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EXPLORING THE MEDIATING ROLE OF ORGANIZATIONAL AMBIDEXTERITY BETWEEN ENTREPRENEURIAL ORIENTATION AND BUSINESS PERFORMANCE IN SMES

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ABSTRACT: This study contributes to the academic understanding of how organizational ambidexterity mediates the relationship between entrepreneurial orientation and business performance among SMEs in East Java, Indonesia. Using a quantitative approach, data were gathered from 200 SME respondents through a semi-structured questionnaire. PLS-SEM was employed to analyze both direct and indirect effects. The results reveal that entrepreneurial orientation positively influences both exploration and exploitation dimensions of ambidexterity, which subsequently support improved business performance. The mediation analysis further indicates that ambidexterity plays a pivotal role in translating entrepreneurial posture into performance outcomes. These findings offer practical value for SME leaders by highlighting the importance of balancing short-term operational routines with longer-term adaptive initiatives to remain competitive in a changing business landscape.

Keywords: Organizational Ambidexterity; Entrepreneurial Orientation, Business Performance, SMEs

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INTRODUCTION

In an increasingly volatile and competitive business environment, firms are compelled to adapt continually to ensure survival and maintain a strategic edge (Gupta et al., 2020). While some firms navigate these pressures through strategic renewal and innovation, others fall into the traps of organizational inertia or the success paradox, where past achievements hinder necessary transformation (Audia et al., 2000). Small and medium-sized enterprises (SMEs) exemplify entrepreneurial dynamism, often responding to business challenges with agile and innovative strategies (O'Reilly III & Tushman, 2013).

Unlike large corporations, however, SMEs operate under significant resource constraints, necessitating creative approaches to remain competitive (Boohene et al., 2020). Strategic networking has been identified as a key enabler of SME agility, allowing access to external resources that compensate for internal limitations (Lee & Kreiser, 2018). At the heart of this adaptability lies Entrepreneurial Orientation (EO)—a firm's strategic posture characterized by proactiveness, innovativeness, and a willingness to take risks (Dess & Lumpkin, 2005). EO has attracted growing academic interest due to its potential to drive performance outcomes, particularly within the context of SMEs (Vega-Vázquez et al., 2016).

Despite this, empirical findings remain inconclusive. For instance, while Vega-Vázquez et al. (2016) find a positive relationship between EO and firm performance, Lee and Kreiser (2018) report that innovation, a central EO component, does not always yield significant performance gains. Similarly, Bogatyreva et al. (2017) highlight contextual variation, noting that EO's effectiveness may differ between developed and developing economies. Further complicating the debate, Gupta et al. (2020) point to conceptual redundancy in EO dimensions such as proactiveness and risk-taking, while Wales et al. (2013) propose organizational ambidexterity as a critical mediator of the EO–performance relationship. Hughes and Morgan (2007) echo this, emphasizing that innovation and proactiveness are more consistently associated with performance gains than risk-taking alone.

In response to these inconsistencies, the present study seeks to explore the relationship between EO and business performance, with a particular focus on the mediating role of organizational ambidexterity, as conceptualized by Wales et al. (2013). Ambidexterity, in this context, refers to a firm's ability to balance or sequence exploration and exploitation—two distinct strategic learning activities (Lumpkin & Dess, 1996; Cao et al., 2009). Whereas "exploration" emphasizes risk-taking, experimentation, and discovery, "expansion" refers to performing exploratory and exploitative tasks sequentially to maintain strategic balance.

The relevance of this inquiry is especially pronounced in emerging market contexts. Prior studies (Lee & Kreiser, 2018; Cui et al., 2018) suggest that EO's impact on performance in developing economies is often indirect and mediated by factors such as innovation capability and access to external networks (Snehvrat et al., 2018; J. A. Zhang et al., 2016). These studies underscore the need for ambidextrous management in SMEs, especially as they navigate environmental complexities and seek long-term viability (Karami & Tang, 2019). Additionally, environmental factors—including political, economic, and cultural conditions—further shape the EO–performance nexus (Saeed et al., 2014; Bruton et al., 2010; Welter, 2011; Loong Lee & Chong, 2019).

This study contributes to this evolving discourse by empirically investigating the mediating role of organizational ambidexterity in the EO–performance relationship, using the Indonesian batik craft sector as its empirical setting. The manuscript is structured as follows: Section 1 outlines the study's background, research questions, and objectives. Section 2 develops the theoretical framework and reviews relevant empirical studies. Sections 3 and 4 detail the research methodology and present findings along with their discussion. Section 5 concludes the study by offering theoretical implications, practical recommendations, and directions for future research.

THEORETICAL REVIEW & HYPOTHESIS DEVELOPMENT

Entrepreneurial Orientation; Bussiness Performance; Ambidexterity Exploration and Expansion

This study integrates internal and external strategic perspectives by employing a dynamic capability approach to examine the role of organizational ambidexterity in SMEs. Drawing from Resource-Based Theory (RBT) and Resource-Dependence Theory (RDT), the framework

positions ambidexterity as a mechanism that enables firms to align internal capabilities with external demands. According to RBT, firms achieve sustained competitive advantage by deploying valuable, rare, and non-substitutable internal resources effectively (Barney, 2000; Weidong, 2007). Within this view, innovation aimed at expanding market reach is conceptualized as an exploitation strategy, whereas refining internal operations to serve existing customers is treated as an exploration strategy—an interpretation the dynamic capability approach helps reconcile (Eisenhardt & Martin, 2000). SMEs, constrained by limited resources, must dynamically orchestrate both internal and external inputs to improve performance outcomes (Teece, 2012; Zhang & Wu, 2017). High levels of Entrepreneurial Orientation (EO) are critical in managing this duality, facilitating ambidextrous competence through proactive risk-taking and innovation (O'Reilly III & Tushman, 2008; Tehseen & Sajilan, 2016; Lee & Kreiser, 2018).

The conceptualization of EO remains contested. Some scholars view it as a behavioral orientation, while others argue for a dispositional stance reflecting stable firm-level tendencies (Covin & Lumpkin, 2011; Sakari Soininen et al., 2013; Giraud Voss et al., 2005). This study adopts the latter perspective, emphasizing EO as a strategic disposition that governs how firms perceive and respond to internal-external resource dynamics. An entrepreneurial mindset, as argued by House et al. (1996), Lumpkin and Dess (2001), and Chaston and Sadler-Smith (2012), is essential for adapting to shifting resource configurations. This mindset manifests through key dimensions such as innovativeness, risk-taking, and proactiveness (Dess & Lumpkin, 2005; Chaston & Sadler-Smith, 2012). Innovativeness reflects a firm's willingness to experiment and develop novel offerings (Lumpkin & Dess, 1996), while proactivity entails taking the lead in technological development and market creation (Lumpkin & Dess, 1996). Walter et al. (2006) extend this view by identifying four core elements of EO: proactiveness, creativity, risk-taking, and assertiveness—attributes also adopted in this study. Cannavale and Nadali (2019), however, note potential redundancy in EO measurement, particularly between proactiveness and risk-taking dimensions, necessitating further empirical refinement.

Organizational ambidexterity is defined as a firm's capacity to simultaneously pursue exploratory and exploitative innovation strategies (He & Wong, 2004; Raisch & Birkinshaw, 2008; O'Reilly III & Tushman, 2013). Exploitative innovation refers to incremental improvements and efficiency gains within existing markets and technologies, reinforcing current competitive positions (He & Wong, 2004; O'Reilly III & Tushman, 2013). In contrast, exploratory innovation emphasizes experimentation and discovery in new product-market domains—crucial for long-term adaptability. Ambidexterity, as Raisch and Birkinshaw (2008) argue, lies in balancing these dual imperatives to fulfill existing customer needs while remaining agile to environmental shifts.

Business performance is broadly conceptualized as a firm's efficiency and effectiveness in achieving its strategic objectives (Ostroff & Schmitt, 1993; Gupta et al., 2020). Performance outcomes are typically evaluated across financial and non-financial metrics, such as profitability, market share, revenue growth, and customer satisfaction (D. Dunlap et al., 2016). The integration of RBT and RDT, supported by dynamic capabilities theory, provides a comprehensive framework for investigating how EO and ambidexterity jointly influence SME performance. Theoretical reasoning, underpinned by empirical evidence, thus forms the basis for hypothesis development in this study.

H1: Entrepreneurial orientation has a positive influence on Ambidexterity Exploration.
H2: Entrepreneurial orientation has a positive influence on Ambidexterity Expansion.
H3: Entrepreneurial orientation has a positive influence on business performance.
H4: Ambidexterity Exploration has a positive influence on business performance.
H5: Ambidexterity Expansion has a positive influence on business performance.

Ambidexterity as Mediator

Lumpkin and Dess (1996) argued that integrated strategic efforts, particularly in dynamic environments, may shape the relationship between Entrepreneurial Orientation (EO) and firm performance—conceptualizing this integration as organizational ambidexterity. In turbulent markets, SMEs with strong EO tend to navigate uncertainty through calculated risk-taking and adaptive behaviors, enabling ambidextrous capabilities to mediate performance outcomes. This perspective echoes Ashby's (1956) principle of requisite variety, which posits that organizational agility arises from alignment between internal competencies and external complexity. Effective

integration in this context involves not only task coordination and resource allocation but also leadership-driven processes such as strategic networking and adaptive budgeting (Lumpkin & Dess, 1996).

Building on this, Wales et al. (2013) emphasized the importance of capturing and deploying firm capabilities to explain the EO–performance linkage, a view reinforced by studies on organizational learning (Wang, 2008), alliance capability (Kale et al., 2002), and knowledge-based dynamics (Pettigrew et al., 2001). Huang et al. (2021) further demonstrated that ambidexterity plays a mediating role between EO and performance across varying institutional settings. However, firms rarely find it easy to simultaneously engage in exploration and exploitation. Overcommitting to exploitation can result in strategic rigidity, undermining innovation and responsiveness to market shifts. Conversely, excessive exploration may drain resources and lead to unproductive experimentation (Cao et al., 2009).

To reconcile this tension, firms must adopt a strategic posture that is proactive, innovative, and tolerant of risk—traits embedded within EO. SMEs with a strong EO are more capable of fostering organizational cultures that embrace such paradoxes, enabling firm-specific learning and dynamic capabilities (J. A. Zhang et al., 2016; Ireland & Webb, 2007). This ambidextrous orientation enhances innovation and responsiveness, aligning with resource-based theory's assertion that firm-specific capabilities are central to sustained competitive advantage (Barney et al., 2001; O'Reilly III & Tushman, 2008). Accordingly, this study posits that organizational ambidexterity serves as a mediating mechanism in the relationship between entrepreneurial orientation and business performance.

H6: The Role of Ambidexterity Exploration in Mediating the Relationship Between Entrepreneurial Orientation and Business Performance

H7: The Role of Ambidexterity Expansion in Mediating the Relationship Between Entrepreneurial Orientation and Business Performance

METHODOLOGY

This research conducts a case study of SMEs in East Java, Indonesia, to examine how organizational ambidexterity mediates the relationship between entrepreneurial orientation (EO) and business performance (BP). The study analyzes both direct and mediated relationships based on a mediation model (J. F. Hair, 2009). It hypothesizes that EO, Ambidexterity Exploration (EA), and Ambidexterity Expansion (EXA) influence BP (Path a). EO also affects EA and EXA (Path b). The model suggests that the effect of EA and EXA on BP is mediated by BP, with direct effects of EO, EA, and EXA on BP (Path c').

Population and Sample

This study focuses on small and medium-sized enterprises (SMEs) operating in East Java, Indonesia. A total of 200 SME owners were randomly selected to participate in this study, forming the research population. The participants, who were also the respondents, consisted of 200 SME owners. The research sample was selected using a saturated sampling method, with a 95% confidence interval and a 5% error rate. The sample was drawn from 200 SME respondents in East Java, Indonesia. The first technique was used to select the participating SME owners, while the second technique was applied to select the SME owners included in the research sample. This study primarily targeted respondents with extensive experience, indicating a comprehensive understanding of the research variables.

Data Collection Instruments and Procedures

This study employs a quantitative survey design, utilizing a questionnaire as the primary instrument for data collection via Google Forms on social media. The research questionnaire is divided into four main sections, comprising a total of 20 questions. The first section gathers demographic data from the respondents. The second and third sections focus on the independent and mediator variables—Entrepreneurial Orientation (EO), Ambidexterity Exploration (EA), and Ambidexterity Expansion (EXA). The final section contains questions related to the dependent variable, business performance (BP). A total of 200 questionnaires were distributed to

respondents, and all 200 questionnaires were completed and returned, resulting in a 100% response rate.

This study uses a detailed operational definition for the research variables. Entrepreneurial orientation (EO) is measured using five items adapted from M(Miller, 2011), (Wahyuni & Sara, 2020), (Arshad et al., 2020). EO assesses the extent to which a company's entrepreneurial tendencies foster a proactive attitude, innovation, risk-taking, and assertiveness in business development. The dimensions include autonomy, risk-taking, innovation, competitive aggression, and proactiveness. Ambidexterity is evaluated through the company's ability to engage in both exploratory and exploitative innovation, with six items each. Exploration indicators include leveraging new technologies, producing innovative products, and seeking new clientele (Tuan, 2016). Exploitation is measured by raising standards, improving dependability, and tracking customer satisfaction (Urde et al., 2013). Business performance is assessed by growth in revenue, customer acquisition, and retention. A Likert scale is used for measurement: 5 points for strongly agreeing, 4 for agreeing, 3 for neutral, 2 for disagreeing, and 1 for severely opposing.

To estimate the item-objective suitability index (IOC) for each question and ensure content validity, five academics and five subject matter experts (SMEs) from East Java, Indonesia, reviewed the questionnaire. The results exceeded 0.80 for each component. According to (Turner & Carlson, 2003), an IOC value of less than 0.80 is statistically significant. Data collection occurred between July and October 2023, and ethical approval was obtained from the East Java SME Forum and the research center at STIESIA. Informed consent was obtained from respondents, who voluntarily participated in the study. A total of 200 surveys were returned. Most SME managers were women (70%), aged 31-40 (60%), and highly educated (49%). The majority of SMEs produced crafts (26%) and apparel (4%), with 61% being less than 10 years old. Forty percent of SMEs had assets ranging from IDR 600,000,000 to 1,000,000,000, and 49% targeted international markets.

Data Analysis

This study employs SEM-PLS due to its ability to estimate complex models simultaneously, its lack of assumptions about data distribution, and its focus on exploring the roles of mediating variables like Ambidexterity Expansion and Exploration. SEM-PLS model evaluation includes assessing appropriateness, goodness of fit, and both outer and inner models (Risher & Hair Jr, 2017). The outer model is evaluated using criteria such as discriminant validity (HTMT < 0.90), convergent validity (AVE > 0.50), reliability (Cronbach's alpha and Composite Reliability > 0.70), and outer loading (> 0.60) (Chin, 1998); (Risher & Hair Jr, 2017). Non-standard data is scaled using the BCa method, with significance tested via bootstrapping (J. Hair & Alamer, 2022). The effect size (f-square) is measured to determine the impact of factors on the structural level, with thresholds for low, medium, and high impacts (Lachowicz et al., 2018); (Ogbeibu et al., 2020). (Risher & Hair Jr, 2017) provided the F-square direct effect values: 0.02 for low, 0.15 for medium, and 0.35 for high. The R-square value (Chin, 1998) is 0.19 for low, 0.33 for moderate, and 0.67 for high. Predictive relevance is demonstrated by a blindfolded Q-square > 0 (Risher & Hair Jr, 2017).

RESULTS

Data analysis using PLS-SEM followed a systematic, multi-stage approach to establish a robust measurement model, with hypothesis testing evaluated at the 5% significance threshold. The study targets SME managers operating in East Java, Indonesia. Given the exploratory orientation of the research, the initial step involved evaluating the outer model, specifically examining indicator reliability through a minimum outer loading criterion of 0.60 (Chin, 1998). The results of the PLS algorithm confirmed the validity of each indicator, demonstrating that the observed measures adequately represent their respective latent constructs (Figure 1), and the convergent validity as well as reliability in Table 1.

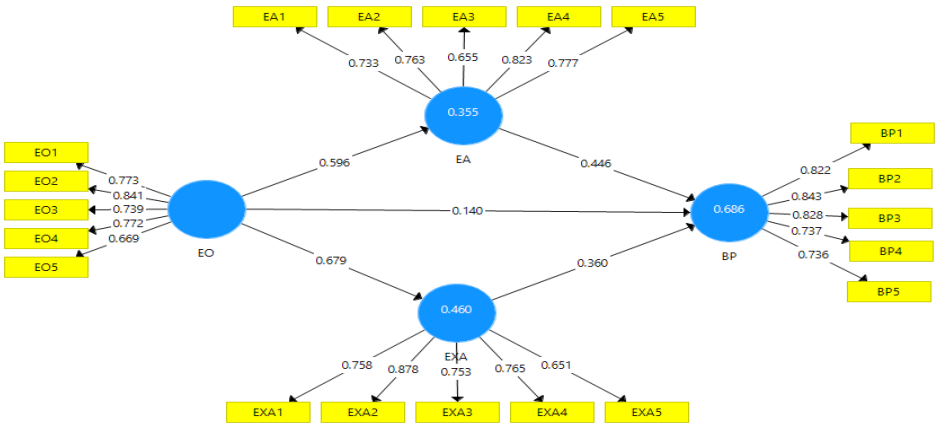

Figure 1: Algorithmic Structural Model 1

Table 1. Validity Measurements

Constructs	Loading	Alpha	CR	AVE
Entrepreneur Orientation (EO)	0.669 – 0.841	0.816	0.872	0.579
Ambidexterity Exploration (EA)	0.655 – 0.823	0.810	0.866	0.566
Ambidexterity Expansion (EXA)	0.651 – 0.878	0.820	0.875	0.585
Business Performance (BP)	0.736 – 0.843	0.853	0.895	0.632

Table 1 presents the results of the SmartPLS assessment, encompassing convergent validity, outer loadings, reliability, and descriptive statistics. The Cronbach's alpha and Composite Reliability (CR) values for all constructs exceed the recommended threshold of 0.70, thereby establishing internal consistency. In line with the criteria proposed by Risher and Hair Jr. (2017), convergent validity is demonstrated when the Average Variance Extracted (AVE) for each latent construct—Entrepreneurial Orientation (EO), Ambidexterity Exploration (EA), Ambidexterity Exploitation (EXA), and Business Performance (BP)—surpasses 0.50. This indicates that more than half of the variance is captured by the construct's indicators, confirming the adequacy of convergent validity within the model.

Table 2. HTMT

Variable	(EO)	(EA)	(EXA)	(BP)
Entrepreneur Orientation (EO)	-			
Ambidexterity Exploration (EA)	0.702			
Ambidexterity Expansion (EXA)	0.823	0.738		
Business Performance (BP)	0.765	0.872	0.856	-

Table 2 displays the SmartPLS output for Heterotrait-Monotrait Ratio (HTMT) discriminant validity, alongside reliability metrics and descriptive statistics. HTMT serves as a more rigorous and sensitive measure of discriminant validity compared to traditional approaches such as the Fornell-Larcker criterion and cross-loadings (Hair Jr et al., 2021). As defined by Henseler et al. (2015), HTMT represents the geometric mean of the correlations across constructs (heterotrait-heteromethod) relative to the correlations within the same construct (monotrait-heteromethod). The analysis confirms adequate discriminant validity across all construct pairs, as HTMT values remain below the recommended threshold of 0.90, indicating that the indicators share greater variance with their respective constructs than with others in the model. The hypothesis revelations are revealed in Figure 2, and are summarized in Table 3.

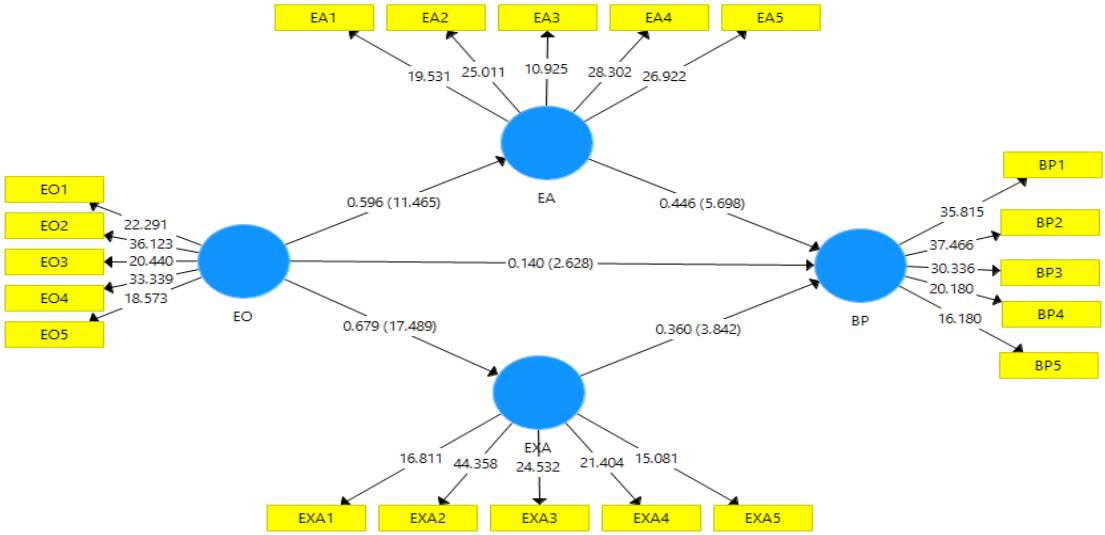

Figure 2: Structural model 2 (bootstrapping)

Table 3. Direct effects and Indirect Effects

Direct Effects	Path coefficients	95% Path Coefficient Confidence Interval		F square	R Square	Q Square
		Lower Limit	Upper Limit			
H1_EO → EA	0,596***	0,493	0,694	0,550	0,355	0,190
H2_EO → EXA	0,679***	0,603	0,750	0,853	0,460	0,262
H3_EO → BP	0,140***	0,023	0,233	0,030	0,686	0,423
H4_EA → BP	0,446***	0,291	0,607	0,361		
H5_EXA → BP	0,360***	0,183	0,523	0,177		
Indirect Effects						
H6_EO → EA → BP	0,266***	0,178	0,368	0,071		
H7_EO → EXA → BP	0,244***	0,123	0,384	0,059		

****sig<0,01, **sig<0,05, *sig<0,1; Entrepreneur Orientation (EO); Ambidexterity Exploration (EA); Ambidexterity Expansion (EXA); Business Performance (BP)*

The study employed the bootstrapping procedure with 2,000 resamples in SmartPLS to evaluate the proposed structural model. The analysis revealed statistically significant direct effects of Entrepreneurial Orientation on both Ambidexterity Exploration (p = 0.000) and Ambidexterity Exploitation (p = 0.000), thereby supporting Hypotheses 1 and 2. Additionally, Entrepreneurial Orientation exhibited a significant positive relationship with Business Performance (p = 0.000), confirming Hypothesis 3. Further results indicated that both dimensions of ambidexterity—Exploration and Exploitation—significantly influenced Business Performance (p = 0.000 for both), validating Hypotheses 4 and 5. Mediation analysis demonstrated that Ambidexterity Exploration and Exploitation function as partial mediators in the relationship between Entrepreneurial Orientation and Business Performance, with significance levels below the 0.05 threshold, supporting Hypotheses 6 and 7. Collectively, these results emphasize the pivotal role of organizational ambidexterity as a strategic conduit through which entrepreneurial orientation translates into enhanced business performance and innovation capability.

DISCUSSION

Empirical evidence underscores the strategic importance of innovation and social network formation in strengthening Entrepreneurial Orientation (EO), which subsequently enhances SME

performance. To advance Ambidexterity Exploration, SMEs must cultivate EO through innovation and deliberate internal network-building efforts (D. Nofiani et al., 2021). Sustainable success, however, depends not only on internal capabilities but also on outward-facing collaboration, particularly through social media platforms that support knowledge sharing and innovation (R. E. Dunlap et al., 2016). The positive linkage between EO and Ambidexterity Exploration is well-documented, aligning with the findings of Keh et al. (2007), Isichei et al. (2020), Idar and Mahmood (2011), and Abu Hassim et al. (2011). In contrast, other studies (Setyawati, 2013; Arief et al., 2013) report non-significant relationships, suggesting that contextual factors may moderate EO's effects.

Exploration, as conceptualized by Tushman et al. (2010), involves high-risk, experimental, and flexible activities aimed at discovering new pathways to innovation. In this regard, SMEs are encouraged to adopt EO-driven strategies that emphasize calculated risk-taking and innovation (Krueger Jr, 2007; Koniagina, 2020). EO enables firms to reconfigure resources creatively, offering early-mover advantages in introducing novel products, services, or technologies (Alam et al., 2022). In dynamic environments, this orientation equips startups with the agility to innovate across markets and technologies while responding swiftly to external pressures (R. Nofiani et al., 2020). Exploratory capacity further contributes to rapid organizational adaptation and decision-making in volatile contexts (Cosa, 2024), allowing firms to detect emerging opportunities and introduce innovations ahead of competitors (R. Nofiani et al., 2020). Strengthening EO through innovation and external social capital is therefore essential to elevating SME performance (R. Nofiani et al., 2020). As Liu et al. (2009) emphasize, EO enhances business performance by cultivating creativity, proactiveness, and the willingness to seize opportunities.

While exploitation emphasizes refinement and incremental learning, it also plays a crucial role in short-term performance by enhancing product reliability, reducing costs, and improving customer satisfaction (Sahoo & Yadav, 2017; Liu et al., 2009). SMEs can capitalize on their structural flexibility to adapt product attributes and service features to shifting market needs. Market exploitation, according to F. Zhang et al. (2017), offers greater potential for incremental innovation. Moreover, EO is not confined to product or market behavior—it also underpins the development of foundational systems, such as corporate information systems, which act as hidden resources in emerging firms (Goodhue, 1995).

Innovation performance is further amplified when EO is supported by external social networks (D. Nofiani et al., 2021), emphasizing the need to embed collaborative practices across the SME value chain (D. Dunlap et al., 2014; Heirati et al., 2017). Donate and de Pablo (2015) show that Ambidexterity Exploration significantly influences SME performance, especially in the Indonesian context. Continuous adoption of emerging technologies, pursuit of radical innovation, and proactive customer targeting are critical to financial performance gains, with innovation-driven leadership serving as the catalyst (Donate & de Pablo, 2015). Exploration involves experimentation, learning, and risk-taking (Rosing & Zacher, 2017; Alghamdi, 2018), and for SMEs in Surabaya, strategic alignment with these behaviors is essential to achieving organizational targets.

According to Sahi et al. (2020), effectiveness in SMEs is gauged by profitability, revenue growth, and market share—all outcomes tightly linked to EO and innovation capacity. The findings are consistent with research by Sudarti et al. (2019), Pratiwi and Salendu (2021), and Pranaditya et al. (2021), which collectively emphasize the importance of leveraging external resources and technological advancements to meet market demands. Ambidexterity supports firms in maintaining competitiveness while navigating shifting regional dynamics through a dual focus on exploration and exploitation (Sudarti et al., 2019; Pratiwi & Salendu, 2021; Pranaditya et al., 2021). Nevertheless, Sudarti et al. (2019) caution that ambidexterity, while critical under uncertainty, may not directly correlate with marketing performance.

The effective deployment of firm resources for innovation remains central to competitive strategy (Sahoo & Yadav, 2017). While exploration and exploitation are traditionally viewed as competing logics (Sahoo & Yadav, 2017), recent research argues for their complementarity. Idarraga et al. (2022) suggest that when appropriately balanced, the integration of both approaches enhances innovation outcomes. Cui et al. (2018) further show that incremental innovation thrives under a synergistic application of exploration and exploitation strategies. To optimize strategic fit, SMEs are advised to periodically assess their EO using self-diagnostics and environmental scanning tools (Cui et al., 2018; Sahoo & Yadav, 2017).

Sudarmaji et al. (2020) specifically explore how organizational ambidexterity moderates the EO–performance relationship in the batik craft industry, revealing a preference for Ambidexterity Exploration strategies to balance internal capabilities with external resources (Mu et al., 2022; Sahi et al., 2020; Mana-Ay et al., 2020). Furthermore, high EO levels mitigate risk exposure and support superior outcomes (Kahn & Candi, 2021). The present study integrates insights from Resource-Based Theory (RBT) and Resource Dependence Theory (RDT) to position ambidexterity as a central mediating capability (Peng & Lin, 2021). It reinforces the necessity for SMEs to adopt both Exploration and Exploitation strategies underpinned by dynamic capabilities (O'Reilly III & Tushman, 2008; Sahi et al., 2020). The model proposed clarifies the pathways through which SMEs can execute these strategies effectively (Zhou et al., 2021).

Empirical support further validates the positive impact of EO on business performance, especially when mediated by ambidexterity (Stettner & Lavie, 2014; Lee & Kreiser, 2018; Shafique et al., 2021). The findings underscore the strategic value of ambidexterity as an enabling mechanism, facilitating the translation of EO into sustained performance gains. For SMEs, this necessitates a careful calibration of internal capabilities with external dependencies (Abbas et al., 2023; Lee et al., 2024), alongside a context-sensitive approach to strategic decision-making (Gregurec et al., 2021; Akbar, 2022; Rahayu et al., 2023).

CONCLUSION AND FURTHER STUDY

Grounded in empirical analysis, this study confirms that Entrepreneurial Orientation (EO) exerts a direct and significant influence on both dimensions of organizational ambidexterity—namely, Ambidexterity Exploration and Ambidexterity Exploitation—and, in turn, significantly enhances the business performance of SMEs in East Java, Indonesia. The findings further indicate that both ambidexterity constructs independently contribute to improved SME performance, while EO also demonstrates an indirect yet substantial impact on performance through these ambidextrous capabilities. These results underscore the strategic importance of EO as a foundational capability that mobilizes exploratory and exploitative behaviors, ultimately driving superior business outcomes in dynamic environments.

While this study adopts a deductive hypothesis-testing approach through a cross-sectional survey—appropriate for assessing structural relationships—it acknowledges certain limitations. First, the generalizability of the findings is context-bound. Future research is encouraged to validate and extend the proposed framework in diverse geographical and industrial settings through comparative case studies. Second, longitudinal or single-case designs may yield deeper insights into the temporal evolution and strategic transitions of ambidexterity within SMEs. Researchers should also consider exploring how emergent variables—such as digital maturity or organizational learning mechanisms—may enhance the diagnostic capacity of the current framework. Lastly, given ongoing shifts in consumer preferences, future investigations might apply this model to other sectors such as furniture manufacturing, hospitality, and digital services, where innovation and adaptability are equally critical to performance.

ETHICAL DISCLOSURE

All participants provided written informed consent before participation. They were informed about the study's purpose, their voluntary participation, the right to withdraw at any time, and the confidentiality of their responses.

CONFLICT OF INTERESTS

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