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Is Innovation the Missing Link in the Competitive Advantage of Indonesia's Small and Medium Enterprises in the Fashion Industry?

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Abstract

This study focuses on how SMEs in the fashion industry in East Java relate to one another in terms of entrepreneurial orientation (EO), market orientation (MO), innovation (INNO), and competitive advantage (CA). Using a quantitative technique and Google Forms to collect data, 130 respondents from SMEs in the fashion business in East Java were selected. This study aims to understand how EO and MO drive INNO and affect CA. The results show that, although EO encourages innovation, it does not immediately improve competitive advantage. Rather, MO and INNO have a greater impact on CA, highlighting the significance of market knowledge and ongoing product innovation in achieving competitive advantage. This finding implies that modifying strategies can strengthen competitive positioning in response to market conditions. Limitations regarding regional focus and unanalyzed external factors highlight the need for future studies to expand their reach and evaluate other contextual influences.

Keywords: Entrepreneurial Orientation; Market Orientation; Innovation; Competitive Advantage.

1. Introduction

According to Lang (2003), the fashion business significantly impacts the world economy. Many countries recognize the fashion industry as a pillar of their national economies, with many employment opportunities (Huang, 2023). By 2024, the fashion industry is predicted to bring 801.60 billion US dollars in sales worldwide and is estimated to grow by 3.31% annually from 2024 to 2028 (Statista, 2024). SMEs make important contributions to the macroeconomic measures of every national economy (Verawaty, 2023). Indonesia has one of the highest SME turnover rates worldwide, according to the ASEAN Investment Report in September 2022 (Ahdiat, 2022). As of 2022, Indonesia had 8.71 million business units, according to Kementerian Koperasi dan Usaha Kecil dan Menengah (Kemenkopukm) (Putri, 2023). Small- and medium-sized businesses (SMEs) in the fashion industry are important because they significantly contribute to employment and production (Ramos, 2024).

Although the number of fashion businesses is rising, many new businesses still face challenges during their beginner phases. This has become a phenomenon in the fashion industry because it is competitive nowadays, making it challenging for businesses to predict customer preferences, achieve sales targets, and build a niche for themselves. It is difficult to begin a new fashion business; after four years of operation, almost 50% of new fashion businesses will fail (Lang, 2023). High demand and rapidly changing fashion styles create challenges for fashion businesses in Indonesia to work and be creative in producing attractive new fashion products and sustaining them in the market (Putri, 2022). In Indonesia, markets that used to be clothes shopping centers are no longer as crowded as in their glory days, such as Tanah Abang, Pasar Kapasan Surabaya, and Pusat Grosir Surabaya. Now, stores are reportedly closed because they cannot compete with other stores and are not as crowded as before (CNBC Indonesia, 2023; Widiyana, 2023). Meanwhile, many who tried to shift to the digital world could not survive the competition (Alhamidi, 2023).

This research is urgent because SMEs have become more important in the global sustainable development agenda due to their contributions to supporting economic growth, creating job opportunities, and reducing poverty (Karmaker, 2023). The SME sector plays an equal role in enhancing a country's competitiveness; therefore, they must significantly contribute to Indonesia's economy's growth (Varga, 2021; Raya, 2021). There are few studies on the competitive advantage of the fashion industry. Thus, there could be a lack of understanding of how it influences competitive advantage in the fashion industry, especially in Indonesia. A competitive advantage is the ability of a business to produce profits that surpass the industry average due to its unique market position (Ogundare, 2024). Due to their limited resources and capabilities, SMEs may become bankrupt under competitive business pressure. For SMEs worldwide, gaining a competitive edge is currently the most important goal (Verawaty, 2023).

The researcher conducted a pre-survey among SMEs in East Java, Indonesia to investigate the competitive advantage of SMEs in the fashion industry. Based on the data, the main factor explaining why

SMEs have a competitive advantage is market orientation (86.7%), while the second factor is both entrepreneurial orientation and innovation (80%). EO is essential for fashion industry SMEs because it helps SMEs recognize the changing environment as a chance for improvement to survive the difficult environment (Penco, 2023). Given the competitive fashion industry, there should be significant differentiation between products and services. Thus, market orientation is one strategy that can give the fashion sector a competitive advantage (Gul, 2021).

Although research on competitive advantage is already widely available, there is little focus on SMEs in the fashion business. Additionally, relatively few studies have been conducted on competitive advantage in the fashion business. At the same time, the industry is trend-driven and moves quickly, requiring continual innovation to maintain a competitive advantage (Rana, 2024). There are several differences in earlier studies, even though entrepreneurial and market orientation positively affects competitive advantage. Research by Kempa (2019) and Setiyanto (2024) indicates that entrepreneurial orientation does not affect competitive advantage. Research by Hendrayanti (2022) indicates that market orientation does not affect competitive advantage. Therefore, using mediation is crucial, as it can enhance our understanding of the causes and point to other factors as possible targets for intervention (Carter, 2021). Besides market orientation and entrepreneurial orientation, innovation was another factor chosen from the pre-survey. Innovation is an important feature of the fashion business, and it can identify new methods and procedures for accomplishing things, significantly increasing the value of products and services that customers need (Lang, 2023).

The researcher decided to explore entrepreneurial orientation and market orientation through innovation as mediation factors influencing competitive advantage in the small- and medium-sized enterprises in the fashion industry in East Java, Indonesia. The study of competitive advantage is highly urgent for fashion business SMEs because fashion industry SMEs must pay attention to gain a competitive advantage and provide information that could assist these SMEs to stay in the market (Li et al., 2024).

2. Literature Review

2.1. Grand Theory

Within the last 30 years, RBV has become one of the most important theories in fast-moving markets, having quickly achieved widespread support in strategic management to gain and maintain competitive advantage (Freeman, 2021; Zahra, 2021). When a company implements a strategy that creates value without being simultaneously implemented by competitors, either in the present or future, it is considered to have a competitive advantage (Barney, 1991). Businesses gain a competitive advantage if they own and utilize unique and uncommon resources and competencies (Newbert, 2008). This is essential for businesses to generate or have exclusive resources, such as resources that are difficult for competitors to imitate and manage in order to maintain success over the long term (Yu, 2022).

2.2. Entrepreneurial Orientation

EO is a strategic approach that reflects innovation, proactivity, and willingness to take risks simultaneously (Mthanti, 2017). Innovation indicates participation in creativity and experimentation through R&D to achieve technical leadership. Proactiveness is a forward-thinking, opportunity-seeking mindset. Risk-taking involves making ambitious decisions and committing resources to product, physical, and unpredictable market situations (Morgan, 2023).

2.3. Market Orientation

According to Kohli and Jaworski, MO is market intelligence related to current and future customer needs, the promotion of information across departments, and how businesses respond to it (Hau, 2013). Competitor orientation, customer orientation, and interfunctional coordination are the three indicators of market orientation for gathering and sharing market data to produce customer value (Gangwani, 2024). Customer orientation provides current or new products or services to satisfy consumers' demands, establish enduring relationships, and resolve issues. Competitor orientation focuses on comprehending and evaluating competitor plans, including their advantages, disadvantages, trends, and making necessary changes to the strategy. Interfunctional coordination involves gathering, sharing, and using information to determine what customers want and anticipate (Jagodič 2022).

2.4. Innovation

Innovation is defined as the successful introduction of new goods and procedures (Hagedoorn 1996). Innovation differs in two ways: technical and administrative innovation by Damanpour in 1991 (Kafetzopoulos, 2020). Product or service (technical) innovations are the creation of new knowledge that enables them to effectively manage changes in the market (Azhdary, 2024). Process (administrative) innovation involves the

implementation of new or enhanced processes within the company.

2.5. Competitive Advantage

Implementing a distinctive strategy that other firms do not already employ provides a competitive advantage (Shebeshe, 2024). The competitive advantage indicators are selling price, superior quality and on-time delivery, new products and innovations, product reliability and durability, and fast product development or time-to-market (Shebeshe, 2024). Selling price is how a business can compete by offering lower prices. Superior quality and on-time delivery in a business can provide the type and number of products that customers want in the shortest possible time with excellent quality. New products and innovations refer to how businesses can introduce new products. The ability of a product to last for a long time is known as product reliability and durability. Fast product development (time to market) refers to how a company can launch new products more quickly than its competitors (Shebeshe, 2024).

2.6. Relationship Between Entrepreneurial Orientation and Market Orientation to Innovation

Innovation and entrepreneurship go closely together because they share similar market possibilities and challenges, such as opportunities and creativity. EO encourages the search for new opportunities, which can result in profitability, but only if these prospects are successfully followed through innovation (Reyes-Gómez, 2024). It is also an essential component of entrepreneurial behavior that consistently seeks new opportunities by using existing information and knowledge to boost innovation (Yu, 2022). Following RBV, entrepreneurial orientation can be viewed as a firm-level strategic resource that meets the criteria of potential valuableness, rareness, and non-substitutability (Chen, 2023).

According to Anzules-Falcones (2023), market orientation and the competitive landscape are the two most significant external drivers of innovation. Businesses that prioritize the market are more likely to launch new products and services and expand their brands and product lines into new markets. This can give them a competitive advantage, especially for early industry adopters, who profit from higher sales and earnings as a result of innovation (Reyes-Gómez, 2024). If a business can understand their market well, it will be easy to make innovations that meet their customer needs. According to the RBV theory, SMEs are aware that acquiring the resources they require is essential to their success, as it is gaining an implicit understanding of competitors and customers that they are unable to get internally (Ahmad, 2020).

H_1: Entrepreneurial orientation affects innovation.
H_2: Market orientation affects innovation.

2.7. Relationship Between Entrepreneurial Orientation, Market Orientation, and Innovation to Competitive Advantage

EO is a factor in SMEs' competitive advantage (Penco, 2023). A business's competitive advantage and performance result from its unique resources and competencies, making it difficult for competitors to imitate, precious, uncommon, and difficult to replace (Kiyabo, 2020). EO can supply resource-based components or foundation structures to create CA (Mostafiz, 2022). With EO, businesses can create unique products or services that make a difference among competitors, giving the business a competitive advantage. Businesses with strong EO will not fear taking risks that put them ahead of their competitors and become market leaders.

A company must understand the needs of its customers to provide a proactive or reactive perspective (Fatonah, 2022). Market-oriented businesses may receive great rewards with abundant resources (Gaur, 2011). Market orientation helps businesses know more about their customers. This will help them provide their customers well, which can be a competitive advantage for businesses. Businesses with a competitive advantage can outperform competitors in the international market for international performance worldwide (Falahat, 2022).

The fashion industry must demonstrate innovation and creativity to obtain a competitive edge and achieve high performance (Lang, 2023). A company's competitive advantage increases with the number of innovative items introduced (Reyes-Gómez, 2024). From a resource-based approach, the role that resources are interpreted widely includes assets, skills, capacities, and relationships that play a role in innovation, which gives it a competitive advantage (Mele, 2014). With these advantages, businesses can gain a competitive edge over time and improve their positions in the industry.

H_3: Entrepreneurial orientation affects competitive advantage.
H_4: Market orientation affects competitive advantage.
H_5: Innovation affects competitive advantage.

2.8. Relationship Between Entrepreneurial Orientation and Market Orientation to Competitive Advantage with Innovation as the Mediator

Not all entrepreneurial and market orientations are related to competitive advantage, which is why the researcher uses mediation, which is innovation. The researcher hopes this will bridge entrepreneurial orientation to competitive advantage through innovation because EO frequently results in creating something new

for a business, either as a product, service, or market (Reyes-Gómez, 2024). With a potent EO, businesses are more likely to create innovation that can help them sustain themselves in a competitive market. Innovation can connect entrepreneurial mindsets to actual business results. It will make actions and intentions tangible results that impact the competitive business position in the market.

When developing new items for the market, continuing to enhance the production process, or even introducing new uses for technologies, pressure from the industry or competitors in the market can be intense. Businesses can introduce new or enhanced products to the market ahead of competitors through innovation. Companies use innovation to gain a competitive advantage by providing products or services that no one else can and performing tasks more effectively than competitors (Distanont, 2020). Market orientation improves a business's understanding of its target market and customers. Businesses can introduce effective innovations if they better understand the market through higher market orientation (Zafar, 2019).

H_6: Innovation mediates the relationship between entrepreneurial orientation and competitive advantage.

H_7: Innovation mediates the relationship between market orientation and competitive advantage.

From the seven hypotheses above, this research framework is illustrated in Figure 1.

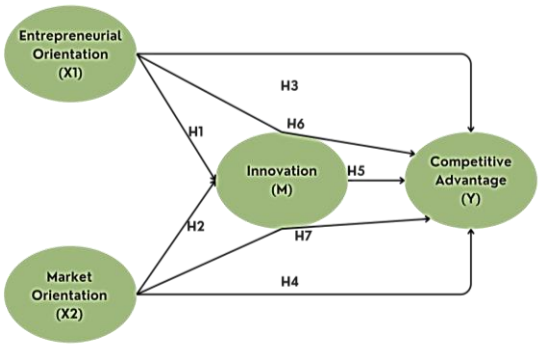

Figure 1. Research framework

3. Methods

This study is quantitative, and the partial least squares (PLS) structural equation modeling (SEM) regression approach will be used to examine the data gathered from the questionnaires statistically. Indonesia's East Java small- and medium-sized businesses in the fashion industry are the focus of this research. The participants were currently owners or managers of fashion industry businesses. The researcher used a sample from G Power, resulting in a minimum sample size of 119.

Participants will be given a Google Forms questionnaire to complete the study. The questionnaire was created using Google Forms. Through social media or a direct approach, the researcher distributes the link of the Google Form to SMEs in the fashion business in East Java. The questions were rated on a 4-point Likert scale. Respondents are going to rate their level of agreement, which is most frequently used as a 4-point rating system, with "Strongly Disagree" on the other side and "Strongly Agree" on the other end (Nee, 2020).

In this study, the researcher uses innovativeness, proactiveness, and risk-taking as indicators of entrepreneurial orientation. There are nine questions adapted from Morgan (2023). The researcher used inter-functional cooperation, competitor orientation, and customer orientation as indices for market orientation. The nine-question items were modified from Narver and Slater (1990), Kohli et al. (1993), Hau et al. (2013), and Jagodič (2022). The researcher used product or service (technical) innovations and process (administrative) innovations as innovation indicators. There were 13 question items adapted from Škerlavaj et al. (2010) and Azhdary (2024). The researcher uses selling price, superior quality, and on-time delivery, new products and innovations, product reliability and durability, and fast product development (time to market) as competitive advantage indicators. There were 16 question items adapted from Shebeshe (2024).

The average variance extracted (AVE) for each dimension was used to test convergent validity (Ladhari, 2012). The researcher assessed discriminant validity with methods known as the heterograft–monotrait ratio of correlations (HTMT), then composite reliability, the goodness of fit (R^2, Q^2, F^2), p-values, and effect sizes of path coefficients.

4. Result

4.1. Data Collection

From the data that has already been gathered, there are 133, but the accepted one is 130 because the three businesses are outside the small- and medium-sized business category (classified as micro or big businesses); 130 valid responses were analyzed.

4.2. Data Analysis Result

4.2.1. Respondents Characteristics

Table 1 shows that a greater proportion of respondents were female (76.15%), over 36 years old (42.31%), and most of them had bachelor's degrees (50.77%). Owing to the fashion industry's emphasis on design, innovation, and clothing, more women are drawn to it. People over 36 could have had more time

to develop qualifications and experience in the fashion sector. This indicates that formal education is important for the SME sector. Company owners, small businesses, and apparel represented the largest percentage of respondents (55.38 %, 78.46 %, and 67.69 %, respectively). People actively manage their businesses. Starting a small fashion business with less capital, workers, and resources is easier. Apparel is frequently the main product in the fashion industry, as it is both necessary and appealing to a wide range of consumers. Most respondents had been in business for three–five years which is 43.08%, and from Surabaya (47.69%). The high proportion of companies in the three to five range indicates that many SMEs have made it through important early phases. Surabaya, a major city in East Java, is likely to attract more SMEs owing to its larger market, superior infrastructure, and easier resource access.

4.3. Validity and Reliability Test

Of the 60 indicators, 19 indicators were removed because their outer loading was below 0.5. Some of the indicators may not be strong in local SMEs or may not be relevant among respondents. The acceptable indicator is 41, as shown in Table 2. Discriminant validity was evaluated using each construct's average variance extracted (AVE). Cronbach's alpha, rho_A, and composite reliability were used to assess the reliability of the constructs. Table 2 provides a complete overview of the AVE and reliability test results.

The results of the heterotrait-monotrait (HTMT) test, an additional technique for assessing discriminant validity, are shown in Table 3. Hair (2021) claims that HTMT may be a more useful method for determining discriminant validity.

Table 1. Respondents characteristics

Parameter		Frequency	%
Gender	Male	31	23.85
	Female	99	76.15
Age	18 - 26 years	38	29.23
	27 - 35 years	37	28.46
	> 36 years	55	42.31
Higher Education	Middle School	1	0.77
	High School	63	48.46
	Bachelor	66	50.77
Position	Manager	58	44.62
	Owner	72	55.38
Business Size	Small	102	78.46
	Medium	28	21.54
Fashion Category	Apparel	88	67.69
	Footwear	10	7.69
	Accessories	26	20.00
	Cosmetics	6	4.62
Years of Establishment	< 1 years	2	1.54
	1 - 2 years	9	6.92
	3 -5 years	56	43.08
	6 - 10 years	45	34.62
	> 11 years	18	13.84
Location	Batu	4	3.08
	Blitar	9	6.92
	Kediri	6	4.62
	Madiun	7	5.38
	Malang	30	23.08
	Mojokerto	9	6.92
	Pasuruan	3	2.31
	Surabaya	62	47.69

Table 2. Outer loadings

Construct	Indicator	Outer Loading	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Entrepreneurial Orientation	EO1.1	0.725	0.858	0.873	0.890	0.507
	EO1.2	0.733				
	EO1.3	0.548				
	EO2.1	0.569				
	EO2.5	0.707				
	EO3.1	0.742				
	EO3.2	0.833				
	EO3.3	0.792				
Market Orientation	MO1.2	0.681	0.903	0.905	0.919	0.507
	MO1.3	0.677				
	MO1.4	0.710				
	MO1.5	0.689				
	MO2.1	0.733				
	MO2.2	0.701				
	MO2.3	0.702				
	MO2.4	0.706				
	MO3.1	0.760				
	MO3.2	0.762				
	MO3.3	0.704				
Innovation	INNO1.6	0.689	0.904	0.909	0.920	0.512
	INNO1.7	0.727				
	INNO1.9	0.717				
	INNO1.10	0.652				
	INNO1.12	0.790				
	INNO2.1	0.644				
	INNO2.2	0.789				
	INNO2.3	0.782				
	INNO2.4	0.755				
	INNO2.5	0.689				
	INNO2.6	0.610				
Competitive Advantage	CA1.1	0.817	0.902	0.907	0.919	0.508
	CA1.2	0.696				
	CA2.1	0.676				
	CA2.2	0.628				
	CA2.4	0.687				
	CA2.5	0.675				
	CA3.2	0.755				
	CA4.1	0.683				
	CA4.2	0.791				
	CA5.1	0.683				
	CA5.3	0.728				

Table 3. Heterotrait-Monotrait

	CA	EO	INNO	MO
CA				
EO	0.694			
INNO	0.726	0.743		
MO	0.800	0.799	0.721	

4.4. Structural Model (Inner Model)

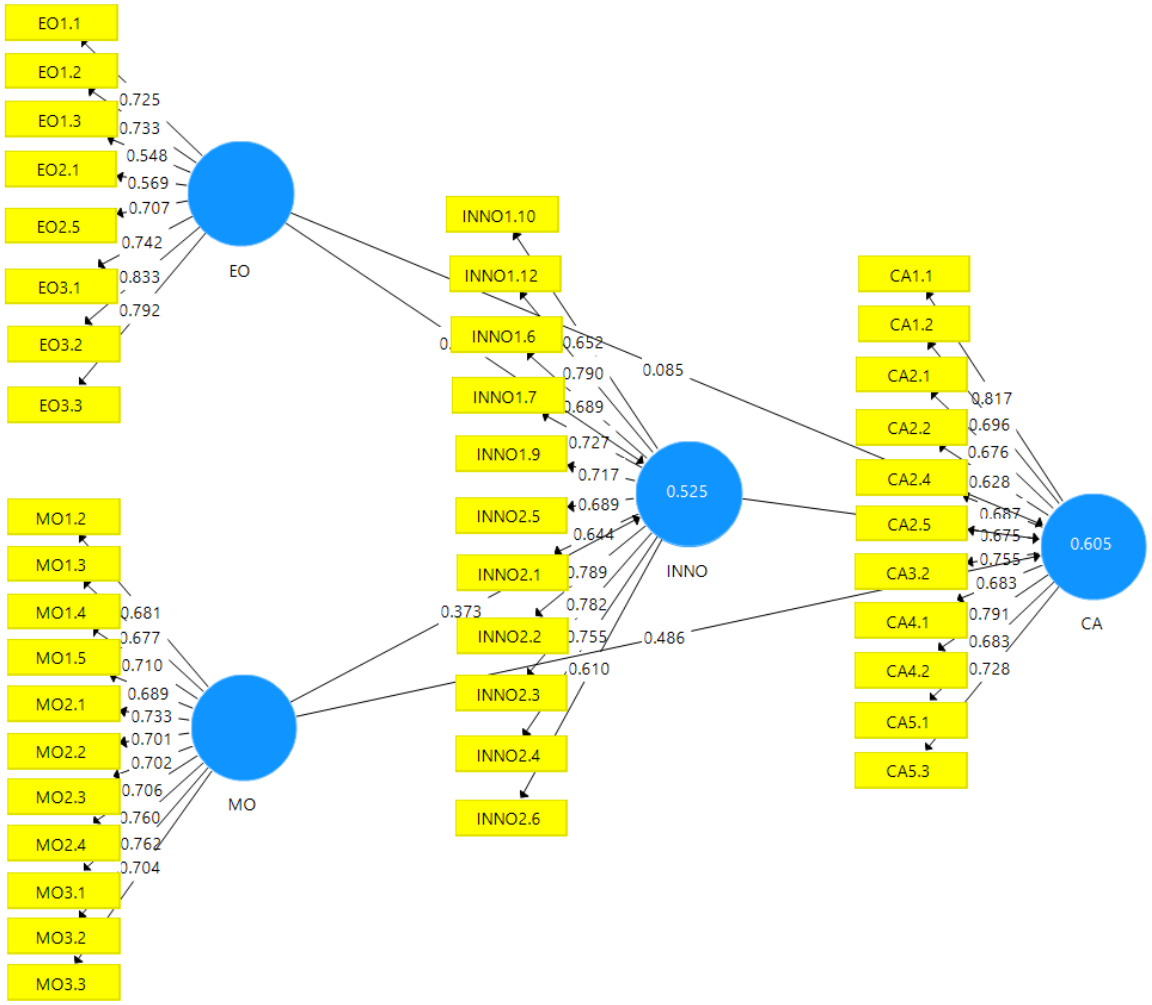

Figure 2. Inner model

Figure 2 shows strong t-statistics of 4.255 and 3.683 for H1 and H2, respectively, demonstrate significant relations. H3, however, was 0.883, indicating that the relationship was insignificant. However, with a t-statistic of 4.973, H4 shows strong significance, indicating that the independent variable impacts the dependent variable. Furthermore, with a t-statistic of 3.142, H5 indicated a substantial correlation between the mediation and dependent variables. Finally, with t-statistics of 2.501 and 2.129, respectively, H6 and H7 demonstrate moderate significance for the mediation effects on the dependent variable. The specific values of the path coefficients are listed in Table 4.

The independent variable affected the mediation variable, as shown by the p-values of 0.000 for both H1 and H2. They are both acceptable: H1, "Entrepreneurial orientation affects innovation," and H2, "Market orientation affects innovation." The independent and dependent variables do not significantly correlate, according to H3, with a p-value of 0.378. So, H3, "Entrepreneurial orientation affects competitive advantage." is rejected. H4, on the other hand, shows a significant relationship with a p-value of 0.000, suggesting that "market orientation affects competitive advantage". Moreover, H5 shows significance for the mediation variable's impact on the

Table 4. Path coefficient (direct and indirect test) and hypothesis test results)

Path	Path Coefficient	T Statistics	P Values	Notes
EO → INNO (H1)	0.409	4.255	0.000	Hypothesis Supported
MO → INNO (H2)	0.373	3.638	0.000	Hypothesis Supported
EO → CA (H3)	0.085	0.883	0.378	Hypothesis not Supported
MO → CA (H4)	0.486	4.973	0.000	Hypothesis Supported
INNO → CA (H5)	0.288	3.142	0.002	Hypothesis Supported
EO → INNO → CA (H6)	0.118	2.501	0.013	Hypothesis Supported
MO → INNO → CA (H7)	0.107	2.129	0.034	Hypothesis Supported

dependent variable with a p-value of 0.002, indicating that " innovation affects competitive advantage". Owing to the significant direct effects of MO and CA, which have p-values of 0.013 and 0.034, respectively, H6 exhibits full mediation effects, but H7 demonstrates partial mediation effects. This was because the direct effects of EO and CA were not significant. Thus, the two hypotheses H6, "Innovation mediates the relationship between entrepreneurial orientation and competitive advantage," and H7, "Innovation mediates the relationship between market orientation and competitive advantage.

4.5. Goodness of Fit

4.5.1. Coefficient of Determination (R^2)

The value of R^2 indicates that the dependent variable accounted for approximately 60.5%, implying high predictive accuracy (0.605). In contrast, the independent variable (INNO) accounted for approximately 52.5%, indicating a moderate level of predictive accuracy (0.525). The R^2 findings are shown in Table 5.

Table 5. R-Square test

	R Square
CA	0.605
INNO	0.525

4.5.2. F Square (F^2)

With F^2 value of 0.170, the association between EO and INNO appeared to have a medium effect size. On the other hand, the F^2 value of 0.008 for the relationship between EO and CA suggests that EO has little to no effect on CA. MO had a strong effect on CA, as evidenced by the F^2 value of 0.254 for CA, which showed a substantial effect, and the F^2 value of 0.142 for INNO, suggests a medium effect size. Finally, the F^2 value of 0.100 for the relationship between INNO and CA denotes a small to medium effect size, meaning that INNO has a moderate impact on CA. Table 6 shows the F-Square effect size for the research model.

Table 6. F-Square test

	INNO	CA
EO	0.170	0.008
MO	0.142	0.254
INNO		0.100
CA		

4.5.3. Q Square (Q^2)

With a $score\ of\ Q^2$ of 0.289 for CA, the model appears to have a high degree of prediction accuracy for this construct. However, INNO was significantly less than that of CA; the Q^2 The result for INNO was 0.245, which also indicates an acceptable predictive significance. These findings substantiate the general validity of the study approach by showing that the model successfully predicted both constructs. Table 7 shows the results of the Q^2 test.

Table 7. Q-Square test

	Q^2 (=1-SSE/SSO)
CA	0.289
INNO	0.245

5. Discussion

5.1.1. The Effect of Entrepreneurial Orientation and Market Orientation Towards Innovation

The results show that innovation, entrepreneurial, and market orientation are significantly and positively related. This implies that H1 and H2 are accepted. Previous studies have also confirmed that the statement of entrepreneurial orientation has been directly associated with innovation (Genc, 2019); (Al-Hakimi, 2021); (Yu,

2022); (Zarkasi, 2023). Strong EO improves a company's ability to create new products, improve productivity, and implement innovative methods. The highest indicator of outer-loading risk-taking in EO helps fashion SMEs quickly adjust to evolving trends, essential for maintaining competitiveness. SMEs with a thorough understanding of their markets can create goods that satisfy consumer wants and current trends, thereby increasing sales and satisfaction. To understand customer preferences and market expectations, fashion SMEs with a strong inter functional market orientation actively involve numerous functions in strategic planning. Because of this strategy, they may create products that align with current trends, increasing client happiness and revenue. The study's findings align with the Resource-Based View (RBV), which maintains competitive advantages by utilizing valuable resources and capabilities.

5.1.2. The Effect of Entrepreneurial Orientation, Market Orientation, and Innovation Towards Competitive Advantage

This study shows no significant relationship between entrepreneurial orientation and competitive advantage. This result implies that H3 is rejected. This is not aligned with previous studies that have reported that entrepreneurial orientation is directly associated with competitive advantage (Kiyabo, 2020); (Shehadeh, 2023). If not paired with sufficient market knowledge, strong EO, such as excessively aggressive risk-taking, proactivity, and innovation, can result in bad business judgments. Local SMEs' attempts to innovate based on established processes may be hindered by shifting consumer tastes toward foreign brands. Their high-risk choices could lead to operational or financial setbacks if technological leadership and product quality are inadequately prioritized.

A significant and positive relationship exists between market orientation and innovation. Thus, H4 is accepted. If market orientation increases, then competitive advantage also increases. Previous studies have also confirmed that market orientation is directly associated with competitive advantage (Falahat, 2022); (Verawaty, 2023); (Fatonah, 2022). SMEs may boost client loyalty and return by identifying and catering to specific demands through product development that meets these needs. Competitive pricing and interfunctional orientation in strategic planning can boost client loyalty and encourage repeat business. RBV theory states that SMEs with a strong market focus are better positioned to use their resources efficiently and create long-term competitive advantages in a changing sector.

The results of this study confirm that the direct relationship between innovation and competitive advantage has a significant and positive effect. Thus, H5 is accepted. If innovation increases, then competitive advantage also increases. Previous studies have also confirmed that innovation has been directly associated with competitive advantage (Masrom, 2022; Verawaty, 2023). SMEs can increase their market share and draw in clients searching for unique items by launching new products that address consumer demand. The RBV states that companies can only maintain a competitive edge if they can access rare, valuable, unique, and non-replaceable resources.

5.1.3. The Mediation Effect of Innovation on Entrepreneurial Orientation and Market Orientation Towards Competitive Advantage

This study demonstrates a strong indirect relationship between entrepreneurial orientation and competitive advantage through innovation. Thus, H6 is accepted. Innovation can fill the necessity left by EO, even though it may not directly result in competitive benefits on its own. Due to their stronger ability to adapt to changing customer demands and market situations, SMEs with strong EO and a focus on innovation are more competitive. Through innovation, SMEs can produce unique products or services that are challenging for competitors. By adjusting to changes in the market, fashion SMEs that embrace risk-taking are better positioned to accomplish their business goals. Their competitive edge in the market was further strengthened by their ability to attract more customers by providing competitive prices. According to the RBV, a company has a competitive advantage if it contains priceless, rare, special, and non-replaceable resources.

This study confirms the indirect relationship between market orientation and competitive advantage through innovation, which has a significant and positive effect. This implies that H7 is accepted. Innovation helps SMEs use their resources better and convert market insights into competitive advantages. Fashion SMEs can develop more successful strategies to meet market demands if they prioritize inter-functional orientation in their business planning. Furthermore, they can attract and retain customers by providing competitive prices, strengthening their position as market leaders. According to the RBV, collecting unique, uncommon, valuable, and non-replaceable resources gives an organization a competitive advantage.

5.2. Managerial Implications

This study reveals that entrepreneurial orientation (EO) and competitive advantage (CA) do not significantly correlate, with EO being necessary for achieving business objectives in dynamic environments. The high outer loading: "Owing to the nature of the environment

is necessary to achieve business objectives". Businesses should adjust to external conditions as part of their broader strategy. A strong correlation exists between competitive advantage (CA) and market orientation (MO), suggesting that businesses that understand and satisfy market demand have a stronger competitive position. "We are involved in the formation of business plans and strategies of the company," one of the greatest outer loading indications, emphasizes how crucial it is to include market information in the strategic planning process. The study emphasizes the importance of including market information in strategic planning, urging market-oriented organizations to respond to customer needs and proactively design strategies. Innovation is also strongly linked to competitive advantage as it helps businesses stand out, increase productivity, and meet changing consumer demands. The highest score for the outer loading indicator, "We continuously raise the quality of new products," highlights the importance of continuous innovation in gaining and maintaining a competitive advantage. Companies that prioritize innovation have a better chance of maintaining their positions.

5.3. Limitations and Directions for Future Research

This research has limitations due to the lack of literature on entrepreneurial orientation and market orientation, which can lead to inaccurate calculations and misunderstandings. Therefore, stronger indicators are required to provide accurate results. The study did not consider external variables, such as competitive dynamics, technical improvements, and economic conditions, which could impact the results. The geographic focus of this study on SMEs in East Java may limit its applicability to other areas or industries. The questionnaire survey method used for data collection raises questions about the data quality as it may have biases, potentially impacting the accuracy of the results. Future studies should include a wider variety of firms and analyze data from different sources to ensure more comprehensive results.

6. Conclusions

According to this study, market orientation (MO) directly develops competitive advantage (CA) by including market information in strategic decisions, whereas entrepreneurial orientation (EO) indirectly increases CA through innovation (INNO). Constant innovation is essential to sustain CA and establish companies as industry leaders. According to these findings, businesses operating in dynamic environments should integrate market-driven innovation to improve customer engagement and match EO with flexible strategies to maintain competitiveness. The limitations include the focus on East Java SMEs and the lack of other factors. Future research should examine more factors and employ various data-collection techniques to improve the accuracy of the results.

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