



The Effect Of Competency, Work Motivation, And Entrepreneurial Literacy On MSME Actors Performance With Entrepreneurial Orientation As A Mediation Variable

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ABSTRACT

This study aims to analyze the effect of competence, work motivation, and entrepreneurial literacy on the performance of MSMEs with entrepreneurial orientation as a mediating variable. This study is included in explanatory/confirmatory research and uses a quantitative approach. The population of retail trade MSMEs in Banyuwangi District, Banyuwangi Regency. The number of samples refers to the Slovin Formula of 177 people taken by accidental sampling. Data analysis uses SEM-PLS path analysis with WarpPLS. Finding result indicate that work motivation and entrepreneurial literacy has effect on entrepreneurial orientation. While work motivation does not significantly effect on entrepreneurial orientation. Competence and entrepreneurial literacy has effect on the performance of MSMEs, while work motivation does not significantly effect on the performance of MSMEs. Entrepreneurial orientation has effect on the performance of MSMEs. Indirect testing shows that competence does not effect on the performance of MSMEs through entrepreneurial organizations as interventions in MSMEs, while work motivation and entrepreneurial literacy has effect on the performance of MSMEs through entrepreneurial organizations as interventions in MSMEs.

INTRODUCTION

The dynamic business environment and increasingly fierce competition are crucial for every business actor to design a sustainable business strategy, including Micro, Small, and Medium Enterprises (MSMEs) that traditionally operate in the domestic (local) market. MSME entrepreneurs play a crucial role in absorbing labor, which automatically reduces unemployment. MSME entrepreneurial activity increases productivity and provides opportunities

for personal development for those (Fauziah et al., 2023). Like the common business entities, achieving good corporate performance is crucial for MSMEs to survive, thrive, increase competitiveness, create more jobs, and drive inclusive and sustainable economic growth. Performance describes the level of task accomplishment within an organization, as well as the realization of its goals, objectives, mission, and vision (Wibowo, 2020). The concept of performance is the achievement of results or the level of achievement. Furthermore, performance is also the result of a series of process activities undertaken to achieve specific organizational goals.

Company performance represents a company's effectiveness, including its financial and non-financial performance (Hartatik & Ismail, 2024). The performance of MSMEs reflects the extent to which they are able to manage their resources to achieve business goals effectively and sustainably. In the context of MSMEs, performance is not only influenced by external factors such as market conditions and competition, but is also largely determined by the internal capacity of the business actors themselves. Several studies have found that many factors can cause a business entity to fail to achieve success (Farida & Setiawan, 2022; Garrido-moreno et al., 2024; Kurniasari et al., 2023). Currently, there is no comprehensive theoretical framework that can explain the factors that influence business entity performance. Several studies have shown that the success, sustainability, and improvement of business performance in the context of MSMEs are influenced by several factors, including competence, work motivation, entrepreneurial literacy, and entrepreneurial orientation of MSME actors. The combination of knowledge (education), practical skills (experience), and a persistent mental attitude (work motivation) form a strong foundation. These three aspects enable MSME actors to increase efficiency, better manage working capital, and increase revenue or profitability (Lusiana & Sari, 2024).

MSMEs fundamentally represent entrepreneurs because they operate businesses based on individual or household initiatives, assume risks, and are innovation-oriented, although often on a smaller and more flexible scale. An entrepreneur has significant responsibility for every resource managed for his or her business (Yaldi et al., 2025). Entrepreneurial orientation describes the personality of an entrepreneur. Jauhari et al. (2025) state that entrepreneurial orientation is the strategic processes, practices, and decisions used by decision-makers when formulating the company's organizational goals and maintaining its vision, to create sustainable competitive advantage.

Entrepreneurial orientation is a strategy to increase competitiveness, growth, success, profitability, and company performance. Furthermore, entrepreneurial orientation is the basis of competitive advantage and thus acts as a solution to the challenges faced by businesses seeking to achieve sustainable competitive advantage. It can be used as a tool to improve SME performance (Hastuti et al., 2021). Empirical research supporting the relationship between entrepreneurial orientation and SME performance includes (Abu-Rumman et al., 2021; Alvarez-torres et al., 2019; Bhandari & Amponstira, 2020; Mustari et al., 2021; Natalya & Masman, 2025; Pulka et al., 2021; Wahyuni, 2020; Wijayanto et al., 2020). Meanwhile, inconsistencies in research findings were obtained (Anggraini et al., 2022; Moko et al., 2024; Permatasari & Praswati, 2024; Sitinjak, 2020; Sugiantoputro & Widjaja, 2025; Venny & Febriyantoro, 2020) which stated that entrepreneurial orientation does not have a significant effect on SME performance.

Competence is considered a significant resource for entrepreneurs, with skills in innovation, strategic decision-making, risk management, and opportunity identification all contributing to superior business performance (Šebestová, 2020). Human resource competency encompasses the abilities, knowledge, and skills possessed by employees to effectively carry out their duties. This competency is crucial for various operational aspects of SMEs, such as innovation, efficiency, and competitiveness. The knowledge possessed by an entrepreneur in running a business can be seen in decision-making, examining the positive and negative impacts of these decisions (Simarmata et al., 2023). This means that entrepreneurs (especially SMEs) are

the primary drivers of a company's internal resources to achieve business success. The competencies possessed by an entrepreneur can minimize the negative impacts of a dynamic business environment (Bansal et al., 2023).

Entrepreneurial competency describes a company's internal resources as capital to increase competitive advantage, in accordance with the Resource-Based View (RBV) concept. According to the RBV, a company's ability to create value depends on its ability to acquire and develop its resources (Khattak et al., 2024). Competence significantly influences a company's ability to improve business performance and become more competitive (Sinambela, 2020). Entrepreneurial competencies have been shown to significantly contribute to improving SME performance. The influence of competencies on entrepreneurial orientation and performance is supported by research findings (Aftab et al., 2022; Alatas et al., 2024; Dewi et al., 2024; Herlinawati, 2019; Khan et al., 2021; Padi et al., 2025; Prawita et al., 2024; Pulka et al., 2021; Sakib et al., 2022; Suryoto, 2022). Gap research is obtained from research findings (Hajiali et al., 2022; Jauharoh et al., 2023; Kharisma & Rosia, 2022; Maliza et al., 2025; Rusianto & Khasmir, 2024; Suharyati et al., 2023) which state that competence does not have a significant effect on entrepreneurial orientation and performance.

Motivation plays a dominant role in the psychological aspects of entrepreneurship. Motivation is a set of forces that cause people to behave in accordance with the interests of the organization (Kinicki, 2021). Motivation is an entrepreneur's inner drive to succeed in entrepreneurship; a stronger drive to succeed will strengthen entrepreneurial characteristics. To achieve optimal performance in business, entrepreneurs must be willing to perform well with a high achievement motive in running the business to achieve a specific level of competitiveness that has a bargaining position against strong competition. Robbins & Judge (2019) argue that motivation is a process that plays a role in the intensity, direction, and duration of sustained efforts towards achieving specific business goals. Motivation can be thought of as a plan or desire to succeed and avoid failure in entrepreneurial decisions.

Entrepreneurial motivation can also support entrepreneurs to engage in entrepreneurial activities and achieve entrepreneurial goals in the subsequent entrepreneurial process, which is considered an internal driving force of entrepreneurs (Shi & Wang, 2021). Entrepreneurial motivation in venture creation is related to the entrepreneurial process over time, which influences entrepreneurs' strategic decisions and company performance. The link between motivation, entrepreneurial orientation, and performance is supported by research findings (Basir & Hamid, 2025; Guevara-Otero et al., 2026; Hairunisya et al., 2024; Herison et al., 2024; Jon et al., 2024; Kusa et al., 2021; Kyal et al., 2022; Mere et al., 2024; Moko et al., 2024; Mulyati & Maruta, 2025; Raihandra et al., 2025; Rusianto & Khasmir, 2024). Different findings were obtained (Agustin, 2020; Dahman et al., 2023; Efriadi, 2023; Fenny & Setyawan, 2024; Mulyati & Maruta, 2025; Pratama & Ahmadi, 2024; Suryoto, 2022) which stated that motivation had no effect on entrepreneurial orientation and performance.

Entrepreneurial literacy is crucial for business success. The higher one's entrepreneurial literacy, the easier it is to achieve success in running a business (Firdaus, 2022). Economic actors with a high entrepreneurial literacy capacity are able to transform all threats and challenges into opportunities that bring profits and benefits to the economy. Entrepreneurial literacy can be understood as an awareness of the importance and existence of entrepreneurship, the ability to identify, discover, observe, analyze, process, and use entrepreneurial knowledge (Susanto, 2025). Entrepreneurial literacy is the primary foundation for developing competitive and sustainable entrepreneurship. It opens the door for entrepreneurs to manage their businesses effectively, innovate, and become agents of economic change.

Entrepreneurial literacy shapes an individual's ability to create something new, thus impacting the birth of creative thinking and innovative actions that enable the formation of new business ideas or opportunities. Furthermore, Wen et al. (2024) stated that entrepreneurial literacy has an impact on understanding the fundamentals of business to design products

creatively. Therefore, entrepreneurs must have good entrepreneurial literacy to increase entrepreneurial creativity. Empirical research findings that show the relationship between entrepreneurial literacy, entrepreneurial orientation, and performance include (Febrianawati et al., 2024; Hasan et al., 2024; Hastuti et al., 2021; Masrizal et al., 2025; Novela et al., 2024; Padi et al., 2025; Putri & Iffan, 2024; Sariwulan et al., 2020; Wijayanto et al., 2020; Wongso et al., 2020). The research gap arises from research findings (Adiansyah et al., 2025; Gunawan et al., 2023; Irawati & Lubis, 2022; Mujiatun et al., 2023; Rosyadah et al., 2022) which state that entrepreneurial literacy has no effect on entrepreneurial orientation and performance.

The ability of MSMEs to achieve this business performance will be a crucial aspect for their survival and sustainable competitiveness strategy to face increasingly fierce competition. This study offers novelty by testing a structural model of performance determinants, examining the influence of competency, work motivation, and entrepreneurial literacy. This research's novelty is also evident in the use of entrepreneurial orientation as a mediator, a finding that has been limited in empirical research. Based on the problems described above and the existing research gap phenomenon, this study focuses on the influence of competence, work motivation, and entrepreneurial literacy on the performance of MSME actors with entrepreneurial orientation as a mediating variable in Banyuwangi District. This study is expected to provide a more comprehensive understanding of the factors that influence MSME performance, as well as provide more effective recommendations for improving entrepreneurial orientation and achieving MSME business performance in Banyuwangi Regency.

LITERATURE REVIEW

The Effect of Competence on MSME Performance

Individual competence, encompassing knowledge, skills, and experience, is a form of productive capital that directly increases productivity and performance output. In the context of MSMEs, entrepreneurs with high competence are better able to manage resources efficiently, make strategic decisions, and adapt to market changes. From the Resource-Based View (Barney, 1991), competence is an intangible asset that is difficult to imitate and forms the basis of sustainable competitive advantage. Competence enables MSMEs to create value through product innovation, operational efficiency, and improved service quality, which are aggregately reflected in business performance.

The Knowledge-Based View (Grant, 1996) positions competency as a strategic resource that shapes decision-making patterns and an organization's strategic orientation. MSMEs with high levels of competency tend to have a stronger entrepreneurial orientation, reflected in innovative behavior, risk-taking, and proactivity. Research findings supporting the effect of competence on performance include (Aftab et al., 2022; Alatas et al., 2024; Pulka et al., 2021; Sakib et al., 2022; Suryoto, 2022).

The Effect of Work Motivation on MSME Performance

Work motivation drives individuals to work optimally, creatively, and achievement-oriented. In the context of MSMEs, work motivation functions as a psychological engine that drives individuals to improve business quality, expand markets, and maintain business continuity. Expectancy Theory (Vroom, 1964) explains that individuals will demonstrate high performance if they believe that their efforts will result in good performance and provide valuable rewards. MSMEs with high work motivation tend to have strong expectations of success, thus being more consistent in allocating time, energy, and resources to improve their business performance. From the perspective of Goal-Setting Theory (Locke & Latham, 2002), work motivation strengthens commitment to business goals. Clear and challenging goals encourage MSMEs to behave more focused, persistent, and adaptively, which ultimately reflects in improved performance.

Several studies have shown that the influence of work motivation on MSME performance can weaken if business actors face structural limitations such as limited capital, limited market access, or regulatory pressures. This suggests that work motivation is an important internal factor, but its effectiveness is highly dependent on external resource support. Research findings supporting the effect of work motivation on business performance include (Hairunisya et al., 2024; Herison et al., 2024; Jon et al., 2024; Kusa et al., 2021; Kyal et al., 2022; Mere et al., 2024).

The Effect of Entrepreneurial Literacy on MSME Performance

Entrepreneurial literacy is a form of cognitive capital that enhances an individual's capacity to understand opportunities, manage risks, and make rational business decisions. Entrepreneurial literacy strengthens entrepreneurs' abilities to develop strategies, optimize resources, and anticipate market changes, ultimately reflecting improved business performance. From a Knowledge-Based View perspective (Grant, 1996), entrepreneurial literacy is a strategic knowledge asset that enables MSMEs to create innovation and competitive advantage. Entrepreneurs with high levels of literacy tend to be more adaptable to technology, more responsive to consumer needs, and better able to utilize market information to increase productivity and profitability.

Empirical research shows that the influence of entrepreneurial literacy on the performance of MSMEs, particularly in developing countries, faces structural limitations such as limited access to capital, low competitive pressure, and weak institutional support. Therefore, entrepreneurial literacy is better understood as a potential capability that requires activation mechanisms, such as through entrepreneurial orientation or work motivation, to have a significant impact on performance. Research findings supporting the effect of work motivation on business performance include (Hasan et al., 2024; Hastuti et al., 2021; Masrizal et al., 2025; Sariwulan et al., 2020; Wijayanto et al., 2020; Wongso et al., 2020).

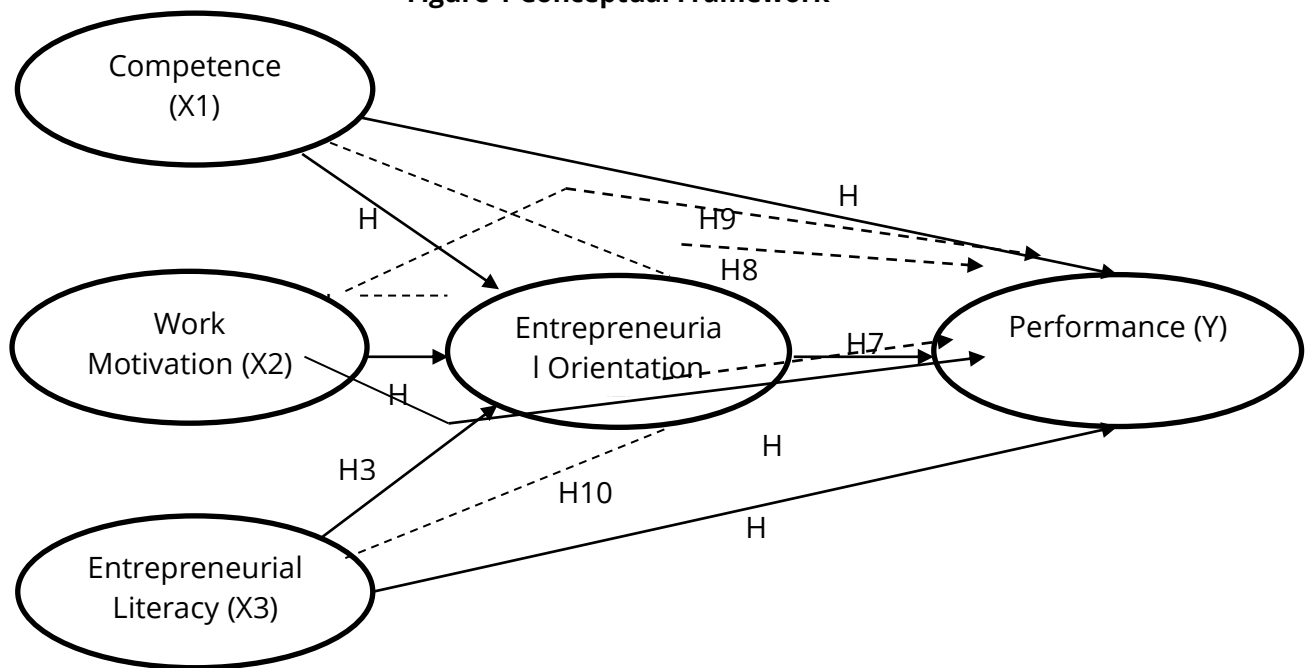
The Effect of Entrepreneurial Orientation on MSME Performance

Entrepreneurial Orientation (EO) was developed by Miller (1983) and further reinforced by Lumpkin & Dess (1996). EO represents an organization's strategic posture, reflected in three to five key dimensions: innovation, proactiveness, risk-taking, autonomy, and competitive aggressiveness. From the Resource-Based View (Barney, 1991), entrepreneurial orientation is an intangible resource that enables MSMEs to create competitive advantage through product differentiation, new market exploration, and rapid response to business opportunities. Furthermore, Dynamic Capability Theory (Teece et al., 1997) explains that entrepreneurial orientation strengthens an organization's ability to sense, seize, and reconfigure, thereby enhancing adaptability and performance in a dynamic environment.

Empirical studies show that the EO-performance relationship is contextual, influenced by the level of environmental dynamics, industry structure, and internal resources of MSMEs. In stable or subsistence environments, a high entrepreneurial orientation consistently results in significant performance improvements. Research findings supporting the influence of entrepreneurial orientation on business performance include (Abu-Rumman et al., 2021; Alvarez-Torres et al., 2019; Bhandari & Amponstira, 2020; Mustari et al., 2021; Natalya & Masman, 2025; Pulka et al., 2021; Wahyuni, 2020; Wijayanto et al., 2020).

Conceptual Framework

Figure 1 Conceptual Framework



METHODS

This research design is included in explanatory/confirmatory research with a quantitative approach. The population of this study is business actors or owners of retail trade MSMEs in Banyuwangi District, Banyuwangi Regency. The number of samples referring to the Slovin Formula was 177 people and the sampling was carried out using the accidental sampling method.

The independent variables included competence, work motivation, and entrepreneurial literacy. The intervening variable was entrepreneurial orientation. The dependent variable was performance. Data analysis used Structural Equation Modeling (SEM) with the SmartPLS statistical tool.

RESULTS

Outer Model Evaluation

Validity testing in SEM-PLS is carried out using Convergent Validity, while reliability testing is carried out using Composite Reliability. The results of WarpPLS 7.0 which describe the results of the validity test can be seen in Table 1.

Table 1. Combined Loadings and Cross-Loadings

	Competence	Work Motivation	Entrepreneurial Literacy	Entrepreneurial Orientation	Performance
X1.1	0,880	0,013	-0,036	-0,081	0,224
X1.2	0,893	0,088	-0,073	0,158	-0,108
X1.3	0,906	-0,014	-0,173	-0,067	0,098
X1.4	0,868	0,000	0,186	-0,232	0,147

X1. 5	0,885	-0,087	0,104	0,216	-0,357
X2. 1	0,074	0,909	-0,109	0,292	-0,251
X2. 2	0,188	0,895	-0,165	0,079	-0,024
X2. 3	0,054	0,909	0,038	0,019	-0,089
X2. 4	-0,099	0,906	0,129	-0,139	0,081
X2. 5	-0,226	0,861	0,109	-0,264	0,299
X3. 1	0,041	0,140	0,897	0,125	-0,087
X3. 2	-0,086	0,032	0,880	0,055	0,138
X3. 3	-0,007	-0,217	0,889	-0,053	0,151
X3. 4	0,051	0,045	0,884	-0,129	-0,201
Z1	0,061	0,125	0,131	0,880	0,122
Z2	-0,110	0,084	0,269	0,864	0,018
Z3	-0,183	0,037	-0,129	0,842	-0,048
Z4	-0,001	-0,128	-0,035	0,849	-0,027
Z5	0,160	0,050	-0,189	0,852	-0,048
Z6	0,070	-0,173	-0,057	0,856	-0,022
Y1	0,482	0,039	-0,175	0,317	0,805
Y2	0,127	-0,159	0,004	0,096	0,856
Y3	-0,087	0,103	0,169	-0,307	0,866
Y4	-0,261	0,078	0,098	0,029	0,861
Y5	-0,095	-0,038	-0,121	-0,196	0,858

Sorec: Data proecessed, 2026

Table 1 show that each value in the cross-loadings factor has reached a value above 0.7 with a p-value below 0.001. Thus, the convergent validity test criteria have been met.

Table 2. Reliability Test Results

Variable	Composite Reliability	Cronbach's Alpha
Competense	0,948	0,932
Work Motivation	0,953	0,939
Entrepreneurial Litercay	0,937	0,910
Entrepreneurial Orientation	0,943	0,928
Performance	0,943	0,927

Source: Data processed in 2026

The basis used in the reliability test was the Composite reliability coefficients and Cronbach's alpha coefficients above 0.7. The results in Table 2 shown that the questionnaire instrument met the requirements for reliability test.

Inner Model Evaluation

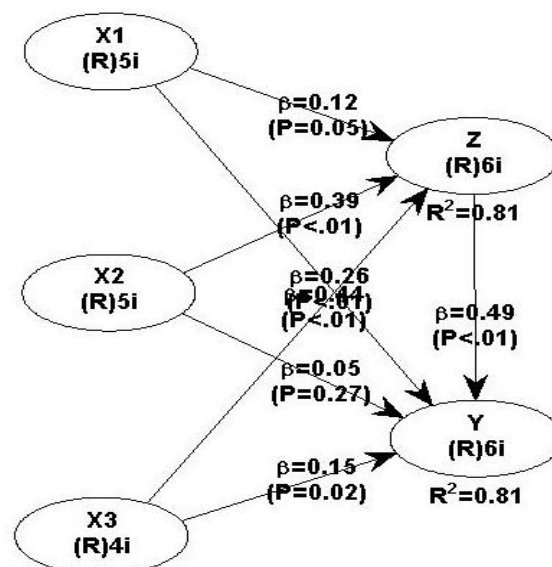
Table 3: Research Model Test

Items	Value	Ideal
Average path coefficient (APC)	$P < 0.014$	$\leq 0,05$
Average R-squared (ARS)	$P < 0.001$	$\leq 0,05$
Average adjusted R-squared (AARS)	$P < 0.001$	$\leq 0,05$
Average block VIF (AVIF)	5,061	$\leq 3,3$
Average full collinearity VIF (AFVIF)	4,440	$\leq 3,3$
Tenenhaus GoF (GoF)	0,788	High
Simpson's paradox ratio (SPR)	0.600	0.7
R-squared contribution ratio (RSCR)	0.964	0,9
Statistical suppression ratio (SSR)	1.000	$\geq 0,7$
Nonlinear bivariate causality direction ratio (NLBCDR)	0.700	$\geq 0,7$

Source: Data processed in 2026

The results of the model fit test show that the model built in this study has a very good fit with the data used.

Figure 2. Analysis Results



Source: Data processed in 2026

The coefficient values of the direct and indirect influence paths can be seen in Table 4.

Table 4. Direct Effect

	Path coefficients	P values	Conclusions
Competence (X1) -> Entrepreneurial Orientation (Z)	0,120	0,052	Insignificant
Work motivation (X2) -> Entrepreneurial Orientation (Z)	0,386	<0,001	Significant
Entrepreneurial Literacy (X3) -> Entrepreneurial Orientation (Z)	0,444	<0,001	Significant
Competence (X1) -> MSMEs Performance (Y)	0,255	<0,001	Significant
Work motivation (X2) -> MSMEs Performance (Y)	0,046	0,268	Insignificant
Entrepreneurial Literacy (X2) -> MSMEs Performance (Y)	0,153	0,019	Significant
Entrepreneurial Orientation (Z) -> MSMEs Performance (Y)	0,487	<0,001	Significant

Source: Data processed in 2026

The results of the direct effect test show that work motivation and entrepreneurial literacy have a significant effect on entrepreneurial orientation, while competence does not have a significant effect on entrepreneurial orientation. Competence and entrepreneurial literacy have a significant effect on MSMEs performance, while work motivation does not have a significant effect on MSMEs performance. Entrepreneurial orientation has a significant effect on MSMEs performance.

Table 5. Indirect Effect

	Path coefficients	P values	Conclusions
Competence (X1) -> Entrepreneurial Orientation (Z) -> MSMEs Performance (Y)	0,058	0,135	Insignificant
Work motivation (X2) -> Entrepreneurial Orientation (Z) -> MSMEs Performance (Y)	0,188	<0,001	Significant
Entrepreneurial Literacy (X3) -> Entrepreneurial Orientation (Z) -> MSMEs Performance (Y)	0,216	<0,001	Significant

Source: Data processed in 2026

The results of the indirect effect test, which examined the intervening role of entrepreneurial orientation, indicate that entrepreneurial orientation acts as an intervening factor in the effect of work motivation and entrepreneurial literacy on MSMEs performance.

The following is a summary of the results of the research hypothesis testing.

Table 6. Summary of Hypothesis Tests

No	Hypothesis	Conclusions
1	Competence have effect on Entrepreneurial Orientation	Rejected
2	Work motivation have effect on Entrepreneurial Orientation	Accepted
3	Entrepreneurial literacy have effect on Entrepreneurial Orientation	Accepted
4	Competence have effect on MSMEs Performance	Accepted
5	Work motivation have effect on MSMEs Performance	Rejected
6	Entrepreneurial literacy have effect on MSMEs Performance	Accepted
7	Entrepreneurial Orientation have effect on MSMEs Performance	Accepted
8	Competence have effect on MSMEs Performance, through Entrepreneurial Orientation as an intervening variable	Rejected
9	Work motivation have effect on MSMEs Performance, through Entrepreneurial Orientation as an intervening variable	Accepted
10	Entrepreneurial literacy have effect on MSMEs Performance, through Entrepreneurial Orientation as an intervening variable	Accepted

Source: Data processed in 2026

DISCUSSION

The Effect of Competence on Entrepreneurial Orientation

The results of the study indicate that competence has a positive but insignificant effect on entrepreneurial orientation. Therefore, the hypothesis stating that competence effect entrepreneurial orientation in MSMEs in Banyuwangi District is not proven true or H1 is rejected. This means that the high or low competence of MSME actors is not considered a determining factor in their entrepreneurial orientation. The high or low competence of MSME actors cannot be the main determinant of entrepreneurial orientation, because entrepreneurial orientation is more a reflection of attitudes, motivations, and responses to environmental pressures than

merely technical abilities or formal knowledge. In the context of MSMEs, the drive to survive and exploit opportunities is often more dominant in shaping entrepreneurial orientation than the level of competence possessed by entrepreneurs. This insignificant finding is reinforced by the fact that in MSME practice, especially in the retail and micro sectors, many entrepreneurs have low education and no formal training, but still demonstrate a strong entrepreneurial orientation due to economic pressures, family demands, and limited job options.

Conversely, entrepreneurs with high competence are often more cautious, tend to be risk-averse, and focus more on stability than expansion or innovation. The findings of this study do not correspond to or support research (Aftab et al., 2022; Prawita et al., 2024; Pulka et al., 2021; Sakib et al., 2022; Suryoto, 2022) which states that competence effect entrepreneurial orientation.

The Effect of Work Motivation on Entrepreneurial Orientation

The results of the study indicate that work motivation has a positive and significant effect on entrepreneurial orientation. Therefore, the hypothesis stating that work motivation effect entrepreneurial orientation in MSMEs in Banyuwangi District is proven true, or H2 is accepted. This means that better work motivation among MSMEs will increase entrepreneurial orientation. Motivation refers to Self-Determination Theory (SDT) proposed by Deci and Ryan (1985), which states that intrinsic motivation drives individuals to act proactively, creatively, and achieve goals. In the context of entrepreneurship, individuals with high levels of work motivation tend to demonstrate innovative behavior, risk-taking, and strategic initiative - core dimensions of entrepreneurial orientation.

From the perspective of Behavioral Entrepreneurship Theory, work motivation functions as a behavioral trigger that activates cognitive potential and competencies into concrete actions (Shane et al., 2003). In other words, without adequate motivation, entrepreneurial competencies and literacy tend not to be converted into entrepreneurial orientation. The research findings support research (Basir & Hamid, 2025; Mere, Lukitaningtyas, & Sungkawati, 2024; Moko et al., 2024; Mulyati & Maruta, 2025; Raihandra et al., 2025; Rusianto & Khasmir, 2024) that proves the effect of work motivation on entrepreneurial orientation.

The Effect of Entrepreneurial Literacy on Entrepreneurial Orientation

The research results show that entrepreneurial literacy has a positive and significant effect on entrepreneurial orientation. Therefore, the hypothesis stating that entrepreneurial literacy effect entrepreneurial orientation in MSMEs in Banyuwangi District is proven true, or H3 is accepted. This means that the better the entrepreneurial literacy of MSMEs, the stronger their entrepreneurial orientation. Literacy is a form of cognitive capital that enhances an individual's capacity to understand opportunities, manage risks, and make strategic decisions. In the context of MSMEs, entrepreneurial literacy enriches the entrepreneurial mindset, which is the foundation for developing an entrepreneurial orientation. From the perspective of the Theory of Planned Behavior (Ajzen, 1991), entrepreneurial literacy strengthens perceived behavioral control and attitudes toward entrepreneurship, thereby increasing an individual's tendency to be innovative, proactive, and risk-taking—the three main dimensions of entrepreneurial orientation (Lumpkin & Dess, 1996). Furthermore, the Knowledge-Based View (Grant, 1996) explains that knowledge is a key strategic resource. Entrepreneurial literacy enables MSMEs to interpret market information, adopt technology, and respond adaptively to environmental dynamics, ultimately reflecting a stronger entrepreneurial orientation. Several studies have shown that entrepreneurial literacy does not always result in a high entrepreneurial orientation if it is not accompanied by motivational and contextual factors (Ratten, 2020; Fatoki, 2021).

Therefore, entrepreneurial literacy is more accurately understood as a latent capability that requires activation through psychological and institutional factors. The research findings align with those of Hastuti et al., 2021; Masrizal et al., 2025; Novela et al., 2024; Padi et al., 2025; Putri & Iffan, 2024; Sariwulan et al., 2020), which indicate that entrepreneurial literacy effect entrepreneurial orientation.

The Effect of Competence on MSMEs Performance

The research results show that competence has a positive and significant effect on the performance of MSMEs. Therefore, the hypothesis stating that competence effect MSME performance in Banyuwangi District is proven true, or H4 is accepted. This means that improving the competence of retail MSMEs in Banyuwangi District will improve their performance. Individual competence, encompassing knowledge, skills, and experience, is a form of productive capital that directly increases productivity and performance output. In the context of MSMEs, entrepreneurs with high competence are better able to manage resources efficiently, make strategic decisions, and adapt to market changes.

From the Resource-Based View (Barney, 1991), competency is an intangible asset that is difficult to imitate and forms the basis of sustainable competitive advantage. Competence enables MSMEs to create value through product innovation, operational efficiency, and improved service quality, which are aggregately reflected in business performance. The study's findings are consistent with those of research (Aftab et al., 2022; Alatas et al., 2024; Pulka et al., 2021; Sakib et al., 2022; Suryoto, 2022) that states that competency effect performance.

The Effect of Work Motivation on MSMEs Performance

The research results show that work motivation has a positive but insignificant effect on the performance of MSMEs. Therefore, the hypothesis stating that work motivation effect MSME performance in Banyuwangi District is not proven, or H5 is rejected. This means that the existence of work motivation factors in MSMEs is not directly assessed as a determinant of MSME performance. MSME work motivation is not always a direct determinant of business performance. This is due to the difference between an individual's internal drive and business performance outcomes, which are heavily effected by structural and contextual factors. Work motivation reflects an individual's desire, passion, and intensity of effort, while MSME performance reflects objective business outcomes such as sales growth, profits, market share, and business sustainability. Therefore, high motivation does not automatically result in high performance, as performance requires resources, systems, and market access. In the context of MSMEs, high motivation often does not translate into increased performance if it is not supported by structural factors and strategic capabilities.

Work motivation drives individuals to work optimally, creatively, and achievement-oriented. In the context of MSMEs, work motivation functions as a psychological engine that drives individuals to improve business quality, expand markets, and maintain business continuity. Expectancy Theory (Vroom, 1964) explains that individuals will demonstrate high performance if they believe their efforts will result in good performance and provide valuable rewards. The research findings are not in accordance with the research results (Hairunisya, Arifin, Endayani, & Puspasari, 2024; Herison, Sahabuddin, Azis, Rahmatullah, & Ramli, 2024; Jon, Faggidae, Salean, & Nursiani, 2004; Kusa, Duda, & Suder, 2021; Kyal, Mandal, Kujur, & Guha, 2022; Mere, Lukitaningtyas, & Sungkawati, 2024) which show the effect of work motivation on business performance.

The Effect of Entrepreneurial Literacy on MSMEs Performance

The research results show that entrepreneurial literacy has a positive and significant effect on the performance of MSMEs. Therefore, the hypothesis stating that entrepreneurial literacy

effect the performance of MSMEs in Banyuwangi District is proven true, or H6 is accepted. This means that better entrepreneurial literacy among MSMEs will improve their performance.

Entrepreneurial literacy is a form of cognitive capital that enhances an individual's capacity to understand opportunities, manage risks, and make rational business decisions. Entrepreneurial literacy strengthens entrepreneurs' abilities to develop strategies, optimize resources, and anticipate market changes, ultimately reflecting improved business performance. From a Knowledge-Based View perspective (Grant, 1996), entrepreneurial literacy is a strategic knowledge asset that enables MSMEs to create innovation and competitive advantage. Entrepreneurs with high levels of literacy tend to be more adaptable to technology, more responsive to consumer needs, and better able to utilize market information to increase productivity and profitability. The results of this study support the research results (Hasan et al., 2024; Hastuti et al., 2021; Masrizal et al., 2025; Sariwulan et al., 2020; Wijayanto et al., 2020; Wongso et al., 2020) which state that work motivation effect business performance.

The Effect of Entrepreneurial Orientation on MSMEs Performance

The research results show that entrepreneurial orientation has a positive and significant effect on the performance of MSMEs. Therefore, the hypothesis stating that entrepreneurial orientation effect the performance of MSMEs in Banyuwangi District is proven true, or H7 is accepted. This means that improving the entrepreneurial orientation of retail MSMEs in Banyuwangi District will drive improved MSME performance.

Entrepreneurial Orientation (EO) was developed by Miller (1983) and confirmed by Lumpkin & Dess (1996). EO represents an organization's strategic posture, reflected in three to five key dimensions: innovation, proactivity, risk-taking, autonomy, and competitive aggressiveness. From a Resource-Based View perspective (Barney, 1991), entrepreneurial orientation is an intangible resource that enables MSMEs to create competitive advantage through product differentiation, new market exploration, and rapid response to business opportunities. Empirical studies show that the EO-performance relationship is contextual, effected by the level of environmental dynamics, industry structure, and internal resources of MSMEs. In stable or subsistence environments, a high entrepreneurial orientation consistently results in significant performance improvements. The results of this study are consistent with research (Abu-Rumman et al., 2021; Alvarez-Torres et al., 2019; Bhandari & Amponstira, 2020; Mustari et al., 2021; Natalya & Masman, 2025; Pulka et al., 2021; Wahyuni, 2020; Wijayanto et al., 2020) which states that entrepreneurial orientation has a significant effect on business performance.

The Effect of Competence on MSMEs Performance Through Entrepreneurial Orientation as an Intervening Variable

The results of the study indicate that competence has a positive but insignificant effect on the performance of MSMEs through entrepreneurial orientation as an intervening factor. Referring to these results, entrepreneurial orientation does not act as a mediating or intervening variable in the relationship between competence and performance of MSMEs. Therefore, the hypothesis stating that competence effect MSME performance through entrepreneurial orientation as an intervening factor in MSMEs in Banyuwangi District is not proven true or H8 is rejected.

Entrepreneurial orientation does not always act as a mediating variable in the relationship between competence and MSME performance, because the mechanism of competence's effect on performance does not necessarily involve changes in the strategic orientation of business actors. In this case, the effect of competence on performance is more direct and operational, through increased efficiency, service quality, and resource management, without having to undergo changes in the strategic orientation of business actors. In addition, the characteristics of MSMEs that are more oriented towards business continuity than strategic innovation cause

entrepreneurial orientation not to be a dominant connecting mechanism in the process of improving performance.

The Effect of Work Motivation on MSMEs Performance Through Entrepreneurial Orientation as an Intervening Variable

This study shows that a conducive work motivation has a positive and significant impact on improving MSMEs Performance in Kaliwates District, with Entrepreneurial Orientation as the intervening variable. This finding aligns with the work motivation theory proposed by (Nitisemito, 2000), which states that a Work motivation encourages individuals to act proactively, creatively, and be achievement-oriented. However, in the context of entrepreneurship, motivation does not automatically improve performance if it is not manifested in strategic behavior.

From the perspective of Behavioral Entrepreneurship Theory (Shane et al., 2003), work motivation is a psychological driver that activates entrepreneurial orientation as a behavioral manifestation. Entrepreneurial orientation is the primary channel that transforms psychological energy into concrete actions such as innovation, risk-taking, and market proactivity. Furthermore, Dynamic Capability Theory (Teece et al., 1997) strengthens the argument that entrepreneurial orientation enables MSMEs to convert motivation into competitive advantage through the processes of sensing, seizing, and reconfiguring. Thus, entrepreneurial orientation functions as a behavioral conversion mechanism that bridges the relationship between work motivation and business performance.

The Effect of Entrepreneurial Literacy on MSMEs Performance Through Entrepreneurial Orientation as an Intervening Variable

The results of the study indicate that work motivation has a positive and significant effect on the performance of MSMEs through entrepreneurial orientation as an intervening variable. Entrepreneurial orientation acts as a mediating or intervening variable in the relationship between entrepreneurial literacy and MSME performance. Therefore, the hypothesis stating that entrepreneurial literacy effect MSME performance through entrepreneurial orientation as an intervening variable in MSMEs in Banyuwangi District is proven true, or H10 is accepted.

Literacy as cognitive capital increases an individual's capacity to understand business opportunities and risks. However, in the context of entrepreneurship, literacy is a potential capability that does not always have a direct impact on performance. From a Knowledge-Based View perspective (Grant, 1996), entrepreneurial literacy is a strategic knowledge resource, but its economic value is only realized when implemented in the form of organizational behavior. Entrepreneurial orientation acts as a transformational mechanism that converts literacy into concrete actions such as innovation, proactivity, and risk-taking (Lumpkin & Dess, 1996).

Without an entrepreneurial orientation, literacy tends to stop at the cognitive level and fail to produce superior performance. Dynamic Capability Theory (Teece et al., 1997) asserts that entrepreneurial orientation strengthens MSMEs' ability to sense, seize, and reconfigure, allowing literacy to be strategically utilized to create competitive advantage. Thus, entrepreneurial orientation serves as a behavioral channel that bridges the relationship between entrepreneurial literacy and MSME performance.

CONCLUSION

Based on the research results, it was concluded that work motivation and entrepreneurial literacy have a positive and significant effect on entrepreneurial orientation. Competence and the entrepreneurial literacy have a positive and significant effect on MSMEs performance. Entrepreneurial orientation has a significant effect on MSMEs Performance. Entrepreneurial

orientation plays a mediating role in the influence of work motivation and entrepreneurial literacy on MSMEs performance.

Referring to the findings of this study, the practical implications of this research are that retail trade MSMEs in Banyuwangi District should always pay attention to matters related to competence, aspects that are considered weak and need to be improved, namely the ability to adapt strategies to market changes.

Further research agendas should include/add other variables such as entrepreneurship training, access to capital, government policy support, and others. This will allow for better findings in explaining the entrepreneurial orientation and performance of MSMEs.

LIMITATIONS

This study's limitations relate to the use of a questionnaire instrument, which poses a risk of respondent subjectivity. Furthermore, the respondents were limited to business actors or owners of retail trade MSMEs in Banyuwangi District.

RESEARCH TRANSPARENCY AND ETHICS STATEMENTS

1. Author Contributions:

MPK: Conceptualization, Methodology, Data Collection, Data Analysis,

EBS: Writing – Original Draft, Visualization, Review and Editing

RSS: Writing – Original Draft, Visualization, Review and Editing

N: Writing – Original Draft, Visualization, Review and Editing

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3. Conflict of Interest:

No conflict of interest: The authors declare that they have no conflict of interest related to the research and publication of this article.

4. Research Ethics:

The study did not involve any intervention, biological specimens, vulnerable groups, or sensitive personal data. Participation was voluntary, and the confidentiality of the respondents was maintained.

5. Use of Artificial Intelligence (AI):

No use of ai. The authors declare that generative ai was not used in the preparation of this article.

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