

# The Impact of Digitalization Implementation, Entrepreneurial Orientation, and Competitive Advantage on Business Performance in Micro, Small, and Medium Enterprises (MSMEs) Culinary Sector in Makassar City

Fitriany<sup>1</sup>

<sup>1</sup>Nobel Institute of Technology and Business Indonesia

Fitriany276@gmail.com

## Abstract

Creative businesses have an important role in improving the economy of Makassar City, especially through the development of the creative industry. This study examines the influence of digitalization, entrepreneurial orientation, and competitive advantage on the business performance of MSMEs in Makassar City. With a quantitative approach and a sample of 71 MSME actors, the data was analyzed using multiple linear regression data analysis with the SPSS application program. The results show that these three factors significantly improve the business performance of MSMEs. These findings affirm the importance of digitalization, entrepreneurial orientation, and competitive advantage as the main strategy in facing the dynamics of competition in the digital era for MSMEs in the city of Makassa.

Keywords: Digitalization; Entrepreneurial\_Orientation; Competitive\_Advantage; MSME\_Business\_Performance

## 1. Introduction

Digital transformation has become the main catalyst for business model changes in various economic sectors, including the Micro, Small, and Medium Enterprises (MSMEs) sector which plays a role as the backbone of the Indonesian economy. In the last decade, advances in information technology, expanding internet access, and shifting consumer behavior towards digital have forced MSME actors to adapt quickly to remain relevant and competitive in an increasingly dynamic market [1], [2]. The city of Makassar, as the center of economic growth in the eastern part of Indonesia, reflects this dynamic with the increasing number of culinary-based MSMEs that have high potential in encouraging local economic growth. However, many MSMEs still face difficulties in integrating digital technology into their entire business value chain, from online promotion and sales, to digital payment systems, to customer relationship management [3]. These challenges show that there is a gap between the potential of digitalization and the actual adoption rate in the field.

Various previous studies have underlined the importance of digitalization, entrepreneurial orientation, and competitive advantage as the main determinants of improving MSME business performance. Elvina [4] emphasized that entrepreneurial orientation encourages innovation and competitive advantage through the ability to innovate, proactivity, and courage to take risks. Fatmawati [5] and Aristiyo [6] show that a combination of market orientation and entrepreneurial orientation can significantly improve marketing performance. Meanwhile, Lopian [7] found that product innovation and market orientation have a positive relationship with marketing performance in small financial institutions. An entrepreneurial orientation that includes innovation, proactivity, and risk-taking courage has been proven to

drive competitive advantage as well as better business performance [8], [9]. Although most previous research has only examined the relationship between two variables such as digitalization and business performance, without involving the role of competitive advantage as a mediating variable that bridges the relationship between entrepreneurial orientation and business outcomes.

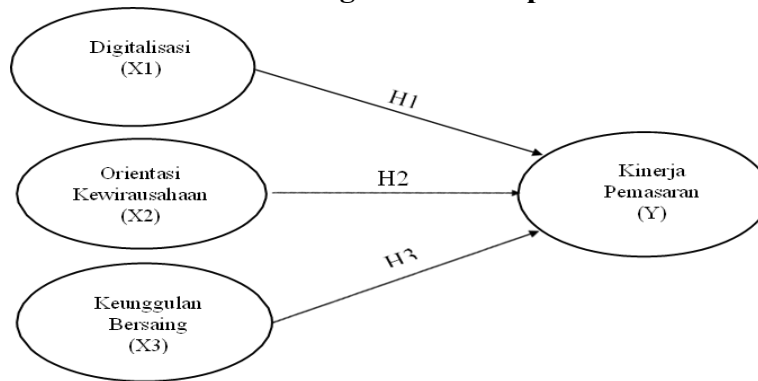
However, most of the research was conducted in the Java region and tended to focus on entrepreneurial or market-oriented aspects separately without considering the synergistic role of digital transformation in shaping competitive advantage. Research by Kholifah [10] and Rundengan [11] also emphasized the importance of competitive advantage in improving performance, but has not explored the simultaneous interaction between digitalization, entrepreneurial orientation, and competitive advantage in the context of culinary MSMEs in eastern Indonesia. Thus, there is a significant research gap in understanding how these three factors work in an integrated manner in improving MSME business performance in the era of massive digital transformation.

This research gap is the main foundation for this research, especially in the context of culinary MSMEs in Makassar City who are facing market pressure and changes in consumer behavior due to digitalization. And to bridge this gap, this study proposes a conceptual framework that places digitalization as a strategic foundation in improving the efficiency and innovation of business processes, entrepreneurial orientation as a driver of adaptive capabilities and new value creators, as well as competitive advantages as a result of the synergy of the two that strengthen the market position of MSMEs. This conceptual model is built on the basis of the Resource-Based View, which emphasizes that sustainable competitive advantage can be achieved if the organization is able to manage internal resources that are valuable, scarce, difficult to replicate, and irreplaceable [12], [13]. In this context, digitalization is seen not only as an operational tool, but also as a strategic asset capable of strengthening entrepreneurial capabilities and creating sustainable competitive differentiation.

The scientific value of the proposed concept lies in the integrative effort to connect digital transformation, entrepreneurial behavior, and competitive advantage as determinants of MSME business performance holistically. First, this study expands the literature by introducing digitalization as an exogenous variable that affects entrepreneurial dynamics and competitiveness. Second, empirically, this research contributes to providing contextual evidence from the eastern part of Indonesia, which has been relatively underexplored in digital-based MSME research. Third, practically, the results of the research are expected to be the basis for the formulation of policies and strategies for the development of MSMEs based on innovation and technology in developing areas such as Makassar. Therefore, this research not only fills the academic gap, but also contributes to supporting an inclusive and sustainable digital-based national economic transformation agenda. From the results of the elaboration of the relationship between the above variables, it can be concluded that there is a hypothesis.

## Conceptual Framework

Figure 1. Conceptual Framework



### Hipotesis

H1 = Digitalization affects the marketing performance of culinary MSMEs in Makassar City

H2 = Entrepreneurial orientation affects the marketing performance of culinary MSMEs in Makassar City

H3 = Competitive advantage affects the marketing performance of culinary MSMEs in the city Makassar

## 2. Methodology

This study uses a quantitative approach with a survey method to examine the relationship between digitalization, entrepreneurial orientation, and competitive advantage on the business performance of MSMEs in Makassar City. This type of research is explanatory in nature, as it aims to explain the causal influence between variables through inferential statistical analysis. The research population consisted of 250 active culinary MSME actors in Makassar City, with sample determination using the Slovin formula (10% error rate) so that 71 respondents were obtained. The sampling technique uses simple random sampling so that each member of the population has the same opportunity to be selected.

The research instrument is in the form of a questionnaire with a Likert scale of 1–5, ranging from "strongly disagree" to "strongly agree", which is adapted from empirical indicators of previous research. Digitization variables are measured based on aspects of the use of digital technology in marketing, transactions, and data management. Entrepreneurial orientation variables include innovation, proactivity, and risk-taking indicators. Meanwhile, competitive advantage is measured through the ability to create unique products, superior quality, and competitive prices. Business performance variables include the dimensions of sales growth, customer satisfaction, and profitability.

The data were analyzed using multiple linear regression with the help of the SPSS version 22 program. Before the analysis, a series of classical assumption tests were performed, namely validity, reliability tests (Cronbach's Alpha > 0.60), normality tests, multicollinearity (VIF < 10), heteroscedasticity, and autocorrelation (Durbin-Watson  $\approx$  2). This research model is formulated in the equation:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Information:

Y = Business Performance,

X<sub>1</sub> = Digitization,

X<sub>2</sub> = Entrepreneurial Orientation,

X<sub>3</sub> = Competitive Advantage,

e = Error term.

This methodological approach was chosen because it provides ease in identifying the direct relationship between variables and testing the hypothesis proposed empirically, as well as allowing the results of the research to be replicated by subsequent researchers under similar conditions.

### 3. Result and Discussion

#### 3.1 Result

The results of this study are presented systematically following the data analysis steps described in the methodology section. The initial step was a validity test for all items in the questionnaire to ensure that each indicator adequately represented the construct being measured. Based on the test results, all items demonstrated a Corrected Item-Total Correlation value greater than 0.194 with a significance level below 0.05. This indicates that all statements in the research instrument are valid and suitable for use in further analysis.

Next, a reliability test was conducted to assess the instrument's internal consistency using Cronbach's Alpha. The test results showed that all variables had alpha values above 0.60—namely, digitalization (0.875), entrepreneurial orientation (0.869), competitive advantage (0.828), and business performance (0.807). These values indicate that the research instrument is reliable, indicating that respondents' answers are reliable and consistent in measuring each research construct.

The next step was a classical assumption test to ensure the feasibility of the regression model. The results of the Normal Probability Plot show that the data distribution approaches a diagonal line, indicating a normal distribution. A Tolerance value above 0.10 and a VIF below 10 for all independent variables indicate no signs of multicollinearity. Meanwhile, the scatterplot shows a random distribution, indicating no heteroscedasticity. The Durbin–Watson value of 1.958 falls within the range of 1.73–2.27, concluding that the research model is free from autocorrelation. These results indicate that the regression model meets all the basic assumptions of multiple linear regression analysis.

Based on the assumption testing results, a multiple linear regression analysis was conducted to examine the influence of digitalization, entrepreneurial orientation, and competitive advantage on the business performance of culinary MSMEs in Makassar City. The analysis showed that all independent variables had a positive and significant effect on business performance. Digitalization had a coefficient of 0.207 with a significance level of 0.035; entrepreneurial orientation had a coefficient of 0.284 with a significance level of 0.003; and competitive advantage had the highest coefficient of 0.497 with a significance level of 0.000. This indicates that all three variables simultaneously and partially contribute to improved business performance, with competitive advantage as the dominant factor.

Furthermore, the coefficient of determination ( $R^2$ ) test results showed a value of 0.660, meaning that 66% of the variation in MSME business performance can be explained by the combination of these three variables. The remaining 34% is explained by factors outside the research model, such as policy support, market characteristics, or innovation capabilities. The adjusted  $R^2$  value of 0.645 confirms the model's strong predictive ability and stability across empirical data.

Overall, the empirical results of this study indicate that the implementation of digitalization, increased entrepreneurial orientation, and strengthening competitive advantage play significant roles in determining the successful business performance of MSMEs in the culinary sector in Makassar City. These results also confirm the researcher's proposed conceptual framework, which states that the synergy between digitalization and entrepreneurial behavior produces sustainable competitive advantage, ultimately significantly improving business performance amidst the dynamics of the digital market.

### 3.2 Discussion

The results of this study show that digitalization, entrepreneurial orientation, and competitive advantage have a positive and significant influence on the business performance of MSMEs in Makassar City. These findings show that the adoption of digital technology, proactive entrepreneurial behavior, and the ability to create unique value are important factors that determine business success in the digital economy era.

Theoretically, these results reinforce the view of the Resource-Based View (RBV) theory which emphasizes the importance of internal resources and capabilities as the main factors that shape competitive advantage [1]. Digitalization carried out by MSME actors is not only about adopting technology, but also part of a strategy to improve business process efficiency, expand market reach, and strengthen product competitiveness. These results are in line with the research of Fitriany, Nurdin, and Brasit [2] which emphasizes that the integration of digital technology in MSME operational activities contributes to improving performance through efficiency, service speed, and wider market visibility.

The finding that entrepreneurial orientation has a significant effect on business performance also confirms the research results of Wadud [8] and Nasution & Indria [14], which emphasized that innovative, proactive, and risk-taking behavior can improve the ability of MSMEs to adapt to market changes and uncertainty in the business environment. In the context of Makassar, entrepreneurial orientation is an important indicator for business actors to survive in the midst of competitive pressure, especially when the market is moving quickly towards digitalization.

Meanwhile, competitive advantage emerged as the most dominant variable that affects business performance. This shows that the success of MSMEs does not only depend on the application of technology, but also on how the technology is integrated with product and service differentiation strategies. These findings clarify the results of previous research by Fadilasari [15] who stated that competitive advantage is a crucial link between entrepreneurial orientation and business performance, especially in the innovation-dense culinary sector. Competitive advantage formed through product uniqueness, service quality, and adaptability to the market are the main differentiators between successful and stagnant MSMEs.

From the results of regression analysis which shows that the competitive advantage variable ( $X_3$ ) has the highest coefficient, it can be concluded that

competitive advantage acts as a performance driver which means, when digitalization and entrepreneurial orientation are carried out well, both will only contribute optimally if followed by the creation of a sustainable competitive advantage. This indicates that strengthening innovation capacity, product quality, and digital service strategies are the key to increasing the competitiveness of MSMEs in Makassar.

When compared to previous studies that have emphasized the direct relationship between digitalization and performance (such as Nasution & Indria's research [4]), this study offers a new contribution by integrating competitive advantage as an explanatory variable that reinforces the relationship. Thus, this research not only expands the empirical context on MSMEs in Eastern Indonesia, but also provides a new perspective that effective digital transformation must be followed by entrepreneurial strategies and competitive differentiation in order to produce a real impact on performance.

This finding also has practical implications for MSME actors and local governments. Digitalization must not stop at technology adoption, but it needs to be accompanied by increasing human resource capacity, digital entrepreneurship training, and mentoring of branding strategies and product innovation. Only in this way, digitalization can serve as a catalyst in forming competitive advantages and increasing business resilience in the midst of global competition.

#### 4. Conclusion

This study aims to analyze the influence of digitalization, entrepreneurial orientation, and competitive advantage on business performance in MSMEs in Makassar City. Based on the results of the analysis and discussion, it can be concluded that these three variables simultaneously and partially have a positive and significant effect on improving business performance. This proves that digitalization that is effectively implemented, innovative entrepreneurial behavior, and the ability to create competitive advantages are important foundations for the sustainability of MSME businesses in the digital economy era.

Digitalization has been proven to be able to accelerate business processes, increase efficiency, and expand the reach of the MSME market. Entrepreneurship orientation strengthens the resilience and adaptability of business actors in facing changes in the dynamic business environment. Meanwhile, competitive advantage is a key factor linking digital transformation and entrepreneurial orientation to business performance, as the ability to differentiate products and services provides added value that is difficult for competitors to replicate.

Theoretically, this study expands the understanding of the Resource-Based View (RBV) theory by showing that the combination of digital capabilities and entrepreneurial behavior can form strategic resources that increase competitive advantage and business performance. Practically, the results of this study provide recommendations for MSME actors and local

governments to strengthen the digital ecosystem through entrepreneurship training, product innovation assistance, and policies that support competency-based digital transformation.

For further research, it is suggested that this research model be tested in other MSME sectors such as creative industries, services, or trade with a Structural Equation Modeling (SEM) approach so that the relationship between variables can be measured more comprehensively. Future research can also add moderation variables such as innovation capabilities or government support to enrich understanding of the factors that affect the competitiveness of MSMEs in the digital era.

## 5. Reference (Font 12, Times New Roman, Spacing 1.15)

- [1] SARAGIH, John Fedrick Louis, et al. Closing the Digital Divide: A Study of Improving the lives of MSMEs through digital literacy. *Collaborative Journal of Science*, 2024, 7.5: 1788-1795.
- [2] Ministry of Cooperatives and SMEs of the Republic of Indonesia, "MSME Digitalization Index," ANTARA News, 2023. [Online]. Available: <https://www.antaranews.com/berita/3822327>
- [3] FITRIANY, Fitriany. From Orientation to Advantage: Entrepreneurial and Market Drivers of Indonesian SME Performance. *Minds Journal: Idea Management and Inspiration*, 12.2: 441-450.
- [4] L. Elvina, "Entrepreneurial orientation towards innovation and competitive advantage of MSMEs," *J. Business Management*, 2020.
- [5] N. Fatmawati, "Market orientation and entrepreneurship towards marketing performance," *J. Ekon. Business and Management*, 2016.
- [6] F. Aristiyo, "The role of entrepreneurial orientation in improving marketing performance," *J. Marketing and Business Innovation*, 2017.
- [7] E. Lopian, "The relationship between product innovation and market orientation on the performance of small financial institutions," *J. Management Sciences*, 2016.
- [8] M. Wadud, "Entrepreneurial orientation to achieve competitive advantage in small and medium enterprises in Banyuasin," *J. Scientific Ekon. Global Present*, 2022.
- [9] FITRIANY, F., et al. The influence of entrepreneur insight, market orientation, knowledge-sharing capabilities, on the performance and competitiveness of SMEs in Makassar Indonesia. *International journal of multicultural and multireligious understanding*, 2020, 7.7: 392.
- [10] R. Kholifah, "The role of competitive excellence in the performance of MSMEs," *J. Applied Economics and Business*, 2020.
- [11] F. Rundengan, "The Influence of Entrepreneurial Orientation on Competitive Advantage," *J. Business and Economics*, 2019.
- [12] J. B. Barney, "Firm resources and sustained competitive advantage," *J. Manag.*, vol. 17, no. 1, pp. 99–120, 1991.
- [13] M. A. Peteraf, "The cornerstones of competitive advantage: A resource-based view," *Strategic Manag. J.*, vol. 14, no. 3, pp. 179–191, 1993.



- [14] E. Y. Nasution and T. Indria, "Digitization of MSMEs during the pandemic," *Proceedings of the National Seminar on Entrepreneurship*, Univ. Muhammadiyah North Sumatra, 2021.
- [15] M. Fadilasari, "Improving business performance through marketing capability, entrepreneurship orientation, and competitive advantage in MSMEs in the culinary sector," *J. Accounting, Management and Economics*, 2024.