

The Influence of Entrepreneurial Orientation on Business Performance is Mediated by Differentiation Strategy and Cost Leadership Strategy in Silver MSMEs in Kotagede

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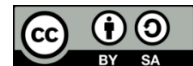
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ABSTRACT

This study aims to examine and analyze the effect of entrepreneurial orientation on the performance of silver MSMEs in Kotagede, with differentiation strategy and cost leadership strategy as mediating variables. The research was conducted at the silver craft center in Kotagede, Yogyakarta. The population of the study comprised all 45 silver MSMEs in the area, and total sampling was employed. Data were collected using questionnaires and analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS). According to the study's findings, entrepreneurial orientation has a positive and significant effect on business performance, differentiation strategy, and cost leadership strategy. Furthermore, both differentiation strategy and cost leadership strategy are proven to mediate the relationship between entrepreneurial orientation and business performance in silver MSMEs in Kotagede. However, studying has certain limitations. The scope of the research is limited to silver MSMEs in Kotagede, thus reducing the generalizability of the findings. Additionally, the study does not incorporate other potential control variables that may influence business performance.

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1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a strategic role in the global economy, including Indonesia. Approximately 64.2 million MSMEs in various industrial sectors in Indonesia have contributed to absorbing nearly 97% of the workforce and supporting more than 60% of the national Gross Domestic Product (GDP), as well as contributing significantly to national exports, which is around 15.7% of Indonesia's total exports [1]. Although

MSMEs play an important role in the economy in many countries, and their numbers continue to grow, their sustainability rates tend to be low, with many unable to survive more than three years [2]. As one of the provinces in Indonesia that is rich in culture, tourism, local wisdom, and creative economy, the Special Region of Yogyakarta (DIY) is the main destination for tourists and an educational center for people outside Yogyakarta. This condition has a positive impact on the economic growth of the

DIY community. This is reflected in the growth in the number of MSMEs in Yogyakarta which has continued to increase

in the last four years, with an addition of 54,904 units or a growth of 16% from 2020 to 2023.

Table 1. Number of MSMEs in Yogyakarta in 2020 – 2023

MSMEs Based on Scale	2020	2021	2022	2023
Micro	188.033	318.892	324.745	324.408
Small Business	58.980	16.061	16.069	16.069
Medium Business	30.664	2.107	2.110	2.109
Sum	287.682	337.060	342.924	342.586

Source: Bappeda DIY (Jogja Dataku), 2024

One of the famous industrial centers in the Special Region of Yogyakarta is silver crafts located in Kotagede, Yogyakarta. The variety of Kotagede silver crafts in the form of various kinds of jewellery accessories, such as necklaces, rings, bracelets, and brooches, as well as home decorations such as miniature pedicabs, andong, temples and others with good quality and original carving motifs, adapting the design of batik fabric, so as to give a distinctive traditional touch to each of his works. This uniqueness is what makes Kotagede silver products famous abroad and a special attraction for foreign tourists [3].

Based on preliminary data, the performance of silver MSMEs in Kotagede has fluctuated in recent years. This is influenced by various obstacles, such as low human

resource competence, an increasingly limited number of artisans, production and marketing processes that are still conventional, fierce competition with local and imported products, rapid changes in fashion trends, and rising prices of raw materials that have an impact on people's purchasing power. These factors have also led to a decline in turnover from silver MSME actors in Kotagede recently, from around IDR 1.9 billion in 2019 to less than IDR 1 billion in 2020 and 2021. Although turnover increased to IDR 1.4 billion in 2022, this condition shows that Kotagede's silver MSMEs have not fully recovered and still face challenges in maintaining business sustainability. (Source: Primary Data of MSMEs Perak Kotagede, 2024).

Table 2. Silver turnover data in Kotagede from 2019 to 2022

Year	Total turnover
2019	Approx. 1.9 M
2020	Less than 1 M
2021	Less than 1 M
2022	Approx. 1.4 M

Source: primary data of Silver MSME actors in Kotagede

To maintain sustainability and competitiveness in an increasingly competitive market, MSMEs need to understand various internal and external factors that affect business performance.

Business performance is the main indicator to assess the effectiveness of a company's strategy in facing competition [4]. Business performance is one of the main indicators commonly used to assess the effectiveness of a company's strategy in the face of competition. Achieving optimal performance, both financial and non-financial, requires a structured and

sustainable process. Improving the performance of silver MSMEs, which are still not optimal, requires the right and sustainable strategy. One of the internal factors that affect performance is entrepreneurial orientation, which plays an important role in encouraging business growth. The effective implementation of entrepreneurial orientation, supported by organizational policies, is the key to improving the performance of MSMEs in a sustainable manner [5]. Entrepreneurial orientation includes innovation, risk-taking, and proactivity as strategies to create competitive

advantages [6]. Entrepreneurial orientation holds a significant position among various strategic management and entrepreneurship concepts due to its strong influence on company performance [7], [8]. Understanding and applying this entrepreneurial orientation is important because it has a direct effect on business performance [9].

In the face of a competitive market, MSMEs need to adopt the right business strategy and be able to adapt to environmental changes to improve performance [5]. Business strategies, such as cost leadership, differentiation, and focus [10], play an important role in improving efficiency and expanding the market. The implementation of an effective business strategy, when combined with a strong entrepreneurial orientation, enables MSMEs to remain adaptive, innovative, and competitive in the digital economy era, as well as drive sustainable growth.

A number of studies that have been conducted by [11],[9],[7] show that entrepreneurial orientation has a positive and significant effect on organizational performance. This implies that the organization will perform better the more effectively the entrepreneurial perspective is applied. However, Nguyen et al. [12], [13] revealed contrary results, namely that entrepreneurial orientation has no influence on performance. This means that it does not always directly affect performance improvement, even if the orientation is strong.

The disparity in the study's findings indicates that mediation factors, including business plans, are necessary to fortify the bond. According to Dewangga [11], the link between performance and entrepreneurial orientation can be mediated by business strategy. According to Wahyudiono Deni B [14], it has yet to influence the relationship between entrepreneurial orientation and business performance.

This study was conducted to re-analyses the MSME performance research model influenced by entrepreneurial orientation and business strategies

(differentiation strategies and cost leadership), considering that there are still different findings in several previous researchers.

2. LITERATURE REVIEW

2.1. Resource Based View (RBV) Theory

Resource Based View (RBV) is a business strategy theory that focuses on the role of the company's internal resources as the main factor in building a sustainable competitive advantage. It was first introduced by Birger Wernerfelt [15] and further developed by Jay Barney [16]. RBV classifies the company's resources into two, namely tangible resources such as: production facilities, equipment, capital, and technology and intangible resources: including brand reputation, intellectual property, organizational culture, managerial skills.

Intangible resources are often to focus more on developing and maintaining their internal resources and capabilities, this creates a sustainable competitive advantage and support better performance [7], [16]. To achieve this excellence, companies need to have and manage unique and high-quality resources [17]. RBV encourages companies to focus more on developing and managing internal resources, rather than just responding to external market changes. Effective RBV implementation can make companies more innovative, adaptive, and able to maintain a competitive position in the long term [18],[19].

2.2. Performance

Performance is the level of success in running a company for a certain period of time [4]. In general, business performance consists of two main aspects, namely financial and non-financial aspects [20],[13]. Financial performance refers to business results that can be assessed in the form of money and related to the company's financial activities. Meanwhile, non-financial performance reflects factors that cannot be directly measured by monetary value, such as brand image, customer satisfaction, organizational effectiveness, and innovation. Kristinae et al. [21] highlight that business performance

reflects the success of business activities and profits supported by adequate resource management.

In the context of MSMEs, business performance is considered a complex aspect because it includes various indicators, such as profitability, operational efficiency, customer satisfaction, and business growth. MSME performance assessments are often based on the number of customers, profit levels, and sales growth. According to Sabihaini et al. [4], more accurate performance measurement should include various dimensions or indicators, such as profitability, sales growth, competitiveness, and market share. Business performance is generally evaluated through key indicators, such as sales growth, return on investment (ROI), and competitive advantage [22]. Performance measurement plays an important role in assessing the level of competitiveness of MSMEs, identifying aspects that need improvement, and determining the most effective business strategy [9].

2.3. The Effect of Entrepreneurial Orientation

Entrepreneurial orientation is the ability of an organization to determine and utilize innovative ideas to reach new markets and show businesses to gain a competitive advantage [6]. Entrepreneurial orientation is a strategic approach that emphasizes the company's ability to recognize and take advantage of existing opportunities. If MSME actors are able to implement entrepreneurial orientation along with innovative performance, then they will be better able to design effective business strategies to increase competitiveness and improve business performance [23]. Based on RBV theory [16], this orientation is a managerial resource that encourages adaptive behavior towards change and uncertainty, and supports business growth and sustainability amid competition [24].

Among the various established concepts in strategic management and entrepreneurship, entrepreneurial orientation is regarded as one of the most influential factors affecting firm performance [8], [25], [7]. This orientation reflects the ability of

business actors to recognize and utilize business opportunities creatively (innovatively), act faster than competitors (proactively), and make decisions even under high risk (risk talking). This orientation encourages continuous innovation and adaptation, which impacts customer satisfaction, business growth, and competitive advantage [6].

Entrepreneurial orientation is closely related to business performance. [26] [27] states that the flexibility of SMEs in responding quickly to market changes and business opportunities is an important factor in maintaining and improving business performance in a sustainable manner. In line with this, [28] also states that entrepreneurial orientation contributes to improving the competitiveness and performance of MSMEs through encouragement to innovate and act proactively.

[11] explains in his research that an entrepreneurial orientation, which includes being proactive, innovative, and willing to take risks, has a significant influence on business performance. Similarly, [9] and [30] also state that, in addition to market orientation, entrepreneurial orientation can also have a positive influence on business performance. According to them, the better the understanding and application of entrepreneurial orientation within an organization, the higher the performance level of the SMEs in question.

One of the important aspects of developing an entrepreneurial orientation is how this entrepreneurial orientation interacts with the business strategy implemented by the company. According to Porter [10], entrepreneurial orientation provides a strategic foundation for decision-making in winning market competition [6]. The application of the right strategy can strengthen a company's position in market competition. Through entrepreneurial orientation, companies are encouraged to generate creative ideas in developing unique, high-quality, and difficult-to-imitate products or services, thereby establishing a strong

identity in the eyes of consumers and increasing competitiveness. [14] [27].

H1: Entrepreneurial orientation has a positive and significant effect on business performance

H2: Entrepreneurial orientation has a positive and significant effect on differentiation strategy

H3: Entrepreneurial orientation has a positive and significant effect on cost leadership strategy

2.4. Effect of Business Strategy

A business strategy is a strategy for achieving goals that involves systematic thinking, planning, moving quickly, taking risks, and the determination to win the competition in business management [35], [36]. developed generic strategies for gaining competitive advantage, which are used by companies as a basis for competitive advantage and are also relevant for SMEs [37]. This strategy helps companies gain a more advantageous market position. Porter's three competitive strategies are cost leadership, differentiation, and focus. This study uses two strategies, namely differentiation and cost leadership. The differentiation strategy is an approach used by companies to create unique products or services in order to attract customers and set premium prices [36].

Differentiation strategies focus on creating added value through offering superior products or services that uniquely meet customer needs, for example in terms of design, quality, speed, or service flexibility [32]. Differentiation can be achieved through design innovation, brand identity, technology development, product features, customer service, or extensive distribution. This advantage will have a positive impact on company performance if the benefits of premium pricing exceed the costs of maintaining that uniqueness [33]. According to [37], differentiation includes brand strengthening, quality improvement, superior marketing strategies, and accelerated production processes.

Cost leadership strategy emphasizes efficiency and cost reduction in order to reach a broad market through competitive pricing. The goal of the cost leadership strategy is to achieve a low-cost structure through economies of scale and optimization of

production processes. This strategy focuses on operational efficiency, expenditure control, and price adjustments for cost-sensitive consumers [10]. If implemented effectively, this strategy can improve business performance, especially for SMEs, by providing a competitive advantage [37], [9]. [30]. The main dimensions of this strategy include labor cost control, raw material efficiency, operational cost reduction, and administrative efficiency

H4: Differentiation strategies have a positive and significant effect on business performance

H5: Cost leadership strategies have a positive and significant effect on business performance

2.5. The Role of Mediation in Business Strategy

Entrepreneurial orientation has a significant relationship with business strategy, and this strategy plays an important role in improving the performance of MSMEs. Business performance is influenced by various factors such as entrepreneurial character, managerial ability, marketing, capital, human resources, entrepreneurial orientation and business strategy [13]. Research shows that business strategies, particularly differentiation and cost leadership strategies, can mediate the influence of entrepreneurial orientation on business performance [11].

Entrepreneurial orientation, reflected in innovative, proactive, and risk-taking behavior, helps SMEs develop effective strategies in the face of intense competition. The right business strategies enable efficient resource management, risk reduction, and increased competitiveness [37]. The increasingly competitive business environment requires MSMEs to be able to identify opportunities and threats, and develop appropriate strategies to achieve optimal performance.

The right business strategy helps MSMEs manage resources, reduce risks, and improve competitiveness in a sustainable manner [4]. Two main strategies commonly applied are differentiation and cost leadership. The cost leadership strategy has been proven to be a positive mediator

between entrepreneurial orientation and business performance [9] [30], as it enables MSMEs to offer standard products at more affordable prices to attract price-sensitive consumers.

However, a cost leadership strategy alone is not enough to win the competition. Organizations also need to adapt to the dynamics of the environment through the implementation of differentiation strategies. Research by Khusal Deepak (2017) [34] and Habib Y [28] shows that entrepreneurial orientation has a direct effect on performance and also an indirect effect through

differentiation strategies. By implementing a differentiation strategy, companies can create products that are valuable and unique in the eyes of customers, thereby increasing customer loyalty and competing on price to drive better performance.

H6: Differentiation strategy differentials mediates the relationship between entrepreneurial orientation and business performance in silver SMEs in Kotagede.

H7: Cost leadership strategy mediated the relationship between entrepreneurial orientation and business performance in silver SMEs in Kotagede

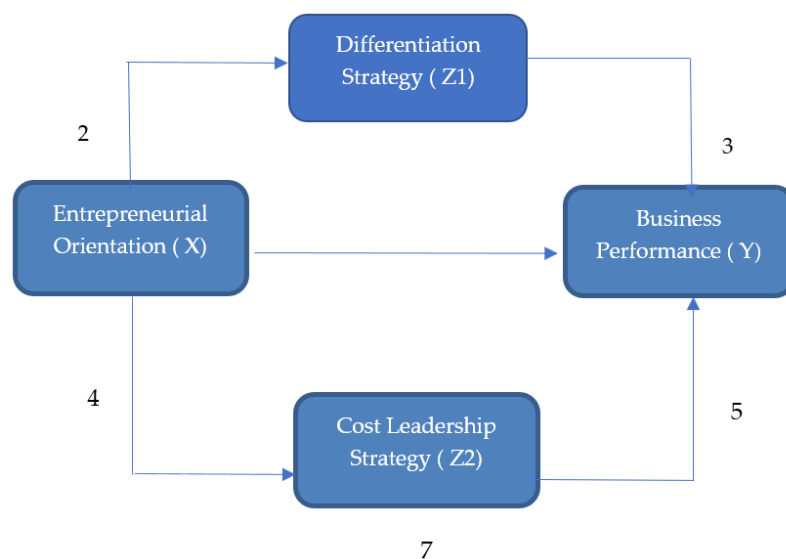


Figure 1: Frame of mind

3. METHODS

This study uses an explanatory approach that aims to explain the causal relationship between the hypothetical variables [38]. The population in this study consists of all silver SME actors in Kotagede, numbering 45, and the entire population was used as the sample, making this a census study [38]. Data collection was conducted using a questionnaire containing statements related to the research variables. All statement items were evaluated using a five-point Likert scale. This study uses four variables: entrepreneurial orientation as the independent variable, differentiation strategy and cost leadership strategy as mediating variables, and business performance as the

dependent variable. These variables were then measured using appropriate indicators based on literature related to entrepreneurial orientation, differentiation strategy, cost leadership strategy, and business performance (detailed in Table 3).

Data analysis using Partial Least Squares (PLS) technique with Structural Equation Modelling (SEM). The Partial Least Squares (PLS) technique is a variance-based Structural Equation Modelling (SEM) approach that can evaluate measurement models and structural models simultaneously. Causality testing is conducted through hypothesis testing using the structural model as the basis for prediction, while validity and reliability are tested through the measurement model.

Table 3. Operational Definition

Variabel	Definition	Indicator
Entrepreneurial Orientation (OK)	Entrepreneurial orientation is an organization's ability to define and leverage innovative ideas to reach new markets and demonstrate a business to gain a competitive advantage.	1) Innovation 2) Proactive 3) Dare to take risks Source: [31], [4], [8]
Differentiation Strategy (SD)	Differentiation strategy is an approach that companies use to create uniqueness in their products or services in order to attract customers and gain a competitive advantage	1) Strengthening brand identity 2) Product quality improvement 3) Superior marketing strategy 4) Acceleration of the production process 5) Provision of customer-specific service Source: [6], [2]
Cost Leadership (KP)	A cost leadership strategy is a business approach that focuses on efficiency and reducing operational costs in order to offer a product or service at a lower price than competitors, without sacrificing quality	1) Operational Cost Control 2) Administrative Cost Control 3) Efficiency of using raw materials 4) Labor cost control Source: [6], [2]
MSME Performance (KU)	MSME performance is the achievement of goals obtained by MSMEs during a certain period.	1) Increased sales volume 2) Increased profits 3) Increase in the company's assets 4) Improved quality of products and services 5) Increased customer satisfaction with products and services 6) Increased market share Source: [2], [9], [32]

4. RESULTS AND DISCUSSION

4.1. Characteristic Analysis

The data on the characteristics of the respondents in this study were obtained from

45 silver MSMEs in Kotagede who were involved as a sample. The data was then analyzed based on gender, age, last level of education, length of business, number of employees and sales.

Table 4. Respondent Characteristics

Yes	Profile	Category	Number of people	Percentage (%)
1	Gender	Man	21	53,5
		Woman	24	46,5
2	Age	17- 25 years old	4	8,9
		26 – 35 years old	8	18
		36 – 45 years old	7	15

		46 – 55 years old	14	31.1
		> 55 years old	12	26,7
3	Final education	SMA	17	33.3
		Diploma	10	22.2
		S1	18	44.4
4	Long Term of Effort	6 - 10 years	10	22,2
		11 - 15 years	11	24,5
		16 - 20 years	4	8,8
		>20 years	20	44,5
5	Number of Employees	1 - 5 people	27	60
		6 - 10 people	12	26,6
		16 - 20 people	3	6,7
		> 20 people	3	6,7
6	Turnover per Year (million)	1 - 400	25	55.6
		401 - 800	13	28.9
		801 - 1.200	3	6,7
		1.200 – 1.600	2	4,4

Table 4 provides information that based on gender, the majority of respondents are women (46,5%). Most respondents (31.1%) are between 46 and 55 years old. In terms of educational background, most respondents (44.4%) have a bachelor's degree. Based on the survey results, it was also found that 44.5% of

respondents stated that the duration of their business operations exceeds 20 years. Regarding the number of employees, 60% of respondents have between 1–5 employees. Additionally, the majority of respondents (55,6%) have annual sales turnover ranging from Rp. 1 million to Rp. 400 million.

Table 5. Descriptive Statistic Test

Variable	N	Min	Max	Mean	Std. Dev
Entrepreneurial Orientation	45	2,67	5,00	3,8371	0,51517
Differentiation Strategy	45	2,60	5,00	3,8889	0,47779
Cost Leadership Strategy	45	2,75	5,00	3,7111	0,56898
Business Performance	45	3,00	5,00	4,1964	0,42377

In Table 5, the amount of data (N) studied in this research was 45 respondents. The results of descriptive statistical analysis showed a minimum value of 2.60 and a maximum of 5, meaning that more respondents answered the questions with the highest scores on the questionnaire items regarding business performance. This finding

can be seen from the mean value of the Business Performance variable of 4.1964.

To assess validity and reliability, PLS 3.2 was used. This validity test utilized convergent validity, AVE, and discriminant validity. To assess reliability, Cronbach's alpha and composite reliability were used.

Table 6. Convergent Validity Results

Variabel	Item	Outer Loading	AVE
Entrepreneurial Orientation	OK1	0.848	0,645
	OK2	0.789	
	OK3	0.756	
	OK4	0.767	
	OK5	0.826	
	OK6	0.897	

Variabel	Item	Outer Loading	AVE
Differentiation Strategy	SD1	0.753	0,685
	SD2	0.897	
	SD3	0.780	
	SD4	0.866	
	SD5	0.876	
Cost Leadership Strategy	SKB1	0.898	0,683
	SKB2	0.762	
	SKB3	0.857	
	SKB4	0.782	
Business Performance	KU1	0.819	0,568
	KU2	0.871	
	KU3	0.724	
	KU4	0.760	
	KU5	0.635	
	KU6	0.689	

Source: Primary Data processed, 2025

Convergent validity is measured through the outer loading value on the latent variable with the associated indicator. Correlation values greater than 0.70 are considered good at this stage of the study. The variable "Entrepreneurial Orientation" shows a loading value that fluctuates between a minimum of 0.756 and a maximum of 0.897. The variable "Differentiation Strategy" shows a loading value that fluctuates between a

minimum of 0.753 and a maximum of 0.897. The loading value of the variable "Cost Leadership" ranges from a minimum of 0.762 to a maximum of 0.898. Finally, the "Business Performance" variable ranges from the lowest loading value of 0.635 to the highest value of 0.971. These results suggest that there is no need to omit indicators that assess each variable, as they meet the criteria of convergent validity (see Table 6).

Table 7. Cross Loading Factor

Item	Entrepreneurial Orientation	Differentiation Strategy	Cost Importance Strategy	Business Performance
OK1	0.848	0.504	0.423	0.819
OK2	0.789	0.442	0.301	0.871
OK3	0.756	0.261	0.302	0.724
OK4	0.767	0.338	0.209	0.760
OK5	0.826	0.304	0.263	0.634
OK6	0.897	0.377	0.348	0.688
DS1	0.377	0.754	0.619	0.407
DS2	0.375	0.897	0.646	0.456
DS3	0.457	0.779	0.480	0.443
DS4	0.257	0.866	0.585	0.397
DS5	0.498	0.876	0.654	0.582
SKB1	0.366	0.510	0.898	0.575
SKB2	0.198	0.362	0.762	0.513
SKB3	0.295	0.514	0.858	0.594
SKB4	0.392	0.428	0.781	0.567
KU1	0.572	0.636	0.553	0.819
KU2	0.542	0.703	0.646	0.871

Item	Entrepreneurial Orientation	Differentiation Strategy	Cost Importance Strategy	Business Performance
KU3	0.587	0.433	0.565	0.724
KU4	0.455	0.516	0.517	0.760
KU5	0.273	0.521	0.383	0.634
KU6	0.435	0.391	0.353	0.688

Source: Primary Data processed, 2025

Based on Table 7, it can be seen that the Composite Reliability value of each variable exceeds 0.7. Because all variables have values above 0.7, it can be concluded that each variable is declared reliable and can be

used in future research. Meanwhile, Cronbach's Alpha value for each variable exceeds 0.7. This indicates that each variable is considered reliable and suitable for use in further research.

Table 8. R Square

Variabel	R Square	R Square Adjusted
Business Performance	0.721	0.702
Differentiation Strategy	0.219	0.201
Cost Leadership Strategy	0.149	0.130

Source: Primary Data processed, 2025

Table 8 shows that the R square value of the business performance variable is 0.721, which means that 72.1% of the variance in business performance can be explained by the differentiation strategy variables, cost leadership strategies and entrepreneurial orientation, while the differentiation strategy variables have an R square of 0.226 and the cost leadership strategy of 0.146, which indicates that each can be explained by the

variables entrepreneurship rates were 22.6% and 14.6%. These two values are included in the medium category, but still show a significant influence of entrepreneurial orientation on these two types of strategies. Overall, this model shows a good relationship structure with a very strong explanatory power, especially on business performance.

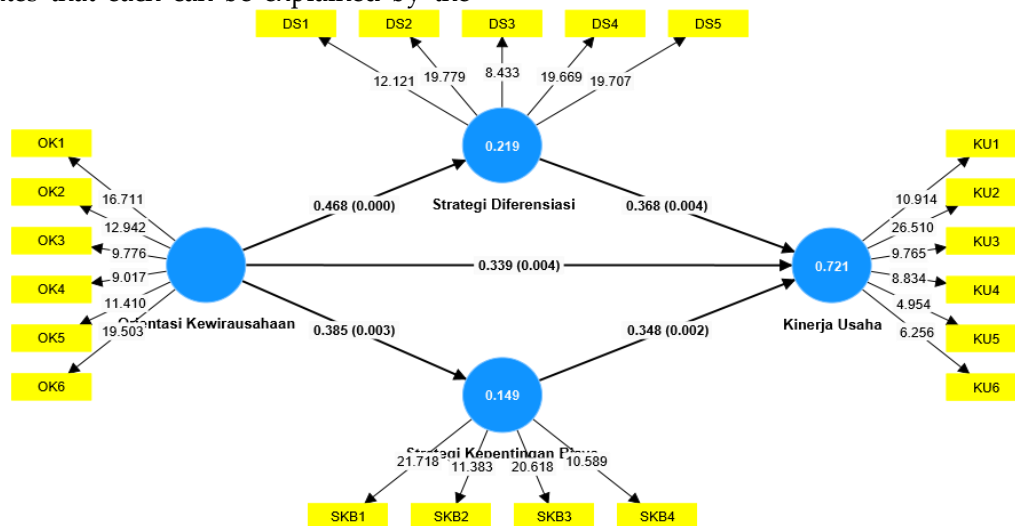


Figure 2: Path Coefficient Result

Table 9. Direct Impact Bootstrapping Results

Path	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
OK -> KU	0.339	0.117	2.896	0.004
OK -> SD	0.468	0.129	3.620	0.000

OK -> SKB	0.385	0.129	2.994	0.003
SD -> KU	0.368	0.129	2.886	0.005
SKB -> KU	0.348	0.111	3.136	0.002

Source: Primary data processed using SmartPLS, 2025

DISCUSSION

The Influence of Entrepreneurial Orientation on Business Performance

Table 9 shows that the value of the entrepreneurial orientation coefficient on business performance is positive 0.339, with a p-value of $0.004 < 0.05$ and a statistical t-value of $2.896 > 1.96$. These results show that entrepreneurial orientation has a positive and significant influence on the business performance of silver MSMEs in Kotagede. This finding indicates that the stronger the entrepreneurial orientation applied by silver MSME actors in Kotagede, the more their business performance will increase.

Silver SME entrepreneurs in Kotagede have made various efforts to improve their business performance, including developing creative ideas applied in the manufacture of silver crafts with attractive designs and good quality, responding quickly to market changes, and investing to expand market share. These efforts have had a positive impact on improving the performance of silver MSMEs in Kotagede, as reflected in increased sales turnover, profit growth, and increased customer satisfaction in 2024 compared to previous years.

This study supports research conducted by [11] on tourism MSMEs in Bali and [9] on dodol MSMEs in Buleleng, which revealed that there is a strong relationship between entrepreneurial orientation and MSME performance. Previous researcher [25] Hossain K (2023) also discussed the influence of Entrepreneurial Orientation, which has a positive impact on export business performance. It can be assumed that Entrepreneurial Orientation is very important for MSME owners to develop their businesses in the future. These findings further clarify the important role of entrepreneurial orientation in business management.

The Influence of Entrepreneurial Orientation on Differentiation Strategies.

According to table 9's statistical test findings, the entrepreneurial orientation coefficient for the positive differentiation approach is 0.468, with a statistical t-value of $3.620 > 1.96$ and a p-value of $0.000 < 0.05$, indicating significance. Based on this, it means that hypothesis 2 which states that entrepreneurial orientation has a positive and significant influence on differentiation strategies in Kotagede silver MSMEs is accepted.

This finding indicates that the ability of Kotagede silver MSME actors who continue to develop innovation, be proactive and dare to take risks, and be responsive to market dynamics will greatly affect business competitiveness. In addition, this also proves that business actors with a high entrepreneurial orientation tend to adopt differentiation strategies, such as creating product designs with unique features, creating high-quality products, utilizing superior marketing methods, developing special services to meet customer demands

Entrepreneurial orientation plays an important role in giving birth to creative ideas to develop a variety of models and motifs of silver crafts, maintaining the quality of silver craft products in order to create a strong identity in the eyes of consumers. Therefore, increasing entrepreneurial orientation among MSME owners or managers will have a direct impact on the optimal implementation of differentiation strategies. These findings are consistent with the results of research conducted by Wahyudono D [10] who researched the fashion industry in Surabaya with the result that entrepreneurial orientation has a positive and significant effect on differentiation strategies. The fashion industry, including silver, has a very high level of competition. To survive, business actors not only need sustainable innovation, but also must be able to provide

added value to each product. The findings of this study also support those of Khausal Deepak [34] [29], who investigated a number of MSME industries in India and found that entrepreneurial approach significantly and favorably affects MSME firm performance. Research by Lechner and Gudmundsson [31] and [4] also found similar results, namely that an entrepreneurial orientation will have a positive impact on business performance, particularly for MSMEs.

The Influence of entrepreneurial orientation on Cost Leadership Strategies

It can be concluded that hypothesis 3 of this study, which states that the **cost** leadership strategy has a positive effect on business performance, is acceptable based on the results of the statistical testing that was conducted. The cost leadership strategy coefficient's value on business performance is positive 0.385, with a statistical t-value of $2.994 > 1.96$ and a p-value of $0.003 < 0.05$.

These findings indicate that the adoption of cost leadership strategy among Kotagede's silver MSMEs increases in line with their level of entrepreneurial orientation. This orientation is very important in facing business competition. This strategy aims to produce goods or services at the lowest cost compared to competitors, enabling companies to sell standard products at more affordable prices. The implementation of this strategy heavily relies on process innovation, operational efficiency, and control over cost factors such as economies of scale, resource efficiency, and raw material efficiency [37].

To optimise this strategy, business owners or managers need to strengthen their entrepreneurial orientation through the development of process innovations that can produce products at lower costs while maintaining standard quality. The innovative behaviour exhibited by MSME actors in Kotagede Silver is directed towards finding more effective and efficient production alternatives, labor cost efficiency, raw material efficiency. Create new goods by using mixed materials, like copper and aluminium, to save production costs without sacrificing aesthetic appeal. By lowering the

price of raw materials, this tactic aids in the more effective application of cost leadership strategy.

This finding strengthens the indication that the implementation of a significant cost leadership strategy will improve performance because cost efficiency allows companies to offer competitive prices while maintaining profitability. These results are in line with research conducted by [9] Krisna and Giantari (2020) on MSME dodol in Bali, and [30] Lukiastuty (2021) on UMKM Laundry in Semarang, who implemented a cost leadership strategy and were proven to be successful in increasing MSME performance.

The Influence of Differentiation Strategies on Business Performance

Based on the results of statistical testing that has been carried out, the coefficient value of differentiation strategy on business performance is positive at 0.368, with a p-value of $0.004 < 0.05$ and a t-statistic value of $2.886 > 1.96$, so it can be concluded that hypothesis 4 in this study states that differentiation strategy has a positive effect on business performance and can be accepted.

This finding indicates that the implementation of differentiation strategy of silver SMEs in Kotagede has a positive influence on improving their business performance. Differentiation strategy can be done through the creation of products that have special features, premium quality, superior marketing strategies, excellent service, so as to attract consumer interest. It is important for silver UMKM SMEs in Kotagede to always develop craft products that have distinctive characteristics, both in terms of design and quality, as well as accelerating the production process, which can make consumers satisfied with the results of silver craft products in Kotagede.

The result of this study are in line with Porter (1985) who places differentiation strategy as part of generic strategy and is closely related to innovation and improving company performance. This strategy helps companies achieve higher profits than competitors because it can build brand loyalty

and reduce consumer sensitivity to price. The implementation of differentiation strategy can improve the performance of MSMEs and create a sustainable business environment [7] (Anwar and Shah, 2019). This is reinforced by Habib Yasar et al., (2022) [28] who found that differentiation strategy has a positive relationship with company performance in MSME Batik Giriloyo.

The Influence of Cost leadership Differentiation on Business Performance

The cost leadership approach has a positive impact on business performance, as demonstrated by the positive path coefficient value of 34.8% in table 9 above, which is based on the statistical test findings. With a statistical t-value of 3.136 and a p-value of $0.002 < 0.05$, this impact was deemed

significant. This implies that the more the cost leadership method is applied, the better the performance of Kotagede's silver MSMEs will be.

These results support suggestions that performance will be enhanced by putting in place a substantial cost leadership strategy as cost effectiveness enables businesses to sustain profitability while providing competitive pricing. Put another way, MSMEs may boost their profit margins and competitiveness in the market by lowering operating expenses without compromising quality. The findings of this study are consistent with those of Eko Prasetyo [37] and Krisna and Giantari [9].

Table 10. Indirect Impact Bootstrapping Results

<i>Path</i>	<i>Original Sample (O)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics (O/STDEV)</i>	<i>P Values</i>
OK -> SD -> KU	0.134	0.055	2.431	0.015
OK -> SKB -> KU	0.172	0.132	0.056	0.040

Source: Primary data processed using SmartPLS, 2025

The Influence of Entrepreneurial Orientation on Business Performance is mediated by the Differentiation Strategy.

Table 10 shows that entrepreneurial orientation and business performance can be mediated by differentiation strategies in Perak Kotagede MSMEs with a value of 0.134 and significant ($0.015 < 0.05$). This can be interpreted that the stronger the implementation of entrepreneurial orientation with the support of the implementation of appropriate differentiation strategies, the performance of Perak MSMEs in Kotagede will also increase.

The improvement in the performance of silver MSMEs in Kotagede is also influenced by the ability of MSMEs to manage time efficiently and improve work competence. In carrying out their business activities, Perak MSME actors in Kotagede are required to always try to produce product innovations that have characteristics and advantages compared to competitor products. Unique and high-quality products will provide added value in the eyes of consumers, which ultimately has a positive impact on

business performance. Entrepreneurial orientation reflects the ability to manage resources creatively and innovatively, while differentiation strategies aim to create an advantage through products that have certain specialties/characteristics compared to competitors. This privilege will shape the brand identity in the eyes of customers.

Thus, entrepreneurial orientation and differentiation strategies play an important role in improving the performance of MSMEs. Business actors need to have a deep understanding of these two aspects in order to continue to encourage the growth and competitiveness of their businesses. This finding is in line with the results of research conducted by Dewannngga [11]; [28]

The Influence of Entrepreneurial Orientation on Business Performance is Mediated by Cost Leadership Strategies

Based on the hypothesis test, the results were obtained that entrepreneurial orientation had a positive effect on performance, which was shown by a positive coefficient value of 17.2%. Meanwhile, the probability value of 0.040 is smaller than the

significant level of 0.05 which means that the influence is significant. These findings prove that entrepreneurial orientation not only has a direct impact on performance, but also indirectly through cost leadership strategies. This means that the higher the implementation of the cost leadership strategy, the performance of Perak MSMEs in Kotagede will also increase.

Good business performance is influenced by the ability of MSME actors to implement entrepreneurial orientation and implement cost leadership strategies. The success of a cost leadership strategy can be achieved by emphasizing various costs, such as operational cost efficiency, raw material cost suppression, administrative cost efficiency etc. By implementing this strategy, products/services will be produced at a lower price but the quality remains standard. The results of this study are in accordance with those carried out by [11]; [9];[4]; [30]; [37].

5. CONCLUSION

Based on the analysis and discussion that has been carried out it can be concluded that: Entrepreneurial orientation has a positive and significant influence on business performance in silver MSME in Kotagede. Differentiation strategy, and cost leadership strategy has a positive and significant influence on business performance in silver

MSME in Kotagede. Furthermore, the link between entrepreneurial orientation and business performance can be mediated by differentiation and cost leadership strategies. Which means that the success of the performance of Kotagede silver MSME is inseparable from the combination of these three factors.

This study has limitations, is that the scope of this study is limited to silver SMEs in Kotagede, with a relatively small number of samples, so that the findings obtained cannot be generalized widely. In addition this study has not considered other control variables, such as adoption of information technology, learning orientation, market orientation, innovation capabilities and others.

It is recommended to silver MSME in Kotagede to must maintain the implementation of entrepreneurial orientation and business strategy in managing their businesses by continuously developing creativity and innovation of sustainable products and services, be proactive towards change and also dare to take risks. Then, periodically conduct research to find out market trends and consumer preferences. It is also important to be proactive in building networks with the government, educational institutions, to collaborate in developing product and technology innovation concepts through internship or PKL programs.

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