Configurations of Entrepreneurial Orientation, Institutional Pressure, and Dynamic Capabilities for High and Low SME Performance: An fsQCA Study of Manufacturing SMEs

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ABSTRACT

This study examines how entrepreneurial orientation, institutional pressure, and dynamic capabilities combine to produce high and low SME performance among manufacturing SMEs in DKI Jakarta. Drawing on dynamic capability theory and adopting a configurational perspective, the study addresses the fragmentation of prior research, which has largely examined these domains separately and through net-effect logic. Data were collected from 450 owner-managers of registered manufacturing SMEs using a structured questionnaire. The analysis employed fuzzy-set Qualitative Comparative Analysis (fsQCA) to identify equifinal and asymmetrical pathways to performance. The findings reveal three sufficient configurations for positive SME performance and three for negative SME performance. Positive performance is associated with broad alignment across entrepreneurial orientation, institutional pressure, and adaptive capabilities, while negative performance emerges from both widespread condition absence and misaligned combinations of otherwise favorable conditions. The results also show that all nine first-order conditions are necessary for positive performance, whereas none is individually necessary for negative performance. These findings confirm equifinality and causal asymmetry, demonstrating that SME performance is not generated by isolated factors but by coherent causal recipes.

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Keywords: fsQCA, entrepreneurial orientation; institutional pressure; dynamic capabilities; firm performance

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I. INTRODUCTION

SME performance remains a central issue in strategic management because small and medium-sized enterprises operate under persistent resource constraints, environmental uncertainty, and institutional demands, while at the same time being expected to remain innovative, adaptive, and competitive. In such settings, performance is not adequately captured by a single financial indicator, but is better understood as a multidimensional outcome shaped by growth, profitability, market position, and competitive viability (Richard et al., 2009; Huang et al., 2023). For manufacturing SMEs in DKI Jakarta, this issue is especially salient because owner-managers must simultaneously pursue entrepreneurial initiatives, comply with regulatory and industry expectations, and continuously adjust internal resources and routines. Prior research suggests that entrepreneurial orientation, institutional pressure, and dynamic capabilities each matter for organizational outcomes, yet their roles are often examined separately rather than as interdependent conditions shaping firm performance (Fainshmidt et al., 2019; Putniņš and Sauka, 2020; Bag et al., 2022).

The problem addressed in this study is that SME performance is still too often explained through isolated net effects, even though the realities faced by firms are configurational. Entrepreneurial orientation research has shown that innovativeness, proactiveness, and risk-taking matter, but their effects vary depending on how they work together (Putniņš and Sauka, 2020; Huang et al., 2023). Dynamic capability research likewise shows that sensing, seizing, and reconfiguring do not create advantage automatically, but only when aligned with broader strategic and environmental conditions (Teece, 2007; Fainshmidt et al., 2019). Institutional research further indicates that coercive, normative, and mimetic pressures shape organizational behavior and outcomes, yet these pressures are commonly treated as external constraints rather than as integral elements of performance formation (Bag et al., 2022). As a result, the mechanisms through which these domains jointly produce positive or negative SME performance remain insufficiently explained, particularly in manufacturing SME contexts.

This leads to two important gaps. The first is a theoretical gap: earlier studies remain fragmented because they focus on only part of the explanatory landscape. Entrepreneurial orientation studies often omit institutional pressure and dynamic capabilities, dynamic capability studies tend to focus on competitive advantage rather than SME performance, and institutional pressure studies commonly adopt net-effects logic and sustainability-specific outcomes without incorporating entrepreneurial orientation or asymmetrical explanation (Fainshmidt et al., 2019; Putniņš and Sauka, 2020; Bag et al., 2022). The second is a practical gap: managers and policymakers still lack a clearer account of why some SMEs perform well under similar environmental conditions while others do not. This gap is important because manufacturing SMEs do not respond to change through one factor alone; rather, they rely on combinations of strategic posture, adaptive capability, and institutional embeddedness. These limitations justify a configurational approach that can capture equifinality and causal asymmetry more effectively than linear models (Ragin, 2008; Fiss, 2011).

Accordingly, this study aims to examine how entrepreneurial orientation, institutional pressure, and dynamic capabilities combine to produce positive and negative SME performance among manufacturing SMEs in DKI Jakarta. The study is motivated

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by dynamic capability theory, which provides the central logic for explaining how firms translate strategic posture and external demands into performance through sensing, seizing, and reconfiguring (Teece et al., 1997; Teece, 2007). The guiding research question is: *How do configurations of entrepreneurial orientation, institutional pressure, and dynamic capabilities lead to positive and negative SME performance?* The study's novelty lies in integrating these three domains within a single fsQCA framework at the dimensional level, thereby moving beyond variable-centered explanation toward an asymmetrical and equifinal account of SME performance. Its main contribution is to show that high and low SME performance are generated by distinct causal recipes, thus extending prior work that has treated these constructs in partial or disconnected ways (Huang et al., 2023; Mostafiz et al., 2025).

II. LITERATURE REVIEW

A. Previous Studies, Gaps, and the Study's Significance

Recent research has advanced understanding of SME performance by examining entrepreneurial orientation (EO), institutional pressures, and dynamic capabilities from related yet largely separate perspectives. Putniņš and Sauka (2020) show that innovativeness strengthens the returns to risk-taking, while proactiveness partly operates through risk-taking. Using fsQCA, Fainshmidt et al. (2019) demonstrate that dynamic capabilities create advantage only when aligned with strategic and environmental conditions. Bag et al. (2022) further report that coercive, normative, and mimetic pressures improve SME performance indirectly through eco-innovation. Configurational studies also indicate that performance follows multiple causal paths: Huang et al. (2023) identify several high- and low-performance EO recipes, and Mostafiz et al. (2025) show that international performance depends on coherent EO–dynamic capability combinations.

Despite these advances, the literature remains theoretically fragmented and empirically bounded. EO studies often omit institutional pressures and dynamic capabilities (Putniņš and Sauka, 2020; Huang et al., 2023), whereas dynamic capability research tends to emphasize competitive advantage rather than SME performance and pays limited attention to institutional conditions (Fainshmidt et al., 2019). Likewise, research on institutional pressures has mainly relied on net-effects designs and sustainability-specific outcomes, without incorporating EO or causal asymmetry (Bag et al., 2022). Even recent configurational work combining EO and dynamic capabilities focuses on international rather than broader SME performance (Mostafiz et al., 2025). The present study addresses these gaps by integrating EO, institutional pressures, and dynamic capabilities within one fsQCA model, thereby clarifying equifinal pathways to both high and low SME performance.

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Table 1
Previous Studies and the Study's Significance

Study	Focus	Method/context	Main insight	Gap
Putniņš and Sauka (2020)	EO dimensions	SEJ; firm-level	Innovativeness strengthens risk-taking returns; proactiveness works partly through risk-taking.	No IP or DC; not asymmetrical.
Fainshmidt et al. (2019)	DC and strategic fit	fsQCA; JMS	DCs create advantage only under strategic–environmental fit.	Competitive advantage, not SME performance; no IP.
Bag et al. (2022)	IP and capability chain	240 South African SMEs; JBR	Coercive, normative, and mimetic pressures improve eco-innovation and SME performance indirectly.	Sustainability-specific; net-effects design; no EO.
Huang et al. (2023)	EO configurations	fsQCA; 110 UK SMEs; EMJ	Three high-performance and four low-performance recipes show causal asymmetry.	Omits IP and DC.
Mostafiz et al. (2025)	EO and capability configurations	Longitudinal fsQCA; IBR	Performance depends on aligned EO–dynamic capability configurations.	International-performance focus; excludes IP and general SME outcomes.
Present study	EO + IP + DC	fsQCA; SMEs	Explains equifinal high- and low-performance configurations.	Integrates all three domains in one asymmetrical SME model.

B. Theoretical Background

Dynamic capability theory emerged within strategic management to explain how firms renew competencies under conditions of environmental change. Teece et al. (1997) defined dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competencies in rapidly changing environments. Eisenhardt and Martin (2017) refined the construct by arguing that dynamic capabilities are identifiable organizational processes, such as product development, strategic decision-making, and alliances, rather than vague abstractions. Helfat and Peteraf (2003) extended the theory through the notion of capability lifecycles, emphasizing that capabilities emerge, develop, branch, and sometimes decline over time. Teece (2007) later consolidated the framework around sensing, seizing, and reconfiguring and connected these capacities to long-run enterprise performance. More recent configurational studies further show that capability effects depend on strategic fit and on coherent combinations with entrepreneurial orientation and context.

In the present study, dynamic capability theory provides the main logic for linking

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entrepreneurial orientation, institutional pressures, and SME performance. Within this framework, institutional pressures are treated as external signals and constraints that require adaptive response; accordingly, they are operationalized as coercive, normative, and mimetic pressures, consistent with SME research on capability-related outcomes. Entrepreneurial orientation is operationalized through innovativeness, proactiveness, and risk-taking, because these dimensions capture the entrepreneurial posture through which firms respond to opportunities and threats; this is consistent with Teece's (2007) view that firms with strong dynamic capabilities are intensely entrepreneurial, and with recent EO studies using the same dimensions to explain performance. Dynamic capabilities themselves are captured through sensing, seizing, and reconfiguring, following Teece (2007) and the validated scale developed by Kump et al. (2019). On this basis, high and low SME performance can be examined as the outcome of alternative configurations of institutional pressures, entrepreneurial orientation, and dynamic capabilities through fsQCA.

C. The Study's Focus Area and Framework

The study locates its analytical focus at the intersection of entrepreneurial orientation, institutional pressure, and dynamic capabilities. This positioning reflects the view that SME performance is not adequately explained by any one of these domains in isolation. Entrepreneurial orientation captures the firm's opportunity-seeking posture through innovativeness, proactiveness, and risk-taking, which shape how firms identify and pursue strategic opportunities (Putniņš and Sauka, 2020). Institutional pressure introduces coercive, normative, and mimetic demands that influence organizational behavior and channel managerial choices within broader regulatory and social environments (Bag et al., 2022). Dynamic capabilities, expressed through sensing, seizing, and reconfiguring, represent the firm's adaptive capacity to convert strategic intent and environmental signals into effective responses (Kump et al., 2019). The focus area, therefore, lies in the common space where strategic posture, institutional embeddedness, and adaptive capability jointly explain variation in SME performance, as shown in Figure 1.

Figure 1
The Study Focus Area

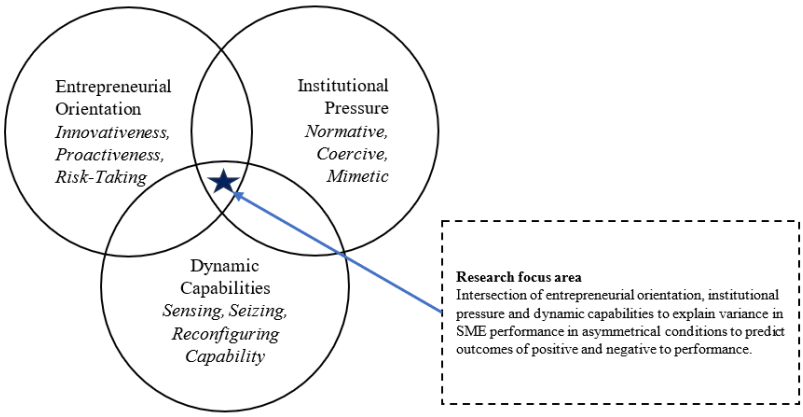

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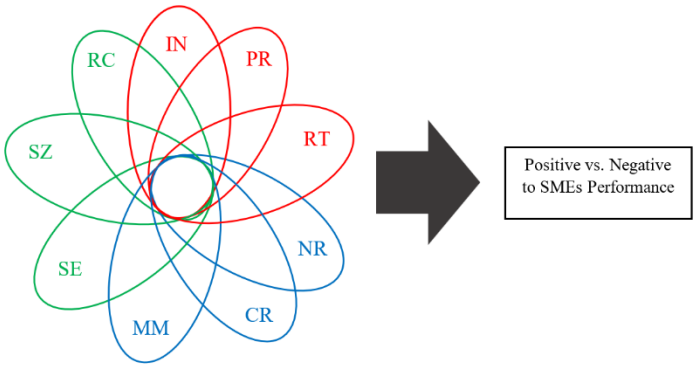
Figure 2 translates that focus into a configurational framework by disaggregating each construct into its first-order dimensions and linking their combinations to positive and negative SME performance. The framework assumes a set-theoretic logic in which outcomes arise from alternative configurations of conditions rather than from the independent net effect of a single variable. This reasoning is consistent with fuzzy-set analysis, which emphasizes equifinality and causal asymmetry: multiple pathways may lead to strong performance, while the configurations associated with weak performance are not simply the reverse of successful ones (Ragin, 2008; Fiss, 2011). Recent empirical studies support this logic by showing that entrepreneurial and capability-related conditions operate in context-dependent combinations rather than in linear isolation (Fainshmidt et al., 2019; Huang et al., 2023; Mostafiz et al., 2025). Accordingly, the framework proposes that the interplay among EO, institutional pressure, and dynamic capabilities provides a more precise explanation of SME performance outcomes.

Figure 2
The Study's Proposed Conceptual Framework



D. SMEs Performance

SMEs performance refers to the extent to which a small or medium-sized enterprise achieves its intended economic and competitive outcomes. In the literature, performance is generally treated as a multidimensional construct rather than a single accounting result. This is particularly important in SME research, where firm objectives, reporting systems, and strategic horizons differ across sectors and institutional settings. Accordingly, performance is commonly assessed through a combination of growth, profitability, market standing, and overall competitive outcomes (Richard et al., 2009; Putniņš and Sauka, 2020). Recent research also shows that performance is better understood as the result of aligned strategic conditions than as an isolated financial indicator, especially when firms operate under environmental uncertainty and resource constraints (Huang et al., 2023).

In this study, SME performance is positioned as the outcome condition in the configurational model. Consistent with set-theoretic reasoning, the analysis treats high SME performance and low SME performance as distinct outcome sets, since the causal conditions associated with success are not assumed to be the simple inverse of those associated with weak performance (Ragin, 2008; Fiss, 2011). Substantively, the construct is operationalized through comparative indicators such as sales growth, profitability, and

overall performance relative to key competitors. This approach fits the framework because the study does not seek a single net-effect explanation; rather, it examines how entrepreneurial orientation, dynamic capabilities, and institutional pressure combine in different ways to generate superior or inferior SME performance.

E. Entrepreneurial Orientation

Entrepreneurial orientation refers to the strategic posture that characterizes how a firm engages in entrepreneurial action. The construct emerged from the argument that entrepreneurial firms can be distinguished by their tendency to innovate, act proactively, and assume calculated risks in pursuit of opportunities (Miller, 1983; Lumpkin and Dess, 1996). Innovativeness captures openness to experimentation and new ideas, proactiveness reflects a forward-looking tendency to anticipate and exploit emerging opportunities, and risk-taking concerns the willingness to commit resources under uncertainty. Recent studies continue to confirm the relevance of these dimensions, while also showing that their value is contingent rather than uniform across settings. In particular, the effects of innovativeness, proactiveness, and risk-taking may differ according to how they are combined (Putniņš and Sauka, 2020; Huang et al., 2023).

The present study operationalizes entrepreneurial orientation through its three constituent dimensions: innovativeness, proactiveness, and risk-taking. These dimensions are treated as separate conditions within the framework rather than being collapsed into a single additive index. This specification is analytically appropriate because the study adopts fsQCA, which is designed to capture how different attributes combine to produce an outcome. Under this logic, high innovativeness may contribute to strong performance only when accompanied by particular levels of proactiveness, risk-taking, adaptive capability, or institutional support. By calibrating the three EO dimensions as distinct fuzzy sets, the study is able to examine not only whether EO matters, but also how its internal composition interacts with dynamic capabilities and institutional pressures to form alternative pathways to high and low SME performance (Ragin, 2008; Putniņš and Sauka, 2020).

F. Dynamic Capabilities

Dynamic capabilities theory explains how firms renew, realign, and transform their resource base in changing environments. The theory developed in response to the limitations of static resource-based explanations and shifted attention toward the firm's ability to adapt under volatility, competition, and institutional change (Teece et al., 1997). A major refinement of the theory conceptualized dynamic capabilities through three interrelated capacities: sensing, seizing, and reconfiguring (Teece, 2007). Sensing refers to the identification of opportunities and threats, seizing concerns the mobilization of resources to capture opportunities, and reconfiguring involves the realignment of assets, routines, and structures to sustain adaptation. More recent research has shown that these capabilities do not yield value automatically; their contribution depends on how they align with strategic conditions and the surrounding environment (Fainshmidt et al., 2019).

In this study, dynamic capabilities provide the main theoretical mechanism through which firms translate strategic posture and environmental demands into

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performance outcomes. The construct is operationalized through sensing capability, seizing capability, and reconfiguring capability, following the dominant articulation of the theory and subsequent scale development work (Teece, 2007; Kump et al., 2019). Each dimension is modeled separately because SMEs may exhibit strength in one adaptive domain while remaining constrained in another. Within the framework, sensing enables firms to recognize market and institutional signals, seizing reflects their capacity to commit resources and act on recognized opportunities, and reconfiguring indicates their ability to realign structures and processes in support of performance. This arrangement fits the framework by allowing the study to assess how adaptive capability profiles combine with entrepreneurial orientation and institutional pressures to produce high- or low-performance configurations.

G. Institutional Pressure

Institutional pressure refers to the external demands that shape organizational behavior by defining what is legitimate, appropriate, and widely accepted in a given environment. Institutional theory classically distinguishes three forms of pressure. Coercive pressure arises from formal rules, laws, and authority structures; normative pressure derives from professional standards, social expectations, and accepted norms; and mimetic pressure reflects imitation under conditions of uncertainty (DiMaggio and Powell, 1983). This perspective emphasizes that firms are embedded in broader regulatory and social systems and therefore do not act solely based on internal efficiency considerations. Later work further clarified that organizations may respond strategically to institutional demands rather than simply conforming to them (Oliver, 1991). In SME settings, such pressures can shape innovation, capability development, and performance outcomes (Bag et al., 2022).

The current study operationalizes institutional pressure through coercive, normative, and mimetic dimensions and includes them as causal conditions in the configurational framework. This treatment is important because institutional forces are not regarded here as peripheral background variables; they are considered integral to the combinations that generate performance outcomes. Coercive pressure may compel firms to comply with regulations and industry requirements, normative pressure may encourage conformity to professional and social expectations, and mimetic pressure may induce the adoption of widely diffused practices. In an fsQCA design, these forms of pressure can interact differently with entrepreneurial orientation and dynamic capabilities, thereby creating distinct pathways to strong or weak SME performance. This operationalization enables the study to explain how external legitimacy demands combine with internal strategic and adaptive conditions to shape performance differences across SMEs (Bag et al., 2022; Fiss, 2011).

III. PREPOSITION DEVELOPMENT

Grounded in dynamic capability theory, this study assumes that SME performance is produced through the alignment of internal strategic posture, adaptive capability, and external institutional conditions. Dynamic capabilities do not generate value as isolated organizational attributes; rather, sensing, seizing, and reconfiguring become consequential when they are mobilized in ways that match both environmental demands

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and the firm's entrepreneurial orientation (Teece, 2007; Fainshmidt et al., 2019). This reasoning is consistent with entrepreneurial orientation research showing that innovativeness, proactiveness, and risk-taking are interdependent dimensions whose effects vary according to how they are combined (Putniņš and Sauka, 2020). It is also consistent with institutional research indicating that coercive, normative, and mimetic pressures shape organizational outcomes contingently rather than uniformly (Bag et al., 2022). Accordingly, the present framework treats the first nine-order conditions as conjunctural causes whose explanatory power lies in their configuration rather than in any single net effect (Fiss, 2011).

From this perspective, positive SME performance is unlikely to arise from the mere presence of one isolated condition. Innovativeness without seizing capability may produce ideas that are never translated into market value, while proactiveness without reconfiguring capability may expose a firm to opportunities that it cannot absorb organizationally. Similarly, risk-taking may not enhance performance unless it is supported by adequate sensing and timely resource commitment. Institutional pressures alone are also insufficient: coercive, normative, or mimetic influences may encourage compliance or imitation, but they do not automatically create superior performance unless firms possess the entrepreneurial and adaptive capacity to respond productively (Teece, 2007; Bag et al., 2022). Recent configurational studies further show that strong performance emerges from coherent bundles of entrepreneurial and capability-related conditions rather than from any one dimension operating independently (Huang et al., 2023; Mostafiz et al., 2025).

Proposition1: The presence of any one of the nine conditions—innovativeness, proactiveness, risk-taking, normative pressure, coercive pressure, mimetic pressure, sensing capability, seizing capability, or reconfiguring capability—alone is not sufficient to produce positive SME performance.

The same theoretical logic applies to negative SME performance. The absence of a single condition does not automatically lead to poor performance because SMEs may compensate through alternative combinations of resources, routines, and environmental responses. A firm with limited innovativeness, for example, may still perform adequately if it is highly proactive, imitates effectively under uncertainty, and reconfigures its resources efficiently. Likewise, weak normative or coercive pressure does not by itself produce negative outcomes when strong dynamic capabilities enable the firm to identify and exploit opportunities. Set-theoretic scholarship emphasizes that causal asymmetry must be taken seriously: the configurations associated with poor performance are not simple mirror opposites of those associated with strong performance, but distinct combinations in their own right (Fiss, 2011). In line with dynamic capability theory, negative performance is therefore expected to result from broader misalignment across several internal and external conditions rather than from the absence of any one element taken in isolation (Fainshmidt et al., 2019).

Proposition2: The absence of any one of the nine conditions alone is not sufficient to produce negative SME performance.

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IV. METHODS

A. Operationalization and Measures

This study operationalizes the antecedent variables at the dimensional level so that each construct corresponds directly to the configurational logic of the framework. Entrepreneurial orientation is measured through three dimensions: innovativeness, proactiveness, and risk-taking. Innovativeness is captured through managerial emphasis on research and development, technology, and innovation, the introduction of new product or service lines during the last five years, and changes in product or service offerings (Beliaeva et al., 2020). Proactiveness is measured by the firm's tendency to initiate actions ahead of competitors, to become an early mover in introducing products, services, administrative techniques, or operating technologies, and to show a strong inclination to advance new product ideas relative to competitors (Beliaeva et al., 2020). Risk-taking is assessed through the willingness to undertake high-risk projects with high expected returns, the belief that bold action is necessary to achieve firm goals, and the tendency to make aggressive decisions under uncertainty to exploit potential opportunities (Beliaeva et al., 2020). Institutional pressure is likewise treated as a multidimensional construct consisting of coercive, normative, and mimetic pressures. Coercive pressure is indicated by awareness of sanctions, negative reporting, and regulatory consequences associated with non-compliance; normative pressure reflects the expectations of professional associations and industry norms; and mimetic pressure captures the extent to which firms imitate leading businesses considered responsible in relation to products and services (Liu et al., 2022).

Dynamic capabilities are operationalized through sensing capability, seizing capability, and reconfiguring capability. Sensing capability is measured through continuous monitoring of the external environment, the application of new ideas to meet customer needs, the collection of relevant business information, and observation of best practices in the sector (Hernández-Linares et al., 2021; Ozanne et al., 2022; Taghizadeh et al., 2024). Seizing capability is assessed through readiness to invest in solutions to emerging business problems, maintenance of best-practice standards, coordinated responses to issues raised by employees, and willingness to adapt in response to customer feedback (Jain et al., 2023; Ozanne et al., 2022; Taghizadeh et al., 2024). Reconfiguring capability is measured by the firm's ability to adapt to change, respond quickly to shifting business priorities, redesign processes to exploit value-creating opportunities, and realign organizational strengths to remain competitive in selected market areas (Jain et al., 2023; Ozanne et al., 2022; Taghizadeh et al., 2024). The outcome variable, SME performance, is measured through six subjective indicators: satisfaction with return on capital, asset growth, sales growth, profit growth, employee growth, and market-share growth (Yaqub et al., 2025). In line with the fsQCA design, these first-order dimensions are retained as distinct causal conditions rather than collapsed into a single composite score, allowing the analysis to identify alternative combinations associated with high and low SME performance (Ragin, 2008).

B. Sampling Technique and Data Collection

The sampling strategy was designed to reach respondents who were in the best position

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to provide valid information relevant to the study objectives. The study began with purposive sampling by targeting owner-managers of registered manufacturing SMEs in DKI Jakarta that had operated for at least one year. This criterion was applied because owner-managers are the actors most familiar with the firm's entrepreneurial orientation, institutional pressures, dynamic capabilities, and performance, and purposive sampling allows the deliberate selection of information-rich participants whose characteristics fit the logic of the study (Campbell et al., 2020). Since official directories of manufacturing SMEs are not fully comprehensive and do not always provide direct access to eligible respondents, the purposive approach was complemented by snowball sampling. Initial respondents were therefore asked to refer other owner-managers who met the same criteria, enabling the study to extend access through existing business and professional networks and to improve reach among otherwise difficult-to-contact SMEs (Goodman, 1961).

Data were collected over several months using a structured questionnaire distributed through email, SME associations, and social media platforms. Before the main survey was administered, a pilot test involving 20 owner-managers was conducted to refine the wording, clarity, and sequence of the questionnaire items. Participation was voluntary and anonymous, and informed consent was obtained from all respondents before data collection. Follow-up reminders were sent to improve the response rate and increase the number of usable questionnaires. After screening for completeness and respondent eligibility, the final dataset comprised 450 usable responses. To assess possible non-response bias, early and late respondents were compared following the widely used extrapolation procedure suggested by Armstrong and Overton (1977). The resulting dataset was considered appropriate for subsequent fsQCA analysis.

C. Analysis Technique

The analysis began with an assessment of potential common method variance because all data were collected through a single questionnaire. Common method variance was examined using the full-collinearity variance inflation factor (VIF) test, where values of 3.3 or lower indicate that the model is free from serious common method bias (Kock, 2015). Harman's single-factor test was also employed as an additional diagnostic by loading all measurement items into an exploratory factor analysis to verify that no single general factor accounted for the majority of the covariance among the measures (Podsakoff et al., 2003). After this preliminary screening, the measurement assessment focused only on convergent validity, as the indicators were adapted from established scales and the study proceeded to set-theoretic analysis rather than covariance-based structural estimation. Convergent validity was evaluated through standardized outer loadings and average variance extracted (AVE), with loadings of at least 0.708 and AVE values of 0.50 or higher indicating acceptable convergence of the indicators on their respective constructs (Hair et al., 2020).

The substantive analysis then employed fuzzy-set qualitative comparative analysis (fsQCA) because the study seeks to identify equifinal and asymmetrical combinations leading to high and low SME performance. Following the direct calibration procedure, the original 5-point Likert responses were transformed into fuzzy-set membership scores, with 0.05 indicating full non-membership, 0.50 the crossover point, and 0.95 full membership; exact crossover scores were adjusted by 0.001 to avoid case deletion during

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estimation (Ragin, 2008; Fiss, 2011; Pappas and Woodside, 2021). With nine causal conditions, the truth table contained 512 logically possible configurations, and because the sample size was 450, a frequency threshold of 3 was applied. The sufficiency analysis then used a raw consistency threshold of 0.80 and a PRI consistency threshold of 0.70 before Boolean minimization generated the complex, parsimonious, and intermediate solutions, with interpretation centered on the intermediate solution in terms of condition presence, absence, and logical irrelevance, together with consistency, raw coverage, and unique coverage. A separate necessary condition analysis was also conducted, where consistency values above 0.90 were treated as evidence of necessity. Finally, robustness and predictive validity were examined through XY plots and a split-sample procedure in which the dataset was divided into a modelling subsample and a holdout subsample; stable consistency and coverage across the two samples were taken as evidence of robust configurations. The analysis was conducted using fsQCA version 4.1 (Pappas and Woodside, 2021; Saridakis et al., 2022; Cangialosi, 2023).

V. RESULTS

A. Sample Profile

The sample profile indicates that the respondents were predominantly male owner-managers (58.0%), with the largest age group falling between 35 and 44 years (38.0%). In terms of educational attainment, nearly half of the respondents held a bachelor's degree (48.0%), suggesting a relatively well-educated SME leadership base. Geographically, the sample was concentrated in West Jakarta (26.0%) and East Jakarta (24.0%), reflecting the strong presence of manufacturing SMEs in these administrative areas. Most firms had been operating for 6 to 10 years (32.0%), while the dominant size category was 5–19 employees (40.0%), followed by 20–49 employees (32.0%). By industrial composition, food and beverage firms represented the largest subsector (30.0%), followed by textile and garment businesses (20.0%), indicating that the sample was largely drawn from established and labor-intensive manufacturing activities within DKI Jakarta.

B. Common Method Variance

Common method variance (CMV) was assessed using the full-collinearity variance inflation factor (VIF) approach and Harman's single-factor test. The VIF values ranged from 1.273 to 3.739, indicating that multicollinearity was not severe; however, the maximum value slightly exceeded the conservative threshold of 3.3 suggested for detecting possible common method bias, although it remained below the more liberal threshold of 5.0 commonly used to indicate problematic collinearity (Kock, 2015; Hair et al., 2020). In addition, Harman's single-factor analysis showed that the first factor explained only 12.42% of the total variance, which is substantially below the 50% benchmark typically used to indicate serious common method bias (Podsakoff et al., 2003). Taken together, these results suggest that CMV is unlikely to pose a substantial threat to the validity of the study's findings, although the VIF results warrant cautious interpretation.

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C. Calibration Selection and Truth Table

After the preliminary measurement assessment was completed, the data were further analysed using fuzzy-set qualitative comparative analysis (fsQCA) version 4.1. The first stage in fsQCA is calibration selection, because the raw questionnaire responses must be transformed into fuzzy-set membership scores before configurational analysis can be performed. Following the direct calibration approach, this study converted the original 5-point Likert scale into three qualitative anchors, namely 4.5 for full membership, 3.0 for the crossover point, and 1.5 for full non-membership (Ragin, 2008; Pappas and Woodside, 2021). These anchor points were then translated into fuzzy scores ranging from 0.95 for full membership, 0.50 for the point of maximum ambiguity, and 0.05 for full non-membership. This procedure is appropriate because fsQCA requires substantive thresholds that distinguish whether a case can be considered mostly in, mostly out, or neither clearly in nor out of a given set (Ragin, 2008; Saridakis et al., 2022).

After calibration, the fuzzy scores were used to construct the truth table for the outcome of positive SME performance and the truth table for negative SME performance. In this study, each row in the truth table represents an observed combination of innovativeness, proactiveness, risk-taking, coercive pressure, normative pressure, mimetic pressure, sensing capability, seizing capability, and reconfiguring capability, together with its corresponding outcome, number of cases, and consistency value. In line with established fsQCA procedures, the truth table was screened using a minimum frequency threshold and a consistency cut-off so that only empirically relevant and sufficiently consistent configurations were retained for further analysis (Fiss, 2011; Pappas and Woodside, 2021). Through this step, the truth table provides the logical structure needed to identify how different combinations of conditions are associated with the presence or absence of SME performance rather than assuming that each variable exerts an isolated net effect.

As presented in the truth tables, the observed cases are distributed across several configurations for both positive and negative SME performance, indicating that the outcome is configurationally diverse. This is consistent with the core logic of fsQCA, which assumes equifinality, namely that more than one causal path may lead to the same outcome, and causal asymmetry, meaning that the configurations associated with positive performance are not simply the inverse of those associated with negative performance (Ragin, 2008; Fiss, 2011). Accordingly, the truth tables in this study serve as the empirical foundation for the subsequent necessity and sufficiency analyses. By organizing the calibrated data into meaningful causal recipes, the truth table construction allows the study to move from variable-based reasoning toward a configurational explanation of how entrepreneurial orientation, institutional pressure, and dynamic capabilities jointly shape SME performance (Pappas and Woodside, 2021; Saridakis et al., 2022).

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Table 2
Truth Table for Positive to SMEs Performance

Innovation	Proactive	RiskTaking	Coercive	Normative	Mimetic	Sensing	Seizing	Reconfiguring	number	Positive to SMEs Performance	raw consist.	PRI consist.	SYM consist
1	1	1	1	1	1	1	1	0	3	1	1.00	1.00	1.00
1	1	1	0	1	1	1	1	1	1	1	1.00	1.00	1.00
1	0	0	1	1	1	1	1	1	1	1	1.00	1.00	1.00
1	1	0	1	1	1	1	1	1	1	1	1.00	1.00	1.00
1	1	1	1	1	1	1	0	1	1	1	1.00	1.00	1.00
1	1	1	1	1	1	1	1	1	270	1	0.99	0.99	1.00

Table 3
Truth Table for Negative to SMEs Performance

Innovation	Proactive	RiskTaking	Coercive	Normative	Mimetic	Sensing	Seizing	Reconfiguring	number	Negative to SMEs Performance	raw consist.	PRI consist.	SYM consist
0	0	0	0	0	1	0	0	0	1	1	0.974	0.500	0.500
0	0	0	0	0	0	0	0	0	2	1	0.954	0.474	0.496
1	1	1	0	1	1	1	1	1	1	1	0.805	0.000	0.000

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D. Necessary Condition Analysis

At this stage, the study conducted a necessary condition analysis for both positive and negative SME performance. In fsQCA, a condition is treated as necessary when the outcome is consistently a subset of that condition; following the criterion adopted in this study, necessity is indicated when consistency exceeds 0.90 and coverage exceeds 0.70 (Ragin, 2008; Pappas and Woodside, 2021). Based on the results in Table 4, all nine positive first-order conditions meet these thresholds for the outcome of positive SME performance, namely innovation (consistency = 0.932; coverage = 0.938), proactiveness (0.904; 0.945), risk-taking (0.917; 0.947), coercive pressure (0.951; 0.966), normative pressure (0.959; 0.966), mimetic pressure (0.923; 0.938), sensing capability (0.922; 0.940), seizing capability (0.915; 0.938), and reconfiguring capability (0.918; 0.943). These findings indicate that high SME performance is not observed without the presence of these entrepreneurial, institutional, and capability-related conditions. However, this does not mean that each condition alone is sufficient; rather, it means that these conditions are almost always present when positive SME performance occurs, while their sufficiency must still be examined through configurational analysis (Ragin, 2008).

Table 4
Necessary Condition Analysis

Condition	Consistency	Coverage	Consistency	Coverage
Innovation	0.932	0.938	0.925	0.207
~Innovation	0.212	0.927	0.724	0.703
Proactive	0.904	0.945	0.927	0.215
~Proactive	0.249	0.939	0.762	0.638
RiskTaking	0.917	0.947	0.937	0.215
~RiskTaking	0.240	0.945	0.771	0.673
Coercive	0.951	0.966	0.942	0.212
~Coercive	0.225	0.946	0.848	0.793
Normative	0.959	0.966	0.927	0.207
~Normative	0.212	0.929	0.846	0.822
Mimetic	0.923	0.938	0.940	0.212
~Mimetic	0.224	0.944	0.724	0.676
Sensing	0.922	0.940	0.924	0.209
~Sensing	0.224	0.930	0.734	0.677
Seizing	0.915	0.938	0.909	0.207
~Seizing	0.226	0.918	0.727	0.655
Reconfiguring	0.918	0.943	0.915	0.209
~Reconfiguring	0.229	0.924	0.750	0.671

Notes: Necessary condition if consistency > 0.90 and coverage > 0.70; "~" indicate negation.

By contrast, none of the conditions nor their negations can be regarded as necessary for negative SME performance shows in Table 4. Although the presence of several conditions shows high consistency values for the negative outcome, their coverage values are very low, ranging only from 0.207 to 0.215, which means that they do not account for a substantial share of the cases with negative SME performance. Likewise, the negated conditions show somewhat higher coverage values, but their consistency values remain below the required threshold of 0.90. Accordingly, no single presence or absence condition qualifies as necessary for negative SME performance. This

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result suggests that low SME performance is not driven by one missing factor alone, but instead emerges from more complex combinations of entrepreneurial orientation, institutional pressure, and dynamic capabilities. In this sense, the necessity analysis supports the configurational and asymmetrical logic of fsQCA, where poor performance is understood as arising from distinct causal patterns rather than as the simple opposite of high performance (Fiss, 2011; Pappas and Woodside, 2021).

E. fsQCA Analysis

Table 5 presents the fsQCA results and shows that SME performance is explained by multiple causal configurations rather than by a single linear relationship. For the outcome of positive SME performance, three configurations were identified, namely p1, p2, and p3. These three solutions jointly produce an overall solution consistency of 0.979 and an overall solution coverage of 0.822, indicating that the configurations are highly consistent and explain a substantial share of membership in the set of high-performing SMEs. For the outcome of negative SME performance, three additional configurations, namely p4, p5, and p6, were also identified, with an overall solution consistency of 0.811 and an overall solution coverage of 0.807. Since both solution sets meet the accepted benchmarks for sufficiency and empirical relevance, the results confirm Proposition 1 and Proposition 2. More importantly, the existence of distinct solution sets for positive and negative outcomes supports the fsQCA logic of equifinality and causal asymmetry, meaning that high SME performance and low SME performance are produced by different causal recipes rather than by simple opposites of one another (Ragin, 2008; Fiss, 2011; Pappas and Woodside, 2021).

For positive SME performance, the three configurations reveal alternative pathways. Configuration p1 shows a highly consistent but relatively narrow path, with consistency = 1.000, raw coverage = 0.216, and unique coverage = 0.004. Based on the conditions explicitly displayed in Table 5, this configuration is distinguished by the absence of risk-taking, sensing capability, and seizing capability, suggesting that high performance may still emerge when these elements are not central, provided that other supporting conditions are aligned. Configuration p2 has consistency = 0.989 and raw coverage = 0.790, making it one of the most empirically relevant solutions for high performance. In Table 5, this configuration is distinguished by the absence of risk-taking, coercive pressure, and normative pressure. Configuration p3 similarly shows strong explanatory power, with consistency = 0.990 and raw coverage = 0.788, and is distinguished by the absence of normative pressure, mimetic pressure, and sensing capability. Taken together, these three solutions indicate that high SME performance does not depend on one universally dominant condition; instead, it can be attained through several internally coherent combinations of entrepreneurial orientation, institutional pressure, and dynamic capabilities. This is consistent with configurational reasoning, where raw coverage reflects the empirical importance of each path and consistency reflects the degree to which a configuration constitutes a sufficient subset of the outcome (Fiss, 2011; Pappas and Woodside, 2021).

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Table 5
fsQCA Analysis Results

Configurations	Positive to SMEs Performance				Negative to SMEs Performance	
	p1	**p2**	**p3**	**p4**	**p5**	**p6**
Innovation	★	★	★	★	⊗	•
Proactive		★	★	⊗	⊗	•
Risk Taking	⊗	⊗	★	⊗	⊗	•
Coercive	★	⊗	★		⊗	⊗
Normative	★	⊗	⊗	★	⊗	•
Mimetic		★	⊗	★		•
Sensing Capability	⊗	★	⊗	★	⊗	•
Seizing Capability	⊗	★	★	★	⊗	•
Reconfiguring Capability	★		★	★	⊗	•
Raw Coverage	0.216	0.790	0.788	0.785	0.513	0.729
Unique Coverage	0.004	0.011	0.009	0.006	0.079	0.295
Consistency	1.000	0.989	0.990	0.987	0.955	0.805
Overall Solution Coverage			*0.822*		*0.807*	
Overall Solution Consistency			*0.979*		*0.811*	
Propositions			*P1. Confirmed*		*P2. Confirmed*	

Notes: "●" presence, "⊗" absence, and "blank space" don't care conditions; "★" indicates a necessary condition in high coverage.

For negative SME performance, the results also identify three distinct pathways, namely p4, p5, and p6. Configuration p4 shows very strong consistency (0.987) and substantial raw coverage (0.785), and it is distinguished by the absence of proactiveness and risk-taking. This suggests that low performance is closely associated with the lack of forward-looking strategic action and the unwillingness to commit resources under uncertainty. Configuration p5 represents a broader absence-based recipe, with consistency = 0.955, raw coverage = 0.513, and unique coverage = 0.079; as displayed in Table 5, it is characterized by the absence of innovation, proactiveness, risk-taking, coercive pressure, normative pressure, sensing capability, seizing capability, and reconfiguring capability. Configuration p6 provides another distinct route to negative performance, with raw coverage = 0.729 and the highest unique coverage = 0.295, indicating the strongest standalone contribution among the negative solutions. This configuration is distinguished by the presence of innovation, proactiveness, risk-taking, normative pressure, mimetic pressure, sensing capability, seizing capability, and reconfiguring capability, together with the absence of coercive pressure. This final result is especially important because it shows that negative SME performance may arise not only from the absence of favorable conditions, but also from an incongruent combination of otherwise positive conditions. In that sense, the negative solutions are clearly not mirror opposites of the positive ones, which further confirms the asymmetrical logic of

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fsQCA (Fiss, 2011; Pappas and Woodside, 2021; Ragin, 2008).

VI. DISCUSSION

The objective of this study was to explain how entrepreneurial orientation, institutional pressure, and dynamic capabilities combine to produce positive and negative SME performance through an asymmetrical, configurational lens. That objective was achieved. The results identified three sufficient configurations for positive SME performance and three sufficient configurations for negative SME performance, with strong overall solution consistency and coverage for both outcomes. Specifically, the positive solution showed an overall consistency of 0.979 and coverage of 0.822, while the negative solution showed an overall consistency of 0.811 and coverage of 0.807. These results indicate that SME performance is not driven by a single dominant predictor, but by multiple causal recipes operating in different ways. The findings also confirm both propositions advanced in this study: no single presence condition was sufficient to produce high performance, and no single absence condition was sufficient to produce low performance. This pattern is fully consistent with dynamic capability theory and the configurational logic of fsQCA, both of which emphasize alignment, equifinality, and causal asymmetry rather than isolated net effects (Teece, 2007; Ragin, 2008; Fiss, 2011).

A central finding is that positive SME performance is associated with broad strategic and organizational alignment. The necessity analysis shows that all nine first-order conditions meet the necessity thresholds for positive performance, suggesting that high-performing SMEs tend to operate with simultaneous strength in entrepreneurial posture, institutional embeddedness, and adaptive capability. This conclusion is reinforced by the truth table, where the dominant empirical pattern for positive performance was the near-complete presence of all nine conditions, accounting for 270 cases with a consistency of 0.99. In substantive terms, the strongest-performing SMEs in this study were not merely innovative or proactive; they also sensed market changes, seized opportunities, reconfigured resources, and operated under recognized coercive, normative, and mimetic pressures. At the same time, the negative configurations reveal that poor performance is more heterogeneous. One pathway (p4) is marked by the absence of proactiveness and risk-taking, while another (p5) reflects the broad absence of entrepreneurial, institutional, and capability conditions. A third pathway (p6) is more revealing: negative performance may also emerge when many ostensibly favorable conditions are present, but coercive pressure is absent, suggesting that misalignment rather than simple deficiency can undermine SME performance.

These findings both support and extend earlier research. First, the results are consistent with Putniņš and Sauka (2020), who show that the value of entrepreneurial orientation depends on how its dimensions work together, but the present study advances that argument by demonstrating that entrepreneurial orientation must also be interpreted alongside institutional pressure and dynamic capabilities. Second, the results align with Fainshmidt et al. (2019), who find that dynamic capabilities yield advantage only under strategic-environmental fit. Here, that fit is observed more explicitly through the joint operation of sensing, seizing, reconfiguring, and external institutional pressures within the same configurational model. Third, the findings are in line with Bag et al. (2022), who report that coercive, normative, and mimetic pressures matter for SME outcomes, although the present study goes beyond their net-effects approach by showing that

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institutional pressures are not merely background constraints or indirect influences, but integral components of performance-generating recipes. The present results therefore address the fragmentation noted in the literature by integrating these previously separate explanatory domains into a single asymmetrical account of SME performance.

The discussion of negative performance is particularly important because it sharpens the study's contribution to the configurational literature. Previous research has already suggested that successful and unsuccessful outcomes are not produced by mirror-image causes (Huang et al., 2023; Mostafiz et al., 2025). The present findings reinforce that point. None of the negated first-order conditions was necessary for negative SME performance, and the low-performance solutions combine absence-based and paradoxical patterns rather than a simple reversal of the high-performance model. This supports the argument of Fiss (2011) and Ragin (2008) that causal asymmetry is central to organizational explanation. It also adds nuance to Teece's (2007) dynamic capability perspective by suggesting that capabilities and entrepreneurial tendencies do not automatically translate into better outcomes unless they are institutionally and strategically coordinated. In the manufacturing SME context examined here, high performance appears to require broad coherence across entrepreneurial, institutional, and adaptive domains, whereas low performance may stem either from widespread weakness or from an unbalanced combination of otherwise favorable conditions. Taken together, these findings demonstrate that the study has successfully met its aim of explaining SME performance through equifinal and asymmetrical configurations rather than through linear, variable-centered relationships.

VII. IMPLICATION

A. Implication for Theory

This study contributes to theory by reducing the fragmentation identified in the prior literature and by repositioning SME performance as a configurational outcome. Earlier studies tended to examine entrepreneurial orientation, dynamic capabilities, and institutional pressure in partial and disconnected ways. Entrepreneurial orientation research has primarily focused on the internal interplay of innovativeness, proactiveness, and risk-taking without incorporating institutional pressure or dynamic capabilities (Putniņš and Sauka, 2020; Huang et al., 2023). Dynamic capability studies, in turn, have emphasized competitive advantage and strategic fit, but have paid limited attention to SME performance as the focal outcome and have not sufficiently embedded institutional conditions in the explanatory model (Fainshmidt et al., 2019). Likewise, institutional pressure research has generally relied on net-effects logic and sustainability-specific outcomes rather than on broader SME performance and asymmetrical explanation (Bag et al., 2022). By integrating entrepreneurial orientation, institutional pressure, and dynamic capabilities within one fsQCA model, this study extends dynamic capability theory beyond a capability-centered view and shows that performance is better understood as the result of alignment across entrepreneurial, institutional, and adaptive domains.

A second theoretical implication lies in the study's support for equifinality and causal asymmetry in explaining SME performance. Table 1 indicates that prior configurational studies have already shown that performance may arise through multiple

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pathways, but these studies were still bounded either by a focus on entrepreneurial orientation alone or by an emphasis on international performance rather than general SME outcomes (Huang et al., 2023; Mostafiz et al., 2025). The present study advances this line of work by demonstrating that high and low SME performance are generated by distinct combinations of the nine first-order conditions, rather than by the linear accumulation or simple reversal of individual factors. In theoretical terms, this strengthens the argument that dynamic capabilities do not operate independently, but become consequential only when combined with an appropriate entrepreneurial posture and institutional setting (Teece, 2007; Fainshmidt et al., 2019). It also refines the contribution of institutional theory by showing that coercive, normative, and mimetic pressures are not merely external constraints; rather, they function as constitutive elements within performance-producing configurations. Accordingly, the study shifts the theoretical conversation from variable-centered explanation toward a more precise neo-configurational account of SME performance.

B. Implication for Practice

The findings indicate that SME performance should not be managed through isolated interventions. For owner-managers, the practical message is that improving one area alone—such as innovation, proactiveness, or market sensing—is unlikely to generate superior performance unless it is accompanied by broader internal and external alignment. The results show that positive SME performance is associated with multiple coherent configurations and that all nine first-order conditions were necessary for the positive outcome. In practical terms, this means that manufacturing SMEs should avoid treating entrepreneurial orientation, institutional compliance, and adaptive capability as separate agendas. Instead, these elements need to be coordinated in day-to-day decision-making. This implication is consistent with prior work showing that entrepreneurial orientation creates value contingently and that dynamic capabilities become effective only when aligned with broader strategic and environmental conditions (Putniņš and Sauka, 2020; Fainshmidt et al., 2019).

A second implication concerns managerial capability development. The study shows that high-performing SMEs are not simply more innovative; they are also better able to sense opportunities, seize them through timely commitments, and reconfigure their processes to support execution. For practitioners, this suggests that capability-building efforts should move beyond technical improvement alone. SME owners should strengthen routines for environmental scanning, cross-functional response, customer feedback integration, and process redesign, because these routines enable entrepreneurial intentions to be translated into performance. The negative configurations are instructive here. For example, p4 indicates that low performance is associated with the absence of proactiveness and risk-taking, while p5 reflects a broader absence of entrepreneurial, institutional, and capability conditions. These patterns suggest that weak performance often emerges when firms become strategically passive and organizationally inflexible. This aligns with Teece's (2007) argument that capabilities matter because they allow firms to renew and realign themselves under changing conditions.

The findings also carry implications for regulators, business associations, and SME support institutions. In this study, institutional pressure was not merely a background force; coercive, normative, and mimetic pressures formed part of the

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configurations associated with performance. This suggests that public agencies and industry associations should not frame regulation only as compliance enforcement, but also as a mechanism that can shape more productive organizational behavior when combined with capability development and entrepreneurial action. The negative configuration p6 is especially relevant: it shows that poor performance may still occur even when many seemingly favorable internal conditions are present if coercive pressure is absent. Practically, this implies that clear rules, enforcement signals, and industry standards may provide an important coordinating function rather than simply constraining SMEs. This observation extends prior evidence that institutional pressures influence SME outcomes, while showing more clearly that their value depends on how they interact with other organizational conditions (Bag et al., 2022).

Finally, the study suggests that practitioners should adopt a diagnostic rather than linear mindset when evaluating performance problems. Because the results reveal equifinality and causal asymmetry, managers should not assume that the solution to low performance is the mechanical addition of one missing factor, nor that the causes of poor performance are merely the opposite of those of success. Different SMEs may reach high performance through different combinations, while low performance may arise from both widespread weakness and misaligned strengths. This means that managerial intervention should begin with configuration-specific diagnosis: firms need to identify which elements in their entrepreneurial posture, institutional environment, and dynamic capabilities are reinforcing one another and which are working at cross-purposes. Such an approach is particularly suitable for manufacturing SMEs operating under resource constraints, where strategic prioritization matters. In this sense, the present findings provide a practical basis for moving from one-size-fits-all prescriptions toward more tailored performance improvement strategies (Fiss, 2011; Huang et al., 2023; Mostafiz et al., 2025).

VIII. CONCLUSION, LIMITATION AND FUTURE RESEARCH AVENUES

This study concludes that SME performance is better explained as the outcome of configurational alignment among entrepreneurial orientation, institutional pressure, and dynamic capabilities than as the net effect of isolated variables. By identifying three sufficient configurations for positive SME performance and three for negative SME performance, the study confirms that high and low performance arise through multiple, asymmetrical causal pathways, thereby extending prior work that has examined these domains separately or only partially (Fiss, 2011; Putniņš and Sauka, 2020; Bag et al., 2022; Mostafiz et al., 2025). At the same time, the study has several limitations. The evidence is based on cross-sectional, self-reported data from owner-managers of manufacturing SMEs in DKI Jakarta, so the findings should be interpreted cautiously with respect to causal ordering and broader generalization. Although the common method variance diagnostics did not indicate a major threat, the use of a single-respondent survey remains a methodological constraint. In addition, the study focuses on three explanatory domains and therefore does not capture other potentially relevant influences on SME performance. Future research could extend this work by using longitudinal designs, multiple informants, and comparative samples across sectors or regions, as well as by incorporating additional organizational and environmental conditions to test whether the

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identified configurations remain stable across different SME contexts (Teece, 2007; Huang et al., 2023).

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