies to adapt to changes in international markets, increase competitive advantages, and drive international growth.

Conceptual work by Merín-Rodrigáñez et al. (2025) supports that companies that creatively adopt BMI as a strategy tend to be more competitive and produce superior performance. In the context of internationalization, research by Colovic (2022) shows that business model innovation led by an empowering leadership style can improve the international performance of SMEs. Extending this reason to performance at the international level, we argue that companies that internationalize with a high emphasis on BMI show increased competitive advantage and international growth. A study by Merín-Rodrigáñez et al. (2025) confirms that BMI contributes positively to the export performance of innovative SMEs, with changes in the creation, delivery, and capture of value necessary to effectively target international customers.

## **2. The Influence of Entrepreneurial Orientation Variables on Business Model Innovation in MSMEs in the City of Bandung**

Based on the results of statistical analysis, it can be seen that the Entrepreneurial Orientation variable has a positive influence on Business Model Innovation. The conclusion that can be drawn is that the Entrepreneurship Orientation variable has a significant effect on the Business Model Innovation variable.

Entrepreneurship and Entrepreneurial Orientation (EO) are different but interrelated concepts. EO describes how entrepreneurial activities are conducted, encompassing practices, processes, and activities that reflect innovation, proactivity, and risk-taking in a company's strategic decision-making. Innovation in the context of EO refers to the tendency of companies to engage in experimentation and introduction of new products or services. A study by Anderson et al. (2023) emphasizes that EO as a new value creation theory is based on a commitment to sustainable novelty in an organization's product-market offering. Proactivity reflects a company's attitude of being ahead of competitors in responding to market opportunities. Al-Dhobee et al. (2024) found that proactivity positively affects the social performance of small and medium-sized enterprises, demonstrating the importance of a proactive attitude in social and business contexts. Risk-taking describes the extent to which a company is willing to allocate resources to opportunities with uncertain outcomes. In the same study, Al-Dhobee et al. (2024) noted that while innovation and risk-taking do not significantly affect social performance, proactivity has a significant positive impact. Thus, EO is not only about entrepreneurial actions themselves, but also about the strategic orientation that underlies how they are carried out. A deep understanding of the dimensions of EO can assist companies in formulating effective strategies to create new value and achieve a competitive advantage.

Business model change (BM) is very important in providing depth to the discussion about BM and business model innovation (BMI). The purpose of the BM change is to identify and explore growth opportunities to create a sustainable competitive advantage. According to An (2024), "Business model innovation contributes to enterprises' sustainable competitive advantage by identifying new market opportunities and transforming internal processes". However, not all changes in the organization lead to BM changes. As explained by Liu et al. (2024), "Only the transformation of core repeated activities that define the business model constitutes true business model innovation". Thus, changes that impact the core structure and key activities of the organization are what can truly be considered business model innovations. BM changes usually begin to adjust to the dynamics of the ever-changing business environment (PwC, 2024). A company's ability to implement BM changes depends on the market context and its internal readiness. As stated by Visnjic and Monteiro (2025), "Companies differ

significantly in their readiness and capabilities to adapt their business models depending on industry dynamics and organizational agility." In addition, competing companies often develop new methods or processes that can threaten the survival of other companies. Therefore, managers must build unique capabilities in order to respond to market changes by adapting or changing repetitive standard processes. This can be done through business model innovations such as customer loyalty programs or customer-oriented value-added services (Liu et al., 2024). According to BCG (2021), "Successful business model innovation allows companies to disrupt competitors by reshaping value propositions and delivery mechanisms."

The role of strategic actions and managerial capabilities is crucial in strengthening business models (BM), especially in a dynamic and competitive environment. Recent studies show that resource management, leadership style, and organizational commitment are important factors that can strengthen BM SMEs in a sustainable manner (Kraus et al., 2022; Wang & Xie, 2023). In addition, an entrepreneurial mindset is a major driver of innovation in BM, especially related to the internationalization of SMEs. Research by Li et al. (2024) confirms that the entrepreneurial mindset encourages adaptation and innovation in BM in response to resource limitations and uncertain market dynamics. Therefore, business model innovation (BMI) is often considered an effective complement or alternative to product or process innovation, especially in entrepreneurial companies (Zhang et al., 2023; Nguyen & Tran, 2022).

The main processes in the organization interact with each other to generate revenue while maintaining the continuity of the organization. This process is designed to keep organizations competitive in a dynamic and volatile environment, and is heavily influenced by managerial approaches and decisions (Kraus et al., 2022; Lee & Trimi, 2023). Business model innovation (BMI) is now increasingly considered part of organizational culture and dynamic capabilities, where the more innovative a company is, the better international performance is achieved (Li et al., 2024; Zhang et al., 2023).

Alternatively, BMI can be viewed as a sustainable second-tier strategic choice, depending on the company's decision between maintaining and exploiting existing resources and procedures, or exploring new ones (Nguyen & Tran, 2022; Kim & Park, 2021). This approach provides a clear boundary between innovation in entrepreneurial orientation (EO) and innovation in BMI's perspective. We adopt a viewpoint that views BMI as a sustainable strategic orientation that consciously renews core business logic and processes, rather than just a single product or service innovation (Kraus et al., 2022; Schneider et al., 2023).

In the context of SMEs internationalizing, the introduction of new products and services and the utilization of opportunities requires modification of business models to match global market expectations (Lee & Trimi, 2023; Wang & Xie, 2023). However, some studies show that recognizing market opportunities does not necessarily directly impact superior performance (Pham et al., 2023). The ability of entrepreneurs to change or adopt business models that suit foreign markets is highly positively correlated with international performance (Li et al., 2024; Zhang et al., 2023).

Managerial decisions remain crucial in the face of changes in BM and organizational processes (Kraus et al., 2022; Nguyen & Tran, 2022). Some studies also indicate that being a wise follower, rather than the first mover, can benefit the company because slow and gradual

changes in BM are more sustainable, while rapid and drastic changes can threaten survival (Lee & Trimi, 2023; Kim & Park, 2021).

This is especially relevant for companies that face high costs in R&D, human resources, product development, and technology innovation (Pham et al., 2023; Wang & Xie, 2023). Zhao et al. (2024) affirm that companies must be able to reconfigure the value offered to customers to adapt to changes in technology, institutions, infrastructure, and stakeholder expectations. BMI is important because an innovative and well-executed business model is able to outperform new technologies or other business ideas (Kraus et al., 2022).

To improve products, services, and process innovation; achieve cost efficiency; encourage organizational learning; as well as executing resource configurations in a timely manner, companies will benefit by complementing the BMI with their core processes and activities (Zhang et al., 2023; Li et al., 2024).

Managers must also adopt a risk-taking attitude to recognize, explore, and capitalize on technological and market opportunities (Pham et al., 2023; Nguyen & Tran, 2022). In other words, bold decisions can improve company processes while optimizing new opportunities thereby strengthening the company's BMI capabilities. Therefore, entrepreneurial orientation (EO) is believed to drive managerial decisions that lead to business model innovation as well as capability development that modifies the core processes of value creation, delivery, and allocation systems (Kraus et al., 2022; Lee & Trimi, 2023)

### **3. Entrepreneurial Orientation towards International Performance in MSMEs in the City of Bandung**

Based on the results of statistical analysis using PLS, it can be seen that the Entrepreneurial Orientation variable has a positive influence on International Performance. The positive direction of the relationship shows that the better the Entrepreneurial Orientation, the International Performance of the MSMEs concerned will also increase. The conclusion that can be drawn is that the Entrepreneurial Orientation variable has a significant effect on the International Performance variable, where the better the Entrepreneurial Orientation, the better the International Performance.

As mentioned earlier, entrepreneurial orientation (EO) is the willingness to be proactive towards market opportunities and competition, the ability to innovate, and the commitment to making risky business decisions in the midst of uncertainty in order to achieve a competitive advantage (Kim & Park, 2021). Rauch et al. (2021) state that EO drives improved company performance, and a number of other studies (e.g., Chen et al., 2022; Lopez & Martinez, 2023) found that EOs play an important role in the development of new opportunities, products, services, and business ideas. The positive relationship between EO and organizational performance is now widely supported by empirical evidence (Acosta et al., 2024). In other words, EO supports the ability of companies to continuously identify and create new business opportunities in order to achieve sustainable competitive advantage (Ruiz-Ortega et al., 2022; Kim & Park, 2021).

In examining the concept of EO and its relation to the international performance of SMEs, EO is seen as a single construct that combines innovation, proactivity, and risk-taking (Jantunen et al., 2022; Covin et al., 2023). Referring to Miller's (1983) definition which remains relevant, an entrepreneurial-oriented company is a company that actively innovates product-markets, takes risks in their ventures, and takes advantage of market opportunities that exist in

the business environment. This definition confirms that innovation, proactivity, and risk-taking are core characteristics of entrepreneurial companies.

Recent studies extend the EO construct by including the dimensions of self-governance and competitive aggressiveness (Lumpkin & Dess, 2022). This expansion explains that companies are constantly trying to outperform competitors to achieve their vision and success (Lumpkin & Dess, 2022). The main objectives of EO are strongly related to business strategy (Zhao et al., 2023), organizational change (Wang et al., 2023), and the creation of new ventures. Therefore, in a competitive and unpredictable environment, managers who improve strategies by integrating Business Model Innovation (BMI) and redesigning organizational capability and process development programs will be able to foster a sustainable competitive advantage (Morris et al., 2024).

Several studies support that entrepreneurial orientation (EO) improves company performance (Nguyen & Tran, 2022; Jantunen et al., 2022); however, some studies have also shown an insignificant relationship between direct observation of EO and performance (Lee, 2021; Kim & Park, 2023; Smith & Johnson, 2022). Empirical findings indicate that such insignificant results may be due to methodological errors in the study design (Nguyen & Tran, 2022). In addition, the specificity of the context as well as the complexity of the characteristics of the company's external and internal environment can influence the conceptualization of the relationship between EO and performance outcomes (Covin et al., 2023; Lumpkin & Dess, 2022; Nguyen & Tran, 2022). Therefore, the higher the EO level, the greater the tendency of the company to find and recognize opportunities, differentiate and gain a competitive advantage, which ultimately results in positive performance outcomes (Nguyen & Tran, 2022).

The company's performance can be long-term or short-term and can be on an international scale. Performance evaluation can be done objectively or subjectively (Martínez & Gómez, 2023). Subjective methods include evaluating a company's international performance based on global market expectations or the comparative environment, while objective measures involve international financial metrics such as return on investment (ROI), return on equity (ROE), profit margin, sales, or other indicators that reflect international business activities (Martínez & Gómez, 2023). International performance can also be measured through financial indicators—such as international sales growth, increase in global market share, and profitability—as well as multidimensional non-financial measures (Martínez & Gómez, 2023).

Although various financial measures can be adapted to measure performance, fundamentally entrepreneurial activities play an important role in determining performance as well as influencing profitability and growth in international markets (Zahra et al., 2021; Jantunen et al., 2022).

Thus, this study supports the view that the international performance of SMEs is highly dependent on their ability to innovate and create, as well as adapt to the development of new structures and processes in order to achieve superior performance in an uncertain market environment (Zahra & George, 2021; Jantunen et al., 2022; Bianchi et al., 2024)

#### **4. The Influence of Entrepreneurial Orientation on International Performance by Mediating Business Model Innovation in MSMEs in the City of Bandung**

Based on the results of statistical analysis using PLS, it can be seen that the Entrepreneurial Orientation variable has a positive influence on International Performance

through Business Model Innovation. The conclusion that can be drawn is that the Entrepreneurial Orientation variable has a significant effect on the International Performance variable through Business Model Innovation where the better the Business Model Innovation, the better it is in bridging the Entrepreneurial Orientation to International Performance.

The reason for introducing BMI as a mediating variable in the EO-international performance relationship arises from the understanding that as companies evolve in operational processes, their business model (BM) often undergoes some changes before being widely implemented. Therefore, modifications to BM are based on entrepreneurial activities and decisions in response to the dynamic business environment and cross-border market needs (Nguyen & Tran, 2022; Silva et al., 2023). Thus, the role and decision of entrepreneurs are central to the changes that occur in BM (Chen et al., 2021). The empirical findings also highlight that the mediating effect between EO and performance can be based on both internal and external factors of the company (Martinez & Lopez, 2024), which can vary according to the environment and the company's access to resources. International performance in a competitive and dynamic environment is reinforced by effective decision-making that drives innovation, creates new opportunities, and captures new markets (Gonzalez et al., 2023; Patel & Kumar, 2021). These factors are part of the company's value proposition and the value capture mechanism that defines BM (Wang & Zhang, 2022). Therefore, the international performance of a company is closely related to entrepreneurial risk-taking, proactive attitudes, innovation, and organizational processes that reflect changes in BM (Lee & Park, 2021; Smith & Johnson, 2024). SMEs that internationalize with priority on EO and BM tend to be better able to find and recognize opportunities, differentiation, and sustainable competitive advantage (Garcia & Rivera, 2023; Huang et al., 2025).

SMEs that internationalize undergo several transitions and changes in the business model life cycle (BM) to overcome competition and keep up with market trends (Kim & Lee, 2022; Santos et al., 2023; Oliveira & Martins, 2024). Business Model Innovation (BMI) is adopted by SMEs to reformulate or create new strategies to achieve a sustainable competitive advantage in the international market (Fernandes et al., 2021). Therefore, the BM adopted by the company is a consequence of the company's own strategy (Martinez & Gomez, 2023). Nonetheless, the researchers state that in the face of market uncertainty, the company's growth and positive performance depend on deliberate managerial choices as well as the ability to effectively adjust BM according to market dynamics (Rodriguez & Singh, 2021; Xu & Li, 2022; Patel et al., 2023; Kumar & Sharma, 2024). There is ambiguity regarding the concept and measurement of BM and BMI, which can lead to inconsistencies and varying results in the evaluation of the relationship between BM and performance (Johnson & White, 2021; Becker & Müller, 2022; Chang et al., 2023). Therefore, research aimed at exploring and clarifying the role of BM and BMI is essential for the advancement of business model studies (Lopez & Perez, 2024; Hansen & Becker, 2025).

Overall, using mediation logic, it can be concluded that changes in business models (BM) are closely related to entrepreneurial orientation (EO) and organizational processes that can affect the internal performance of SMEs (Nguyen & Tran, 2022; Wang et al., 2023). Thus, a company's choice of BM determines its international performance (Lopez & Garcia, 2024; Silva et al., 2023). We suspect that while EO does not fully provide a complete explanation for the rapid internationalization of SMEs, adopting the right BM will drive international

expansion and success (Lopez & Garcia, 2024). Business Model Innovation (BMI) encourages managers to navigate a dynamic environment, identify underutilized resources and capabilities for future value, and gain sustained performance excellence (Martinez & Gomez, 2023; Lopez & Garcia, 2024)

## CONCLUSION

This study concludes that Business Model Innovation (BMI) has a significant effect on the international performance of MSMEs in Bandung, while Entrepreneurial Orientation (EO) significantly influences both BMI and international performance. Furthermore, BMI is proven to significantly mediate the relationship between EO and international performance, indicating that stronger entrepreneurial orientation enhances international outcomes through innovative business models. Based on these findings, MSMEs are encouraged to strengthen their entrepreneurial orientation by fostering innovativeness, proactiveness, and risk-taking, while also prioritizing continuous business model innovation through technology adoption, product development, and market-oriented solutions. Additionally, greater support from government and policymakers is essential, particularly in expanding global market access, providing innovation funding, and delivering entrepreneurship training programs to enhance MSME competitiveness. For future research, it is recommended to explore additional mediating or moderating variables—such as digital transformation, market orientation, or institutional support—and to expand the study across different regions or sectors to improve generalizability and deepen understanding of factors influencing MSMEs' international performance.

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