








“Exploring the effect of SME internal capabilities on firm performance: A perspective of resource advantage theory of competition”

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EXPLORING THE EFFECT OF SME INTERNAL CAPABILITIES ON FIRM PERFORMANCE: A PERSPECTIVE OF RESOURCE ADVANTAGE THEORY OF COMPETITION

Abstract

Firm performance is a business achievement through pro-growth capabilities and strategies. This paper aims to determine SME internal capabilities that can improve firm performance in Indonesia employing the resource advantage theory of competition. The research sample includes small and medium enterprises from the beauty product, food and beverage, and textile industries, the three primary industries that help Indonesia achieve a green economy. The respondents are managers or business owners who understand and handle overall business activities. Using convenience sampling techniques, 194 respondents were obtained and analyzed via partial least squares (PLS) with SMART PLS Ver 4.0 software. Empirical findings prove that service-dominant and responsive marketing orientations positively affect firm performance. Service-dominant orientation does not affect exploitative operational ambidexterity. However, exploitative operational ambidexterity has a significant positive effect on firm performance. The firm-specific marketing ecosystem does not affect firm performance. However, the firm-specific marketing ecosystem positively affects exploitative operational ambidexterity. Further findings indicate that responsive marketing orientation has a stronger relationship to exploitative operational ambidexterity. This paper offers managerial implications for business owners or managers who must modify service-dominant orientation and firm-specific marketing ecosystem to be more adaptive, innovative, and competitive to achieve superior firm performance.

Keywords

ambidexterity, capability, ecosystem, orientation,
performance

JEL Classification

M31, L21, L26, O35

INTRODUCTION

In today's dynamic market, every business actor has to create, develop, and adapt its business strategy to achieve dynamic market capabilities (Mitrega, 2020). This capability depends on how business actors continuously navigate and configure their internal capability to meet market challenges. This is very important, particularly for small and medium enterprises (SMEs) in Indonesia, a developing market, to be unique through their capabilities that are adapted based on developing trends.

The configuration of internal capabilities leading to superior firm performance has been analyzed by many researchers, especially in the context of SMEs (Acosta et al., 2018; Aljuboori et al., 2022; Hanifah et al., 2020; Rua et al., 2018; Sahoo, 2019). Despite their efforts, the competitive advantage of SMEs is still being debated (Mady et al., 2023; Srinita, 2019). Wilden and Gudergan (2017) argue that there is no direct correlation between a service-dominant orientation and firm per-

formance. On the other hand, Alves et al. (2021), Karpen et al. (2015), and Ostrom et al. (2015) argue that the primary focus in producing firm performance is service-dominant orientation. Small and medium enterprises continue to fail if the business owners or managers do not allocate capabilities and resources as competitive pillars (Direction, 2020).

SMEs are the backbone of the national economy in Indonesia. The contribution of SMEs to the national economy is significant, both in terms of the number of businesses, employment absorption, and contribution to Product Domestic Bruto (PDB). This condition can be proven through factual data released by Ministry of Trade (Kementerian Perindustrian Republik Indonesia, 2020) revealed that in 2023, SMEs contribute more than 97% of the total business units and contribute around 60%. Meanwhile, data from Indonesian Chamber of Commerce and Industry (Indonesian Chamber of Commerce and Industry, 2025) stated that SMEs had contributed 61% of Indonesia's Product Domestic Bruto (PDB), equivalent to IDR 9,580 trillion in 2023. Furthermore, data from Lestari Moerdijat (2024) showed that in 2023 Indonesia's entrepreneurship development ratio had only reached 3.47% of the total population. Therefore, the number of entrepreneurs in Indonesia is still relatively low, especially when compared to developed countries, which generally have an entrepreneurship ratio of between 10% and 12%. To respond and accelerate sustainable economic growth, it must be driven by a service-based business approach, one of the internal strengths that can improve overall business performance and become the main driver of transformation toward an adaptive and sustainable business model.

Responsive market orientation, firm-specific marketing ecosystem, exploitative operational ambidexterity, and service-dominant orientation are viewed as internal capabilities to navigate overall firm performance in the SME sector (Ceptureanu et al., 2022; Iyer et al., 2019; Karpen et al., 2015; Ozdemir et al., 2017; Petzold et al., 2019; Wilden & Gudergan, 2017). They help one market potential and demands, optimize business resources and opportunities, and develop competitive advantages as key to business sustainability and resilience.

1. LITERATURE REVIEW AND HYPOTHESES

Service-dominant orientation is a business approach that aims to improve company performance through customer satisfaction, innovation, and competitive advantage. Wilden and Gudergan (2017) state that service-dominant orientation is a culture-centered business philosophy that emphasizes co-creation and drives organizations to attain firm performance. Karpen et al. (2015) revealed that service-dominant orientation is a strategic competency tasked with empowering, developing, and integrating various firm capacities and capabilities that form business value. Similarly, Sharma and Conduit (2016) explained that service-dominant orientation is a portfolio centered on a culture that directs companies to achieve superior performance while emphasizing co-creation.

In the context of SMEs, service-dominant approach can be realized through consumer engagement, building collaboration and partner-

ships (Alves et al., 2021). This approach allows firms to expand the reach and quality of services by utilizing customer feedback, strengthening long-term relationships and creating joint innovations. As a result, firm performance can be achieved. Adopting a service-dominant approach will encourage companies to maximize their business expertise through service innovation, understanding consumer needs, and flexibility in adjusting current market offerings (Katsifaraki & Theodosiou, 2024).

A firm-specific marketing ecosystem is a system that connects all marketing resources and activities with value to an integral whole (García-Granero et al., 2018). The marketing ecosystem is also viewed as a network of interacting entities, including customers, business partners, suppliers, and communities (Hewett et al., 2022). This ecosystem's complexity enables firms to understand market conditions, optimize marketing strategies, exploit opportunities and quickly create special skills that meet current market needs (Zhang &

Chang, 2020). Additionally, a firm-specific marketing ecosystem is considered a focal point involving resources and competitive advantages in marketing functions to create and communicate value and features in improving firm performance (Zhang & Du, 2019). In the SME sector, a firm-specific marketing ecosystem can be formulated as green marketing practices such as providing comprehensive information about environmentally friendly product materials and designing and producing environmentally friendly products or services (Albort-Morant et al., 2018). Second, there is consumer orientation education about healthy lifestyles through media platform advertising (Q. Zhang et al., 2017). The third is active involvement in social campaigns (Grewal et al., 2017). These three components, if optimized, can support the business foundation that affects firm performance.

Market responsiveness refers to a company's competence to interpret and respond to market information from suppliers, customers, and other sources at a given time (Akhavan et al., 2014). Responsiveness is also called sensitivity to market signals, opportunities, and risks (Wei et al., 2014). Similarly, Shimizu and Hitt (2004) state that responsive marketing orientation refers to the ability and dynamism to react to market stimuli. Various studies have shown that responsive market orientation improves firm performance (Ashrafi & Zare Ravasan, 2018; Frambach et al., 2016; Kharabsheh et al., 2015). When firms are responsive to market changes and dynamics from the start, the more outstanding becomes the achievement of optimal firm performance (Rojas-Córdova et al., 2023; Wang et al., 2023).

Ambidexterity is a performance foundation designed by companies to create long-term competitiveness and relevance, including exploitative ambidexterity (Úbeda-García et al., 2020). Exploitation ambidexterity is the business's capacity to use existing resources and opportunities and optimize further efficiently (Khan et al., 2020). Optimization expertise can be achieved through increased efficiency, cost savings, minor improvements, and increased quality and productivity to maintain the balance and sustainability of current performance (Piao & Zajac, 2016; Venugopal et al., 2020). Similarly, according to Ryan et al. (2018), business optimization can be realized through

business processes, technologies, and methods that maximize firm performance. The stronger the firm's responsiveness to the market, the stronger the firm's adaptive skills in dealing with pressures and capturing new business opportunities (Garrido-Moreno et al., 2024; Krammer, 2022).

Firm performance is an important indicator for organizations to achieve goals. Firm performance covers three main areas: market performance, financial performance, and non-financial performance (Rehman et al., 2019). Firm performance also reflects the successful implementation of business strategies (Kucharska & Kowalczyk, 2019). On the other hand, firm performance is seen as an aspect of sustainability and potential risks for achieving short-term and long-term goals (Lorenzo et al., 2018; Whitelock, 2018). Businesses that monitor and evaluate current market relevance are more likely to achieve optimal business performance. This activity allows companies to adjust business strategies to changes in consumer preferences, technological developments, and shifts in industry trends (Krishnakumar et al., 2022; Osiyevskyy et al., 2020).

Resource advantage theory of competition is an approach in marketing used to understand how value is created in a business ecosystem. Hunt and Morgan (1996) argue that the resource advantage theory of competition is a concept that recognizes that every business will have some unique resources, such as highly knowledgeable employees, sophisticated production processes, capabilities, expertise and business methods that will contribute to business advantages that competitors cannot easily imitate. Innovation and differentiation in SMEs' business units can be generated through a business approach emphasizing unique resources to create competitive advantages. Therefore, the resource advantage theory of competition theory contrasts with this current analysis, emphasizing that internal capabilities are assessed as the basis of competition to produce superior firm performance.

This paper aims to explore the service-dominant orientation, exploitative operational ambidexterity, firm-specific marketing ecosystem, and responsive marketing orientation as small and medium enterprises' internal capabilities for en-

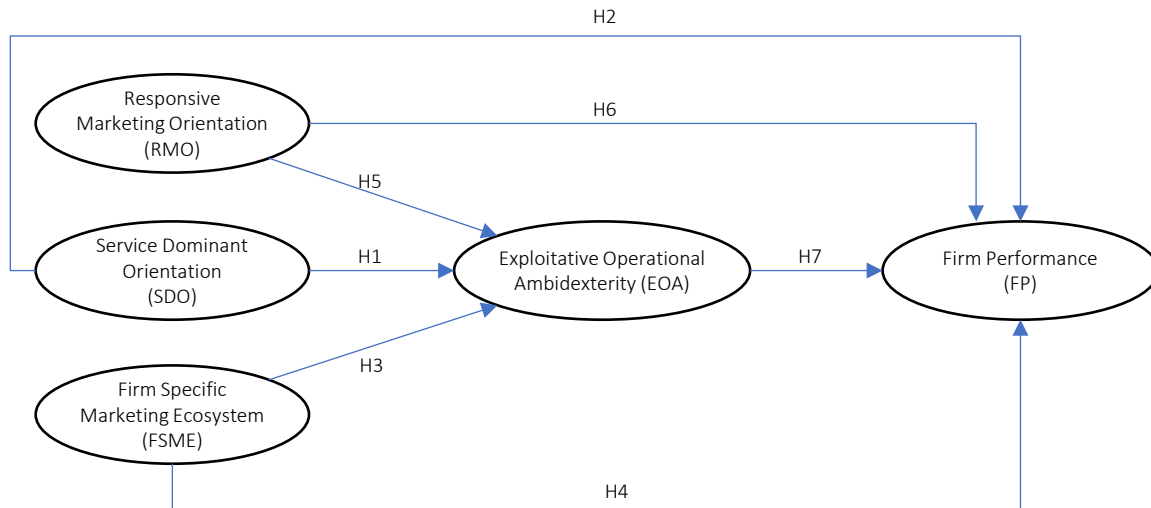


Figure 1. Theoretical framework

hancing firm performance from the resource advantage theory of competition. Therefore, the following hypotheses are shown in Figure 1:

- H1: Service dominant orientation positively influences exploitative operational ambidexterity.*
- H2: Service dominant orientation positively influences firm performance.*
- H3: Firm-specific marketing ecosystem positively influences exploitative operational ambidexterity.*
- H4: Firm-specific marketing ecosystem positively influences firm performance.*
- H5: Responsive market orientation positively influences exploitative operational ambidexterity.*
- H6: Responsive market orientation positively influences firm performance.*
- H7: Exploitative operational ambidexterity positively influences firm performance.*

2. METHODS

The population in this study covered business owners and managers of small and medium enterprises (SMEs) in Indonesia. This study used a con-

venience sampling method with a non-probability sampling involving 194 business owners and managers. The respondents of the study were business owners and managers of SMEs in the beauty product, food and beverage, and textile sectors, which are the primary industries that can contribute to the development of a green economy in Indonesia.

This paper uses quantitative research techniques to explore the internal capabilities of SMEs, namely service-dominant orientation, responsive market orientation, exploitative operational ambidexterity, and firm-specific marketing ecosystem in improving firm performance. The primary data used in this study were retrieved from an online questionnaire given to participants. The questionnaire consisted of 27 assessment instruments related to service-dominant orientation, responsive market orientation, exploitative operational ambidexterity, firm-specific marketing ecosystem, and firm performance. The service-dominant orientation variable consists of seven statements (Wilden & Gudergan, 2017), the responsive marketing orientation variable consists of seven statements (Iyer et al., 2019), the exploitative operational ambidexterity variable consists of five statements (Clauss et al., 2021), the firm-specific marketing ecosystem variable consists of five statements (Nim et al., 2024), and the firm performance variable consists of three statements (Taouab & Issor, 2019). The main focus is ensuring the reliability of the answers provided. To mitigate potential bias, several recommendations (Malik et al., 2021; Sangthong,

2019) should be followed, such as assessing each construct item using an interval scale that goes from 1 (strongly disagree) to 10 (strongly disagree) in order to prevent double-barreled questionnaire items (MacKenzie & Podsakoff, 2012).

This study used partial least squares (PLS) with Smart-PLS 4.0 for data analysis. Measurement model analysis validates the measurement items and evaluates the dependency of the indicators. Convergent and discriminant validation checks facilitate the assessment of indicator validity. Hair, Babin, et al. (2019) stated that convergent validation is achieved with outer loading (>0.7) and average variance extracted (AVE) (>0.5). The heterotrait-monotrait correlation ratio (HTMT) is used to assess discriminant validity. Cross-loading should indicate that the outer loading of the related construct indicators must exceed all of its cross-loadings. The average of all correlations between indicators measuring the construct is relatively different compared to the average of the average correlations between indicators measuring the same construct, which is known as the heterotrait-monotrait correlation ratio (HTMT) criterion, and a value of 0.885 to 0.9 is considered to meet these conditions.

Predictive relevance (Q^2), coefficients of determination (R^2 values), and statistical significance of the structural path coefficients were used to assess the structural model. The variance inflation factor (VIF) (<5) is used to assess the collinearity. The other statistic used in this study is the effect size, or f^2 . It is used to ascertain whether the missing construct's absence significantly impacts the endogenous construct (Sarstedt et al., 2020). The structural equation modeling (PLS-SEM) does not assume the normality of the data. A value of less than 0.08 indicates the model's goodness of fit, and model fit analysis has also used the standardized root mean square residual (SRMR) value (Hair et al., 2021). The structural equation modeling (PLS-SEM) uses a nonparametric bootstrap technique to determine the significance of coefficients (Hair, Risher, et al., 2019). This study employs 5,000 subsamples and a bootstrapping approach to generate path analysis.

From the data collection process in July 2022 to December 2022, five hundred online surveys were distributed via social media and WhatsApp. Only

194 data sets met the requirements after careful data verification. The characteristics of respondents based on gender, educational background, length of business operations, and business categories are presented in Table 1.

Table 1. Demographic profiles of the samples

Demographic Profile	n	(%)
Gender		
Male	118	61
Female	76	39
Educational background		
Bachelor's degree	87	45
Master's degree	57	29
Doctorate	9	5
Others	41	21
Length of business operations		
Less than 1 year	42	22
1–3 years	64	33
3–5 years	32	16
5–7 years	13	7
More than 7 years	43	22
Business category		
Beauty products	30	15
Clothing and textiles	48	25
Foods and beverages	90	46
Others	26	13

Note: $n = 194$.

3. RESULTS

As a preliminary stage, the descriptive analysis investigates the sample demographic profiles, as indicated in Table 1. Additionally, the data were examined using the partial least squares structural equation modeling (PLS-SEM) with assistance from Software SmartPLS version 4.0. Following the suggestions of Hair, Babin, et al. (2019) and Sarstedt et al. (2020), a two-step analysis approach was used. To ensure that all of the indicators or observed variables used were valid and reliable, the measurement model analysis first employed the heterotrait-monotrait ratio of correlations (HTMT), the average variance extracted (AVE), and Cronbach's alpha/composite reliability (CR) (especially in the reflective measurement model). The second stage in the two-step process was the structural model analysis, which included explanatory model analysis, measurement model analysis, and structural model analysis to find the variance inflation factor (VIF) used to evaluate collinearity.

All indicators were considered equally reliable since they all had equal outer loadings on the construct, and Cronbach's alpha was higher than the recommended cutoff value of 0.7 (Table 2). According to Hair and Sarstedt (2019) and Hair, Babin, et al. (2019), the components with loading values less than 0.7 were eliminated. Following Hair, Babin, et al. (2019), the model's composite reliability score exceeded 0.7, signifying more excellent dependability. The model's convergent validity was evaluated using the calculated average variance. The average variance extracted (AVE) values in Table 3 are more significant than 0.50, indicating that the construct explained, on average, over half of the variation in its indicators.

Except for the responsive marketing orientation (RMO), Table 3 shows that most heterotrait-monotrait ratios of the correlations (HTMT) were less than 0.9. This implies that the trajectory model covered most of the (conservatively) conceptually related conceptions in the area (Henseler et al.,

2015). Following that, the model fit requirement, advised to be less than 0.08, was still met by the standardized root mean square residual (SRMR), which was 0.06 (Hair et al., 2017). Next, the partial least square (PLS) approach was used to perform the model fit analysis.

The partial least squares (PLS) method was used to determine the analysis's conclusions' coefficient of determination. According to Table 4, the R^2 values for the firm performance (FP) and exploitative operational ambidexterity (EOA) constructs were 0.750 and 0.750, respectively. It clarifies that whilst the other constructs predict the exploitative operational ambidexterity (EOA) construct to be 25%, responsive marketing orientation (RMO), service-dominant orientation (SDO), and firm-specific marketing ecosystem (FSME) expect it to be 75%. Responsive marketing orientation (RMO), service-dominant orientation (SDO), firm-specific marketing ecosystem (FSME), and exploitative operational ambidexterity (EOA) predicted 75% of the firm

Table 2. Measurement model analysis

Construct	Items	Cronbach's Alpha (0.6–0.9)	Composite Reliability (0.6–0.9)	Average Variance Extracted (>0.5)	Factor Loading (>0.7)	t-value (>1.96)
Service Dominant Orientation (SDO)	SDO1	0.913	0.919	0.662	0.689	11.118
	SDO2				0.798	9.915
	SDO3				0.757	10.282
	SDO4				0.855	12.416
	SDO5				0.889	13.968
	SDO6				0.784	12.744
	SDO7				0.901	15.607
Responsive Market Orientation (RMO)	RMO1	0.933	0.940	0.714	0.914	18.549
	RMO2				0.812	10.818
	RMO3				0.895	19.524
	RMO4				0.856	17.643
	RMO5				0.759	11.252
	RMO6				0.873	17.011
	RMO7				0.797	12.782
Firm-Specific Marketing Ecosystem (FSME)	FSME1	0.895	0.896	0.707	0.872	11.212
	FSME2				0.771	7.200
	FSME3				0.835	9.656
	FSME4				0.897	11.998
	FSME5				0.823	13.179
Exploitative Operational Ambidexterity (EOA)	EOA1	0.916	0.926	0.753	0.915	20.413
	EOA2				0.868	19.390
	EOA3				0.913	20.760
	EOA4				0.908	21.971
	EOA5				0.719	13.442
Firm Performance (FP)	FP1	0.896	0.896	0.828	0.912	28.334
	FP2				0.881	22.857
	FP3				0.936	32.205

Table 3. Correlation matrix (HTMT ratio)

Construct	Expl. Oper Ambidexterity (EOA)	Firm Performance (FP)	Firm Spc. Mrktg Ecosyt (FSME)	Resp Market Orientation (RMO)	Serv Dominant Orient. (SDO)
Expl. Oper Ambidexterity (EOA)					
Firm Performance (FP)	0.893				
Firm Spc. Mrktg Ecosyt (FSME)	0.741	0.679			
Resp Market Orientation (RMO)	0.901	0.911	0.691		
Serv Dominant Orient. (SDO)	0.678	0.801	0.699	0.802	

performance (FP) construct, with the remaining 25% coming from other constructs, according to the firm performance (FP) coefficient of determination (R^2) of 0.750. It also demonstrates that the exploitative operational ambidexterity (EOA) and firm performance (FP) constructions' coefficient of determination are more significant than 0.50, indicating that they were big (less than or equal to 0.75 but more enormous than or equal to 0.50).

Additionally, the blindfolding-based, cross-validated redundancy metric Q^2 was computed using SmartPLS's blindfolding function. The result showed Q^2 values of more than 0.50, indicating the relatively high prediction accuracy of the partial least square (PLS) path model.

Table 4. Coefficient of determination and predictive relevance

Construct	R^2	Q^2
Exploitative Oper Ambidexterity (EOA)	0.750	0.698
Firm Performance (FP)	0.750	0.699

According to Hair, Babin, et al. (2019), one way to determine how much the independent affects the dependent constructs is by looking at the f^2 value. The effect size values of the relationships between them are displayed in Table 5. As a result, the $f^2 > 0.35$ indicates that the link between responsive marketing orientation (RMO) and exploitative operational ambidexterity (EOA) has a substantial im-

Table 5. Effect size (f^2)

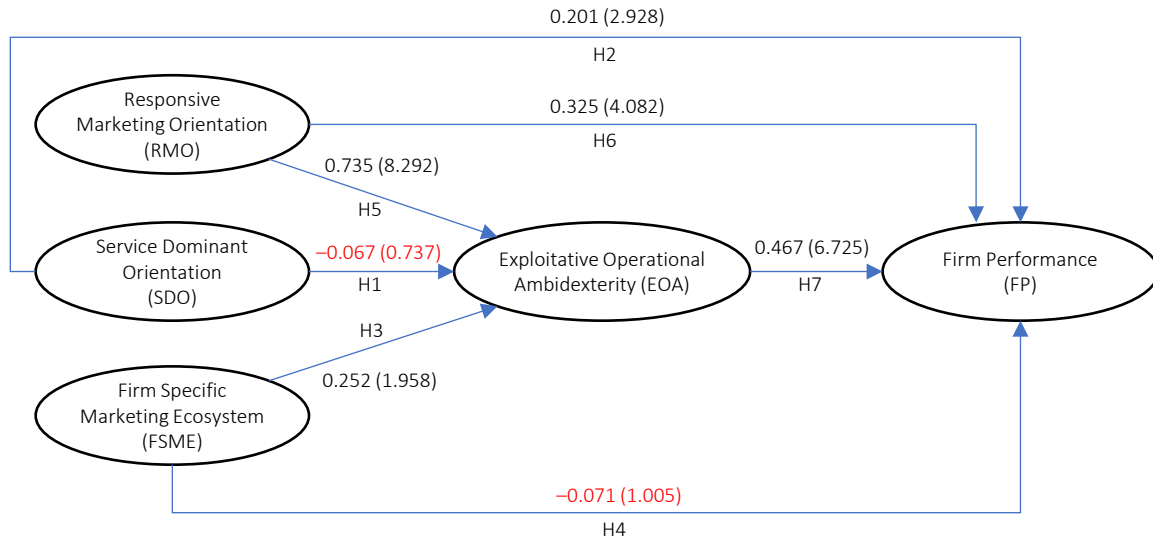
Relationship among constructs	f^2	Remarks
Exploitative Oper Ambidexterity (EOA) → Firm Performance (FP)	0.171	Medium
Firm Spc. Mrktg Ecosyt (FSME) → Expl. Oper Ambidexterity (EOA)	0.142	Medium
Firm Spc. Mrktg Ecosyt (FSME) → Firm Performance (FP)	0.002	Small
Resp Market Orientation (RMO) → Expl. Oper Ambidexterity (EOA)	0.820	Large
Resp Market Orientation (RMO) → Firm Performance (FP)	0.116	Medium
Serv Dominant Orient. (SDO) → Expl. Oper Ambidexterity (EOA)	0.011	Small
Serv Dominant Orient. (SDO) → Firm Performance (FP)	0.100	Medium

performance ($f^2 < 0.02$) indicates that the link between firm-specific marketing ecosystem (FSME) – firm performance (FP) and service-dominant orientation (SDO) – exploitative operational ambidexterity (EOA) has minimal impact sizes.

Table 6 illustrates how the partial least squares (PLS) prediction function ensured the model has predictive power. An analysis is provided between the root mean square error (RMSE) of partial least squares (PLS) and the root mean square error linear regression model (RMSE LM). Given that most root mean square error (RMSE PLS) values were lower than root mean square error linear regression model (RMSE LM), it also showed no bigger prediction errors, indicating the model's strong predictive capability. According to the evaluation of the measurement model, it offered a comparatively high level of prediction accuracy.

Table 6. PLS predict results

Items	RMSE PLS	RMSE LM	Comparison Result
EOA1	0.875	0.905	Smaller
EOA2	1.087	1.094	Smaller
EOA3	1.137	1.240	Smaller
EOA4	1.122	1.238	Smaller
EOA5	1.397	1.483	Smaller
FP1	1.064	1.125	Smaller
FP2	0.809	0.852	Smaller
FP3	0.915	0.975	Smaller



Note: Items in red mean insignificant $t < 1.96$.

Figure 2. Structural model analysis using bootstrap with subsamples ($n = 5,000$)

Table 7. Variance inflation factor (VIF) result of the inner model

Construct	Expl. Oper Ambidexterity (EOA)	Firm Performance (FP)	Firm Spc. Mrktg Ecosyt (FSME)	Resp Market Orientation (RMO)	Serv Dominant Orient. (SDO)
Expl. Oper Ambidexterity (EOA)		3.809			
Firm Performance (FP)					
Firm Spc. Mrktg Ecosyt (FSME)	1.857	2.120			
Resp Market Orientation (RMO)	2.497	4.544			
Serv Dominant Orient. (SDO)	2.472	2.500			

Note: Items in bold mean the value is above 3 (there is potential for collinearity).

The first analysis was carried out to ascertain any collinearity among the predictor constructs and verify that collinearity did not result in biased regression results. As a result, the variance inflation factor (VIF) values were used to evaluate it.

Table 7 indicates a likelihood of collinearity among exploitative operational ambidexterity (EOA), firm-specific marketing ecosystem (FSME), responsive marketing orientation (RMO), and service-dominant orientation (SDO) concerning firm performance (FP) and exploitative operational ambidexterity (EOA), as their values range from 3 to 5 (Hair, Risher, et al., 2019) while the remaining values are below 3. Therefore, they lack collinearity.

Figure 2 determined the significance and relevance of the model's path coefficients.

Table 8 demonstrates that the hypotheses were also tested in this manner. The path between service-dominant orientation (SDO) – exploitative operational ambidexterity (EOA) and firm-specific marketing ecosystem (FSME) – firm performance (FP) was the only one among the constructs with an insignificant influence (t -value of less than 1.96). In contrast, the other hypotheses are confirmed (with an alpha error of less than 0.05). It suggests that exploitative operational ambidexterity (EOA) significantly impacts firm performance (FP).

This also suggests that exploitative operational ambidexterity (EOA) mediates the path from service-dominant orientation (SDO), responsive marketing orientation (RMO), and firm-specific marketing ecosystem (FSME) to firm performance (FP). From service-dominant orientation (SDO) and respon-

Table 8. Hypotheses testing

Hypothesis	Structural Paths	Standardized coefficient (β)	t-values	Result
H1	SDO \rightarrow EOA	-0.067	0.74	Not supported
H2	SDO \rightarrow FP	0.201	2.93	Supported
H3	FSME \rightarrow EOA	0.252	1.96	Supported
H4	FSME \rightarrow FP	-0.071	1.01	Not supported
H5	RMO \rightarrow EOA	0.735	8.29	Supported
H6	RMO \rightarrow FP	0.325	4.08	Supported
H7	EOA \rightarrow FP	0.467	6.73	Supported

sive marketing orientation (RMO), exploitative operational ambidexterity (EOA) partially mediates it; meanwhile, from firm-specific marketing ecosystem (FSME), exploitative operational ambidexterity (EOA) fully mediates it.

The results of this investigation indicate that, with $\beta = 0.201$ and t -value = 2.93, service-dominant orientation significantly and favorably affects firm performance. In addition, $\beta = 0.252$ and t -value = 1.96 indicate that firm-specific marketing ecosystem (FSME) can influence exploitative operational ambidexterity (EOA). In the meantime, exploitative operational ambidexterity (EOA) ($\beta = 0.735$ and t -value = 8.29) and firm performance (FP) ($\beta = 0.325$ and t -value = 4.08) are positively and significantly impacted by responsive market orientation (RMO). The influence of exploitative operational ambidexterity (EOA) on firm performance (FP) yielded $\beta = 0.467$ and t -value = 6.73.

Study results show a negative and non-significant relationship between exploitative operational ambidexterity (EOA) and service-dominant orientation (SDO), with $\beta = -0.067$ and t -value = 0.74 (t -value < 1.96). This demonstrates that service-dominant orientation (SDO) prioritizes long-term client connections and customer experience enhancement over innovation focused on short-term resource exploitation. Meanwhile, the negative firm-specific marketing ecosystem (FSME) effect is insignificant on firm performance (FP) with $\beta = -0.071$ and t -value < 1.96. This understanding indicates that the firm-specific marketing ecosystem (FSME) is still immature and cannot yet significantly affect the business's success.

4. DISCUSSION

This study develops a conceptual model to explore how SME internal capabilities improve firm performance. The findings confirm that service-

dominant orientation has no relationship to exploitative operational ambidexterity (H1), and the firm-specific marketing ecosystem has no relationship to firm performance (H4). Conversely, service-dominant orientation positively affects firm performance (H2), firm-specific marketing ecosystem positively affects exploitative operational ambidexterity (H3), responsive marketing ecosystem positively affects exploitative operational ambidexterity (H5), and responsive marketing ecosystem positively affects firm performance (H6). Exploitative operational ambidexterity positively affects firm performance (H7).

Hypothesis 1 posited that the relationship between service-dominant orientation and exploitative operational ambidexterity was rejected. This finding contradicts Randhawa et al. (2021), who argue that service-dominant orientation encourages exploitative capabilities, which innovate business models. Dynamic capabilities can be applied more exploitatively or exploratively depending on the market orientation (Foss & Saebi, 2016). The more dominant the service orientation used, the more efficient and productive the ability to optimize, improve, and utilize existing resources, knowledge, and processes. Hypothesis 2 proposed that the relationship between service-dominant orientation and firm performance positively aligns with previous research. Nguyen and Le (2025) and Yiu et al. (2020) demonstrate that business owners and managers focusing on service-dominant operationalization of business resources can drive better firm performance in all aspects, from customer loyalty to financial returns.

Concerning hypothesis 3, the results show that firm-specific marketing ecosystems have a positive relationship with exploitative operational ambidexterity. Business owners or managers who emphasize a firm-specific marketing ecosystem can create distinctive marketing features that drive

more structured operational capabilities to achieve effectiveness and efficiency. In addition, a distinctive marketing ecosystem can manifest in the form of specific capabilities that can provide value to customers, such as adaptive capabilities in utilizing existing resources and improving business procedures. This aligns with Jacobides et al. (2018) and G. Liu et al. (2023). Meanwhile, hypothesis 4 determined that the relationship between firm-specific marketing ecosystem and firm performance is not supported. These findings are contrary to those of Graça and Camarinha-Matos (2017) and Russell and Smorodinskaya (2018). Business owners adopt a firm-specific marketing ecosystem that contributes to realizing the firm goals, including the firm-specific goals. The firm-specific marketing ecosystem is seen as an entity that can contribute to developing innovation that aligns with its business goals (Haim Faridian & Neubaum, 2021). Business owners or managers with uniqueness in marketing can create barriers to entry for competitors because businesses with a strong ecosystem are challenging to imitate. Firms with competitive advantages that are difficult to compete with can improve firm performance in the long term.

Responsive-oriented markets can contribute to increased expertise in exploiting market opportunities and gaining exploitative innovation and learning experiences (Osorio Tinoco et al., 2020). With high responsiveness, business owners or managers can identify and exploit trends, consumer behavior, and business dynamics earlier than competitors. Thus, specific capabilities depend on the market intelligence obtained from responsive customer orientation. Hypothesis 5 proposed that the relationship between responsive marketing orientation and exploitative operational ambidexterity is supported. These results align with Ghantous and Alnawas (2020), who evidenced that responsive marketing ecosystems have a stronger relationship to exploitative operational ambidexterity.

Furthermore, hypothesis 6 supports the relationship between responsive marketing orientation and firm performance. Business owners or managers develop products and services based on current consumer needs and preferences and can maintain market relevance. In addition, firm performance is greatly influenced by the skills of business owners or managers in responding to market conditions and market

dynamics. Responsive marketing orientation makes it easier and faster for business owners or managers to achieve better firm performance. These findings are consistent with Wenke et al. (2021), who revealed that responsive marketing ecosystems positively correlate with firm performance.

In relation to hypothesis 7, the results show that exploitative operational ambidexterity is related to firm performance. Exploitative operational capability is an important component that contributes to profitable performance improvement. This capability enables business owners or managers to utilize existing resources, processes, and expertise more efficiently, resulting in increased profitability, productivity, and competitiveness. Exploitative capability also reduces business uncertainty because business owners or managers understand and master how existing resources and systems work. However, business uncertainty triggers an imbalance in business operations, so explorative capability is needed to help strengthen innovation strategies. Therefore, two complementary strategies are needed to improve competitiveness and firm performance. Business owners or managers who only focus on one capability will have constraints, both in the short and long term. To achieve business growth, business owners or managers must balance and integrate both when facing business challenges, namely explorative and exploitative operational ambidexterity. So, the relationship between exploitative operational ambidexterity and firm performance is the opposite. These findings contradict Dzenopoljac et al. (2024), Hwang et al. (2023), and Q.-R. Liu et al. (2023).

Referring to the resource advantage theory of competition, responsive market orientation is considered more positive and significant because it can help business owners or managers adapt their products, services, and strategies quickly to changes in market demand and current customer needs. This causes small and medium enterprises to continue to connect with their customers and understand changes in needs, preferences, and purchasing behavior. Being responsive also helps create and develop expertise that reflects maturity and strengthens their market position. Therefore, the role of business owners or managers in understanding, implementing, and modifying business strategies is reflected in responsive market orientation, increasing ambidexterity and firm performance.

CONCLUSION

This study explores the internal capabilities of small and medium enterprises (SMEs) that can enhance firm performance based on the resource advantages theory of competition. Empirical findings prove that service-dominant orientation and responsive marketing orientations positively affect firm performance. Exploitative operational ambidexterity has a positive and significant effect on firm performance. A firm-specific marketing ecosystem does not affect firm performance. However, a firm-specific marketing ecosystem positively affects exploitative operational ambidexterity. The results also prove that responsive marketing orientation has a positive effect on exploitative operational ambidexterity. Lastly, service-dominant orientation does not affect exploitative operational ambidexterity.

The results support the resource advantage theory of competition and provide managerial implications for small and medium enterprises in Indonesia. Small and medium enterprises should pay attention to service-dominant orientation even though it has not shown a significant influence. Firm-specific marketing ecosystems also need to be improved because business efforts emphasizing uniqueness tend to have higher selling value in the market than competitors. Business actors need to modify their internal capabilities, namely exploitative operations ambidexterity. Both ambidexterities are carried out to balance business strategies and create a consistent and authentic marketing ecosystem.

This study did not include the mediating and moderating variables related to firm performance. Therefore, future research should expand on these findings by exploring additional variables such as explorative ambidexterity. This study also involves other industry sectors, which can reveal valuable insights into the complex interactions between the constructs studied. Additionally, the data were collected during the COVID-19 pandemic. To expand the scope beyond the scope of the current study, one can use data after the COVID-19 pandemic.

AUTHOR CONTRIBUTIONS

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