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The impact of Strategic Orientation mediated by Absorptive Capacity on Firm Performance

Edi Komara[1]*, Willy Arafah[2], Wahyuningsih Santosa[3]
Faculty of Economics and Business, Trisakti University
Corresponding Author: Edi Komara edikomara@yahoo.com

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A B S T R A C T

This study analyzes the impact of Strategic Orientation; (Entrepreneurial Orientation (EO), Market Orientation (MO), Learning Orientation (LO), and Innovation Orientation (IO)) on Firm Performance (FP) mediated by Absorptive Capacity (AC). Employing a descriptive approach and collecting data from a sample of Top Management of Rural Banks (BPR). Data analysis was conducted using Partial Least Square with SmartPLS 4.0 software. The research results indicate that strategic orientations have a direct positive influence on both AC and FP. Indirectly, EO has a positive influence on FP mediated by AC, and IO has a positive influence on FP mediated by AC. Meanwhile, MO and LO have no influence on FP mediated by AC. The research results provide recommendations for banks to utilize AC to drive increased FP.

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INTRODUCTION

Indonesian Banking Statistics as of December 2023 recorded a remaining total of 1,402 Rural Banks (BPR) units in Indonesia. This number represents a significant decrease compared to the same period in 2022, which recorded 1,441 units, and December 2021 with 1,468 units. The cause is internal factors within the BPRs that have a direct relationship with the bank's management, namely the bank's soundness level.

Challenges faced by BPRs in improving performance and sustainability include changing needs for banking products and services. This necessitates increased creativity and innovation. According to literature, for BPRs to survive or even grow, a strategy of product and service innovation supported by digital technology is key to improving services and creating new products (Abbas et al., 2019). Company strategy in creating appropriate behavior to achieve superior performance (Uzoamaka et al., 2020). Strategic orientation is a series of common or permanent thoughts, trends, or interests. This includes how companies adapt to the external environment (Ibarra et al., 2021).

Over the past few years, studies concerning the various factors influencing Firm Performance (FP) have shown substantial development (Ibarra et al., 2021; Alshahrani et al., 2023; Makhloufi et al., 2024). Absorptive Capacity (AC) has been identified as a factor that significantly affects Firm Performance. Furthermore, AC functions as a moderating variable in various determinants of firm performance, with findings consistent with Raisal et al., (2021) indicating that many business entities have not yet fully identified their core capabilities (Ibarra et al., 2021; Makhloufi et al., 2021).

In research on Absorptive Capacity as a mediating variable for Firm Performance (Alshahrani and Salam, 2023), other researchers have examined Absorptive Capacity as a moderating variable for Firm Performance (Ibarra et al., 2021; Seepana et al., 2021; Raisal et al., 2021). This research positions Absorptive Capacity (AC) as a mediating variable for FP, with the addition of dimensions—Learning orientation (LO) and Innovation orientation (IO)—to the strategic orientation variable, in accordance with research suggestions (Ibarra et al., 2021).

The object of this research is Rural Banks (BPR) throughout the Greater Jakarta area (Jabodetabek), which are microfinance institutions, unlike previous research that focused on manufacturing or general financial institutions. This research, titled "The Influence of Strategic Orientation Mediated by Absorptive Capability on Firm Performance at Rural Banks," is expected to contribute to BPRs, particularly in Jabodetabek and generally in Indonesia, in implementing strategies relevant to the current conditions of BPRs.

THEORETICAL REVIEW

Competence Based Theory

Competence refers to the unique and integrated abilities, knowledge, and skills that differentiate a company and provide value to customers. Competence is a trait required by managers for the advancement of strategy (Hosseini et al., 2019). It refers to the knowledge, skills, abilities, or personality characteristics of an individual that directly impact their job performance.

Competence is also used as a guideline that companies can use to show their employees the right job (Arief & Nisak, 2022). Competence is the ability to perform or work according to one's position in a specific field (Eksan, 2020). Within an organization, the existence of human beings plays a very important role because the success of an organization is greatly influenced by the quality of its employees.

Business challenges in a risky environment for organizational survival in a dynamic market necessitate that managers thoroughly understand the environment in which they operate by undertaking strategic development (Navodera & Kinyuru, 2020). In other words, competence is a trait required by managers for the advancement of strategy (Hosseini et al., 2019).

Dynamic Capability

Competitive advantage can be built if an organization strives to develop by possessing strategic capabilities through the development of internal resources. Dynamic capabilities propose that the traditional elements of business success—maintaining incentive alignment, possessing tangible assets, controlling costs, maintaining quality, optimizing inventory—are insufficient for sustained performance in changing environments (Helfat, 2009). Sustainable competitive advantage lies in dynamic capabilities, which integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece, 1997).

In highly competitive environments, the role of dynamic capabilities is increasingly necessary because companies need to pay close attention to competitors' actions and make significant investments in learning about competitor movements and changing customer needs (Rahman et al., 2021). Dynamic capabilities aim to address environmental and managerial uncertainty (Cho et al., 2022). The concept of strategic management also includes the establishment of various goals through various strategic decisions made by company management, which are expected to ensure the maintenance of the company's competitive advantage. Strategy is one of the main pillars that significantly influences an organization's structure, operations, investments, market relationships, and performance. Strategic Orientation is a common or permanent set of thoughts, trends, or interests (Ibarra et al., 2021).

Strategic Orientation

Strategy is a tool to achieve company objectives in relation to long-term goals, follow-up programs, and resource allocation priorities. Further development of strategic orientation by Miles and Snow (1978) proposed a typology of strategic classification of business units into four distinct types: Prospectors, Analyzers, Defenders, and Reactors. Subsequently, business strategies developed by Porter (1980) and strategic management consist of low cost, differentiation, or focus typologies.

Strategy is a crucial tool for achieving competitive advantage. The approach to formulating business strategy should be based on competitive analysis. Porter's five forces of competition include: the threat of new entrants,

the bargaining power of suppliers, the bargaining power of 1 buyers, the threat of substitute products, and rivalry among existing competitors 2 (Porter, 2008). Strategic Orientation is a common or permanent set of thoughts, trends, or interests, encompassing how companies adapt to the external environment (Ibarra et al., 2021). In other literature, strategic orientation is seen as part of organizational culture. Organizational culture is a type of intangible resource, and the development of this resource or orientation has a distinct impact on the organization. Strategic orientation is focused on resources to achieve desired outcomes (Adiguzel & Sonmez Cakir, 2022). To choose the best strategy, companies need to create an industry niche and/or strengthen their resources, skills, and capabilities to adapt to the internal and external environment in order to achieve sustainable competitive advantage, thereby improving business performance (Huo & Li, 2022; Vlasic, 2022).

The most commonly used dimensions of Strategic Orientation are Market Orientation, Innovation Orientation, Entrepreneurial Orientation, and Learning Orientation. Previous research on similar topics (Ibarra et al., 2021; Gajere M.C, 2022) describes strategic orientation as a multidimensional construct encompassing market, learning, and entrepreneurial orientations. In this research, the dimensions of strategic orientations consist of Entrepreneurial Orientation (EO), Market Orientation (MO), Learning Orientation (LO), and Innovation Orientation (IO).

Entrepreneurial Orientation

Studies on Entrepreneurial Orientation (EO) conducted by Miller (1983) define EO as a company that is involved in product market innovation, undertakes risky ventures, and is the first to propose proactive innovations, outperforming its competitors. Other literature defines EO as a company's capacity to exhibit entrepreneurial practices and behaviors (Chaudhary and Batra, 2018). Studies on EO have experienced growth, and there are various definitions of entrepreneurial orientation, including (Hernandez-Perlines, 2018). Entrepreneurial orientation consists of 6 indicators (Gajere, 2022) and (Aslam et al., 2018).

Market orientation

Market orientation is defined as the acquisition, dissemination, and organizational responsiveness to market intelligence or marketing intelligence (Kohli & Jaworski, 1990). MO, along with other capabilities, enables organizations to monitor and understand customer needs, respond quickly to external changes, and improve economic and social performance (Khanra et al., 2021). Market-oriented companies develop long-term relationships with customers through the development of market intelligence and market sensing capabilities (Bıçakcıoglu-Peynirci & Ipek, 2020). MO strives to generate information about customers and competitors (Bhattarai et al., 2019).

The literature to date emphasizes the importance of MO as a creator of added value for customers (Penco et al., 2019). To achieve this added value, it may be necessary to combine it with other types of orientations (Ferraresi et al.,

2012). Market orientation consists of 6 indicators (Gajere M.C, 2022) and (Aslam et al., 2018).

Learning Orientation

Learning orientation is defined as "the organizational resources and capabilities that support a company in developing its competitiveness" (Dutta et al., 2016). Learning orientation focuses on the transformation of information into knowledge and practices that lead to organizational change or impact company performance (Slater and Narver, 1995). Learning orientation represents the basic attitude of an organization towards learning (Gerschewski et al., 2018). It is a strategic orientation that focuses on how an organization engages in high-level learning (Dutta et al., 2016).

Other literature considers learning orientation a specific form of organizational learning and an important strategic orientation as an internal resource of the organization (Assadinia et al., 2019). Other researchers argue that learning orientation is one of the most valuable resources for success in global competition (Tajeddini, 2011). Learning orientation consists of 6 indicators (Gajere M.C, 2022) and (Aslam et al., 2018).

Innovation Orietation

Company innovation is the ability to develop new products and services by utilizing technological infrastructure to gain a competitive advantage (Lumpkin and Dess, 1996). Innovation, as a strategic asset, provides the company with the ability to offer high-quality products and services, thereby enabling it to compete effectively (Tuominen et al., 2022).

IO is a distinctive characteristic of companies in maintaining entrepreneurial values and beliefs (Soomro et al., 2020). IO correlates with company strategy and a strong commitment to innovation (Nawi et al., 2020). IO is related to the company's belief system, allowing the company to manage and achieve its goals most effectively (Nawi et al., 2020). Innovation orientation consists of 6 indicators (Farooq and Kau, 2021).

Absorptive capacity

Absorptive capacity is a company's ability to recognize the value of new external information, acquire it, assimilate it, and apply it for commercial purposes (Cohen and Levinthal, 1990). Higher AC necessitates better company performance. Limaj and Bernroider (2019) affirmed that "as companies commit to acquiring and assimilating knowledge, they are more likely to develop relevant new knowledge for exploitation." AC is a company's ability to use and integrate new knowledge sourced externally (Nawi et al., 2020).

Absorptive capacity is defined as a company's ability to identify and acquire externally generated knowledge (Zahra and George, 2002). Relationships with the surrounding environment are crucial for acquiring the necessary knowledge (Gonzalez-Campo and Hurtado-Ayala, 2014). Assimilation, consisting of routines and processes, enables companies to analyze, interpret, and understand information acquired from external sources (Raymond et al., 2015).

Although not all new knowledge can be assimilated (Garzon, 2015), external knowledge sometimes exceeds a company's ability to assimilate it. Absorptive capacity consists of 6 indicators (Shah et al., 2023).

Firm Performance

Business performance is the result of a company's business activities (Anwar & Shah, 2021). Performance is a factor that can be used to measure the impact of a company's strategy in facing competition. Firm Performance is a company's effort to improve customer relationships, service quality, customer engagement in increasing visibility, and company reputation (Fan et al., 2021). Thus, Firm Performance is a comprehensive indicator that focuses on the social growth and profitability of the company.

The measurement of business performance in this study uses six scales adapted from (Chege et al., 2020): Sales growth, Increasing profitability, New customer growth, Increasing market coverage, Increasing product offerings, and Increasing product values. Firm Performance consists of 6 indicators (Ibarra et al., 2021).

Entrepreneurial Orientation and Absorptive Capacity

EO has a positive influence on AC and a significant effect on it (Alshahrani et al., 2023). Companies with AC can identify the value of new knowledge, assimilate it, and use it for business purposes (Khan et al., 2020).

H1. There is a positive influence of Entrepreneurial Orientation on Absorptive Capacity.

Market Orientation and Absorptive Capacity

Market orientation has a significant impact on absorptive capacity (Purwiantri, 2021). A company's ability to respond quickly is highly determined by how they utilize the knowledge they have gathered. Furthermore, accurate forecasting of market changes requires absorptive capacity so that relevant knowledge can be transformed into useful outcomes in effectively responding to market signals (Chang, Gong, Way & Jia, 2013).

H2. There is a positive influence of Market Orientation on Absorptive Capacity.

Learning Orientation and Absorptive Capacity

Learning organization can influence absorptive capacity (Kharabseh et al., 2017). Argues that exploratory learning involves the acquisition of knowledge and aligns with the notion of potential ability within a company to carry out the absorption of knowledge needed by the company, or absorptive capacity (Zahra & George, 2002).

H3. There is a positive influence of Learning Orientation on Absorptive Capacity.

Innovations Orientation and Absorptive Capacity

Based on the research of Zhang, Zhao, and Lyles (2018), it can be concluded that Absorptive Capacity makes a significant contribution to the creation of product innovation. In line with this, empirical evidence from

Aliasghar et al., (2019) shows the influence of Absorptive Capacity on innovation in business processes. Furthermore, Absorptive Capacity plays an important role in driving innovation at the firm level and ultimately increasing customer satisfaction (Soomro et al., 2020).
H4. There is a positive influence of Innovation Orientation on Absorptive Capacity.

Entrepreneurial orientation and firm performance

A study by Covin and Slevin (1989) showed that businesses with a well-established entrepreneurial orientation (EO) have better performance. Similar findings were also put forward by Fatima & Bilal (2020), who stated that SMEs with a higher level of entrepreneurial orientation (EO) tend to achieve superior performance outcomes. Nevertheless, variations in research results indicate that failure to integrate the three dimensions of EO into organizational operations may be the reason why EO does not always have a positive effect on financial performance (FP). Conversely, empirical evidence from Ibarra et al. (2021) indicates a significant and positive relationship between EO and firm performance.
H5. There is a positive influence of Entrepreneurial Orientation on Firm Performance.

Market orientation and firm performance

According to Beliaeva et al., (2020), instability in the economic environment sometimes hinders the influence of market orientation (MO) on financial performance (FP). Meanwhile, other studies that apply a diverse spectrum of strategic orientations (SO) yield non-uniform conclusions. For example, Tahir et al., (2018) found no significant relationship between market orientation and financial performance. However, market developments indicate a link between market orientation and company performance (Reimann et al., 2023). Therefore, the proposed hypothesis is as follows:
H6. There is a positive influence of Market orientation on firm performance.

Learning Orientation and firm performance

The importance of learning orientation (LO) in optimizing firm performance has been a widely discussed topic among researchers. Findings regarding the influence of learning orientation on business outcomes across various sectors, as reported by Taheri et al., (2019) and Kharabsheh et al., (2017), affirm the existence of a mutually beneficial relationship between learning orientation and firm performance.
H7. There is a positive influence of Learning Orientation on Firm Performance.

Innovation Orientation and firm performance

Recent research results show that innovation orientation has a significant positive effect on business performance. A company's capacity to launch new products and processes quickly is becoming increasingly important (Rayees et al., 2021).

H8. There is a positive influence of Innovations Orientation on Firm Performance.

Absorptive Capacity and Firm Performance

From a dynamic capabilities perspective, Liu et al., (2018) argue that Absorptive Capacity (AC) directly impacts financial performance (FP). Furthermore, Wales et al., (2013) found a linear curve relationship pattern between AC and financial performance.

H9. There is a positive influence of Absorptive Capacity on Firm Performance.

The Mediating Effect of Absorptive Capacity on Entrepreneurial Orientation and Firm Performance

The accumulation of internal and external knowledge, known as absorptive capacity, plays a role in product development through strategic orientation, which significantly influences firm performance. Curseu and Pluut (2018) define Absorptive Capacity as a body of knowledge derived from experience, which enriches the relationship between Strategic Orientation and financial performance (FP). Research findings confirm that AC moderates the relationship between entrepreneurial orientation (EO) and FP. Various studies (Ibarra et al., 2021, and Hernandez-Perlines, 2018) provide evidence that organizations have experience in leveraging knowledge to enhance their performance.

Vincent & Zakkariya (2021) found in the context of SMEs in India that absorptive capacity positively and significantly mediates the impact of entrepreneurial orientation on firm performance.

H10. There is a positive influence of Entrepreneurial Orientation on Firm Performance mediated by Absorptive Capacity.

The Role of Absorptive Capacity in Mediating the Influence of Market Orientation on Firm Performance

Kharabsheh et al., (2017) found a mediating effect of absorptive capacity on the relationship between market orientation and organizational performance. Similarly, another study by Purwiantri, (2021) suggests that market orientation positively influences firm performance with absorptive capacity as the mediator. Based on the literature review, studies on absorptive capacity are still scarce, particularly within the realm of banking or rural banks.

H11. There is a positive influence of Market Orientation on Firm Performance mediated by Absorptive Capacity.

The Role of Absorptive Capacity in Mediating the Influence of Learning Orientation on Firm Performance

In their research, Kharabsheh et al., (2017) identified that absorptive capacity acts as a partial mediator in the relationship between learning orientation and organizational performance. Ambidextrous organizational learning can facilitate the role of absorptive capacity by offering knowledge-related resources 1 (Rodriguez-Serrano and Martin-Armario, 2019), which in

turn enables companies to apply knowledge to more prominent aspects of the business and thus achieve superior performance.
H12. There is a positive influence of Learning Orientation on Firm Performance mediated by Absorptive Capacity.

Absorptive Capacity in Mediating the Influence of Innovation Orientation on Firm Performance

Absorptive Capacity is an organizational process that allows companies to reconfigure their resources (Zahra & George, 2002) and ultimately develop new competitive advantages through the creation of new knowledge which is innovative capability. Innovative capability allows companies to stay ahead of their competitors by encouraging the production of new goods or services that can meet consumer needs (Makri et al., 2017), thereby improving performance.
H13. There is a positive influence of Innovation Orientation on Firm Performance mediated by Absorptive Capacity.

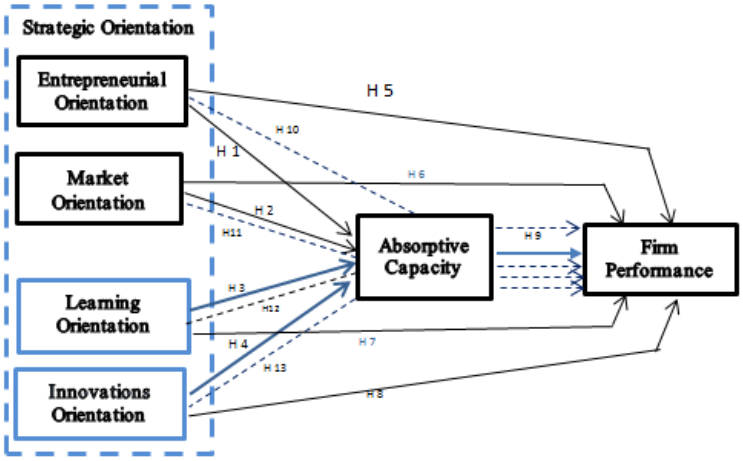

Figure 1. Conceptual Framework

METHODOLOGY

The research design employed is quantitative, utilizing exploratory and descriptive research methods. The primary data source for this study is primary data, collected through a questionnaire instrument with a Likert scale statement format. Data collection was conducted through interviews guided by the prepared questionnaire. The unit of analysis for the research is focused on the business units of Rural Banks (BPR) in the Greater Jakarta (Jabodetabek) area. Meanwhile, the respondents or units of observation in this study are Top Management or Bank Leaders. To obtain the desired sample size based on Hair's formula, as follows: n = (5 to 10) x Number of Indicators. In this study, the number of samples to be used is: n = 7 x 36 = 252 samples. However, to anticipate unusable samples, a total of 324 samples were taken as respondents, resulting from n = 9 x 36, consisting of elements of BPR leadership or top management.

Variables and measures

Entrepreneurial Orientation as an independent variable is measured using six question items that evaluate risk-taking, proactiveness, and innovation, referencing the works of Gajere M.C (2022), and Ibarra et al., (2021). Similarly, Market Orientation is measured with six question items based on studies from the same sources. Market Orientation is understood as a business culture where organizations develop actions to continuously create superior value for customers, emphasizing long-term interests and profits. Learning Orientation, which Gajere (2022) considers a core company value that places learning as a key element of success, in this study has six indicators aligned with the aforementioned literature (Aslam et al., 2018). The Innovation Orientation variable, which represents the company's comprehensive and strategic innovation initiatives in response to the market, consists of six question items adopted from the research of Farooq et al., (2021). The measurement scale for all question items is a six-point Likert scale, from 1 (strongly disagree) to 6 (strongly agree) (Malhotra, 2020).

Firm Performance as the dependent variable is measured based on evaluation and measurement developed by Ibarra et al., (2021) and Kellermans et al., (2012), which is detailed into six (6) indicators to assess company performance in comparison to competitors. The dimensions evaluated include increased profits and increased market share, revenue growth, company position in competition, industry dominance, and rate of return on investment. The measurement of each indicator uses a six-point Likert scale, where a score of 1 indicates "far behind competitors" and a score of 6 indicates "far ahead of competitors.

Absorptive Capacity as a mediating variable is measured through parameters that have been evaluated and operationalized by Shah et al., (2024) and Ibarra et al., (2021), which are detailed into six (6) indicators, each consisting of 6 items and answered using a six-point Likert scale, where a score of 1 represents "strongly disagree" and a score of 6 represents "strongly agree."

This study employs statistical analysis as the primary data analysis technique, utilizing Structural Equation Modeling (SEM). PLS-SEM was chosen because this research is more aimed at making predictions for the purpose of theory development, rather than testing well-established theories.

RESULTS

Table 1. Validity and Reliability Test

Variable	Indicator	Loading	Result	Cronbach's Alpha	Result
Entrepreneurial Orientation	EO1	0.701	Valid	0.834	Reliable
	EO2	0.724	Valid		
	EO3	0.736	Valid		
	EO4	0.762	Valid		
	EO5	0.707	Valid		
	EO6	0.781	Valid		
Market Orientation	MO1	0.714	Valid	0.868	Reliable
	MO2	0.760	Valid		
	MO3	0.810	Valid		
	MO4	0.706	Valid		
	MO5	0.717	Valid		

	MO6	0.945	Valid		
Variable	Indicator	Loading	Result	Cronbach's Alpha	Result
Learning Orientation	LO1	0.872	Valid	0.872	Reliable
	LO2	0.839	Valid		
	LO3	0.777	Valid		
	LO4	0.745	Valid		
	LO5	0.738	Valid		
	LO6	0.705	Valid		
Innovations Orientation	IO1	0.943	Valid	0.953	Reliable
	IO2	0.932	Valid		
	IO3	0.952	Valid		
	IO4	0.911	Valid		
	IO5	0.792	Valid		
	IO6	0.871	Valid		
Absorptive Capacity	AC1	0.707	Valid	0.813	Reliable
	AC2	0.714	Valid		
	AC3	0.702	Valid		
	AC4	0.739	Valid		
	AC5	0.703	Valid		
	AC6	0.744	Valid		
Firm Performance	FP1	0.767	Valid	0.935	Reliable
	FP2	0.951	Valid		
	FP3	0.844	Valid		
	FP4	0.965	Valid		
	FP5	0.796	Valid		
	FP6	0.888	Valid		

The standard for indicator validity in this research refers to the loading factor or outer loading value, which must exceed 0.35 (> 0.35), as stated by Hair et al., (2018). In accordance with this criterion, all indicators used to measure the variables EO, MO, LO, IO, AC, and FP are declared valid. Indicator reliability is evaluated based on a Composite Reliability value greater than 0.7 and/or a Cronbach's Alpha value greater than 0.6. The calculation results show that all indicators measuring the six variables meet this reliability criterion. Furthermore, the analysis of Composite Reliability values yielded very high figures for all variables, exceeding 0.90, which signifies an excellent level of reliability for all latent variables.

Table 2. AVE, R-Square Calculation Table and Model Fit Test

Variabel	**AVE**	**R Square Adjusted**	**NFI**	**SRMR**
Entrepreneurial Orientation	0.542		0.543	0,057
Market Orientation	0.608			
Learning Orientation	0.611			
Innovations Orientation	0.814			
Absorptive Capacity	0.516	0.677		
Firm Performance	0.760	0.764		

The adjusted R-Square value of 0.677 for the Absorptive Capacity (AC) variable implies that 67.7% of the variance in AC can be predicted by EO, MO, LO, IO, and FP. Similarly, the adjusted R-Square value of 0.764 for Firm Performance (FP) indicates that 76.4% of the variance in FP can be explained by EO, MO, LO, IO, and AC. The unexplained variance is assumed to originate from variables outside the model. The interpretation of the R-square values suggests that the model has a predictive strength ranging from strong to moderate.

Model fit was evaluated using the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), and RMS_theta. The results are as follows: SRMR is 0.057 (meeting the criterion of < 0.08), NFI is 0.543 (below 0.900 but can be considered a marginal fit), and RMS_theta is 0.128 (close to the ideal value of 0). Based on these three indicators, it can be concluded that the formed model meets the requirements for goodness of fit and is effective in visualizing the relationships between the variables.

Direct Effect

The hypothesis test results to analyze the direct influence between research variables can be seen as follows:

Table 3. Direct Effect Hypothesis Testing

Hypothesis	Influence Test	BETA	P Values	Support
H1	EO → AC	0.219	0.000	Yes
H2	MO → AC	0.320	0.020	Yes
H3	LO → AC	0.170	0.045	Yes
H4	IO → AC	0.202	0.001	Yes
H5	EO → FP	0.104	0.031	Yes
H6	MO → FP	0.256	0.011	Yes
H7	LO → FP	0.237	0.001	Yes
H8	IO → FP	0.186	0.000	Yes
H9	AC → FP	0.193	0.004	Yes

The data from the table shows that the probability value (P-value) of 0.000, which is below 0.05 (alpha 5%), leads to the acceptance of hypothesis 1, indicating that statistically at a 5% significance level, Entrepreneurial Orientation (EO) has a positive correlation with Absorptive Capacity (AC). The EO coefficient of 2.19 implies that an increase in EO will be followed by an increase in AC. In the testing of H2, the P-value is 0.020 (less than 0.05), thus hypothesis 2 is accepted, showing a positive influence of Market Orientation (MO) on AC. The test result coefficient of 0.320 means that an improvement in the MO mechanism will go hand in hand with an increase in AC. The results of testing H3 show a P-value of 0.045 (less than 0.05), leading to the acceptance of hypothesis 3, which signifies that Learning Orientation (LO) positively influences AC, with an LO coefficient of 0.170, meaning that the higher the level of LO, the higher the level of AC. The results of testing H4 with a P-value of 0.004 (less than 0.05) result in the acceptance of hypothesis 4, implying a positive influence of Innovation Orientation (IO) on AC, with an IO coefficient of 0.020, meaning that the better the IO, the better the level of AC will also be. The test results with a P-value of 0.031 (less than 0.05) lead to the acceptance of

hypothesis 5, which signifies that EO positively influences Firm Performance (FP), with an EO coefficient of 1.04, implying that an increase in EO will be followed by an increase in FP. The test results with a P-value of 0.011 (less than 0.05) result in the acceptance of hypothesis 6, showing a positive influence of MO on FP, with a Market Orientation coefficient of 2.56, meaning that an improvement in MO will go hand in hand with an increase in FP. The test results show a P-value of 0.001 (less than 0.05), thus hypothesis 7 is accepted, which signifies that LO positively influences FP, with an LO coefficient of 0.237, meaning that the better the level of LO, the greater the increase in FP will be. The test results show a P-value of 0.000 (less than 0.05), thus hypothesis 8 is accepted, which signifies that IO positively influences FP, with an IO coefficient of 0.186, meaning that the better the level of IO, the greater the increase in FP will be. The test results show a P-value of 0.004 (less than 0.05), thus hypothesis 9 is accepted, which signifies that AC positively influences FP, with an AC coefficient of 0.193, meaning that the better the level of AC, the greater the increase in FP will be.

Indirect Effect

The hypothesis test results for the indirect effect between research variables can be presented as follows:

Table 4. Mediation Effects

`Hypothesis	Influence Test	BETA	P Values	Support
H10	EO → AC → FP	0.042	0.021	Yes
H11	MO → AC → FP	0.062	0.093	No
H12	LO → AC → FP	0.033	0.101	No
H13	IO → AC → FP	0.039	0.027	Yes

The test results show a P-value of 0.021 (below 0.05 at alpha 5% and a 95% confidence level), supporting the acceptance of hypothesis 10, indicating mediation. This means that the positive influence of EO on FP is mediated by AC. The coefficient of the indirect effect of EO on FP through AC is 0.042, implying that an increase in EO will drive an increase in AC, which in turn will increase FP, although the impact is relatively small. For H11, the P-value of 0.093 (above 0.05 at alpha 5%) leads to the rejection of hypothesis 11, meaning no mediation occurs. It is concluded that there is no influence of MO on FP mediated by AC. The results of testing H12 show a P-value of 0.101 (above 0.05 at alpha 5%), which also leads to the rejection of hypothesis 12, indicating no mediation. It is concluded that there is no influence of LO on FP mediated by AC. For H13, the P-value of 0.027 (below 0.05 at alpha 5%) results in the acceptance of hypothesis 13, showing mediation. This signifies that the positive influence of IO on FP is mediated by AC. The coefficient of the indirect effect of IO on FP through AC is 0.039, implying that an increase in IO will drive an increase in AC, which in turn will increase FP, although the impact is relatively small.

DISCUSSION

A company's ability to develop knowledge and optimize the essential Absorptive Capacity (AC) is influenced by Entrepreneurial Orientation (EO) through the determination of attitudes towards risk and business opportunities to maximize profits from existing knowledge assets (Qian & Jung, 2017). Consistent with Aljanabi's (2018) research indicating the influence of EO on AC in the context of companies, the first hypothesis of this study aims to evaluate the impact of EO on AC. The research results show a positive and significant correlation between EO and AC. This alignment is also found in previous research (Ibarra et al., 2021; Kohtmåki et al., 2019; Hernandez-Perlines, 2018) which highlights companies' experience in leveraging knowledge to improve performance. Another study by Alshahrani et al. (2023) also confirms the positive relationship and significant influence of EO on AC. According to Khan et al. (2020), AC enables companies to identify, assimilate, and apply new knowledge for business purposes in external markets. These findings are consistent with the results of the current study and supported by other research, including Jeong et al. (2019) who found the influence of EO on performance, and Zhai et al. (2018) who describe a positive relationship between EO and AC. A high level of EO within a company has the potential to positively contribute to Firm Performance (FP).

The second hypothesis of this study examines the impact of Market Orientation (MO) on Absorptive Capacity (AC). The research results confirm a positive and significant influence of MO on AC, supported by the research of Purwiantri (2021) and Ozcomert et al. (2018). This study shows that a company's routine activities in collecting and evaluating competitor information correlate with AC.

The third hypothesis of this research aims to explore the relationship between Learning Orientation (LO) and Absorptive Capacity (AC). The research results confirm a positive and significant influence of LO on AC, consistent with previous research (Kharabseh et al., 2017; Lichtenthaler, 2016; Zahra & George, 2002). Theory states that exploratory learning involves the acquisition of knowledge, aligning with the concept of a company's potential ability to absorb needed knowledge or AC. Other researchers argue that the ability to access and utilize knowledge effectively is at the core of absorptive capacity (Saad, Kumar & Bradford, 2017). The positive relationship between learning orientation and absorptive capacity is also documented by Marzouk, J., & El Ebrashi, R. (2023).

The fourth hypothesis of this study examines the impact of Innovation Orientation (IO) on Absorptive Capacity (AC). The research results confirm a positive and significant influence of IO on AC, consistent with previous research that defines innovation capability as the capacity to implement structured procedures for new product development and the improvement of existing product quality (Wang et al., 2017), which is directly influenced by AC. Stelmaszczyk (2020) empirically confirms the relationship between variables through AC. AC facilitates innovation and customer satisfaction (Soomro et al., 2020).

The fifth hypothesis of this research aims to explore the relationship between Entrepreneurial Orientation (EO) and Firm Performance (FP). The research results confirm a positive and significant influence of EO on FP, supported by the research of Kraus et al. (2012) and Davis et al. (2010) which shows the positive contribution of EO to business performance (Fatima .T, & Bilal. AR, 2020). However, other empirical studies (Masa'deh et al., 2018; Tahir et al., 2018; and Ibarra et al., 2021) also indicate a positive correlation between EO and FP. Research by Aftab et al. (2022) found a positive influence of EO on entrepreneurial competence and FP.

The sixth hypothesis of this study examines the influence of Market Orientation (MO) on FP. The research results show a positive and significant influence of MO on FP. These findings are consistent with other research (Nikraftar and Momeni, 2017; Dabrowski et al., 2019). MO has been shown to affect export performance (He et al., 2018; Ibarra et al., 2021) and, together with other capabilities, empowers organizations to understand customer needs, respond to external changes, and improve economic and social performance (Khanra et al., 2021). Market-oriented companies build long-term customer relationships through market intelligence and market sensing capabilities (Bıçakcıoglu-Peynirci & Ipek, 2020; Awan et al., 2020).

The seventh hypothesis confirms the positive and significant influence of Learning Orientation (LO) on Firm Performance (FP), aligning with the findings of Taheri et al. (2019) and Kharabsheh et al. (2017) regarding the positive correlation between learning orientation and performance. Learning orientation is an organization's disposition towards learning (Gerschewski et al., 2018).

The eighth hypothesis shows a positive and significant influence of Innovation Orientation (IO) on FP, consistent with the research of Groza et al. (2021). Innovation encompasses cultural aspects (acceptance of new ideas) and capabilities (creating and implementing new ideas) at the firm level, as supported by the research of Lestari et al. (2018) which found the influence of innovation on performance.

The ninth hypothesis affirms the positive and significant influence of Absorptive Capacity (AC) on FP, supported by the research of Taques et al. (2021) on the significant positive impact of innovation orientation on business performance. A company's ability to launch new products and processes quickly is crucial (Farooq et al., 2021; Zhang and Jedin, 2022). In the banking sector, technical and managerial innovation can improve performance in the face of environmental challenges and market uncertainty (Nourallah et al., 2021).

The tenth hypothesis shows the mediation of AC on the influence of Market Orientation (MO) on FP, aligning with the findings of Vincent & Zakkariya (2021) on SMEs in India. Research (Ibarra et al., 2021; Hernandez-Perlines, 2018; Kohtamäki et al., 2019) also highlights the role of knowledge in improving firm performance. Furthermore, AC as a moderator strengthens the impact of Entrepreneurial Orientation (Kohtamäki et al., 2019; Ibarra et al., 2021).

The eleventh hypothesis shows that AC does not mediate the influence of MO on FP, consistent with the findings of Zailani et al. (2016) who stated the insignificance of AC's influence on success measures. A potential explanation is

that AC in project teams is not the primary mechanism for new knowledge acquisition, although construction literature highlights its role in performance improvement. These results are consistent with Ali et al. (2018) who did not find a direct relationship between knowledge sharing and Project Performance (PP), but linked it to increased AC.

The twelfth hypothesis shows that LO does not influence FP through AC, consistent with research indicating the insignificance of LO's influence on financial performance (Cho YH, 2020; Jarosław K and Wojcik A, 2023), but differing from Zahra and George (2002) and Yang et al., (2022). Other research shows partial mediation of AC on the relationship between LO and organizational performance (Kharabsheh et al., 2017; Rodriguez-Serrano and Martin-Armario, 2019).

The test results for the thirteenth hypothesis show that Innovation Orientation (IO) significantly influences Firm Performance (FP). The ability to innovate allows companies to maintain a leading position in competition through the development of new products or services that meet consumer demand (Makri et al., 2017). Furthermore, empirical evidence confirms that Absorptive Capacity (AC) plays a role in the innovation process (Ali asghar, Rose, & Chetty, 2019). Based on this analysis, it is concluded that the potential and realization of AC significantly mediate the relationship between IO and FP, with the additional identification that a high level of AC proficiency has a greater effect on performance.

CONCLUSIONS AND RECOMMENDATIONS

The implementation of EO, MO, LO, IO, and AC in the BPR sector has a positive influence on BPR FP. Direct hypothesis testing between EO, MO, LO, and IO on AC and on FP shows a positive influence, although relatively not very strong and partly at weak values. This indicates the existence of issues within BPRs concerning these aspects. In the indirect hypothesis testing, the results show no influence of MO on FP mediated by AC, and no influence of LO on FP mediated by AC. However, the other two variables showed a positive influence: EO on FP mediated by AC, and IO on FP mediated by AC.

This research argues that the Top Management of BPRs possesses the knowledge and understanding to implement EO, MO, LO, and IO, thereby influencing BPR FP. AC has been confirmed with the existence of a significant and positive relationship between absorptive capacity and firm performance. Companies can maximize the benefits of absorptive capacity to improve performance and achieve competitive advantage. The research findings indicate that MO has no influence on FP mediated by AC. Therefore, there is no additional contribution from the intervening variable AC in maximizing or increasing the influence of MO on FP. Similarly, the variable LO has no influence on FP mediated by AC. Thus, it can be concluded that there is no additional contribution from the intervening variable AC in maximizing or increasing the influence of LO on FP.

Company management needs to leverage the positive influence of strategic orientation on firm performance while minimizing losses from the lack

of AC's influence in mediating MO and LO with FP. Several actions that BPR Top Management can take to elaborate on these influences include:

Steps are needed to enhance the effectiveness of market orientation and absorptive capacity, thereby improving the overall performance of BPRs. This can be achieved by improving how market information is effectively integrated into decision-making and innovation processes. Companies need to evaluate the effectiveness of their absorptive capacity and identify areas for improvement. This includes enhancing the necessary resources, skills, or systems to assimilate and utilize market information. Overly focusing on current market information can lead to neglecting long-term opportunities or significant trend changes. Effective AC requires the ability to anticipate future changes and absorb knowledge relevant to those trends.

Building a robust knowledge management system and fostering continuous learning can help enhance absorptive capacity. Efforts to align their learning with BPR goals and strategies are necessary. Companies need commitment and to measure the long-term impact of learning orientation. It's also important to pay attention to external factors that can affect BPRs. By understanding these factors, companies can take steps to improve the effectiveness of their learning orientation and absorptive capacity, thereby enhancing the overall performance of BPRs.

This research has limitations in terms of:

The research population is limited to Conventional Rural Banks (BPR) in the Greater Jakarta area (Jabodetabek) and members of PERBARINDO Jakarta Raya. However, the BPR population is not limited to Conventional BPRs; there are also Islamic Rural Banks (BPRS) or Sharia-compliant BPRs in this industry. Additionally, the respondent sample area is only Jakarta and its surroundings, not encompassing a wider region.

The measurement of variables, specifically the strategic orientation dimensions of EO, MO, LO, IO, and AC, as well as FP used, is still limited. This is because not all dimensions found in the literature are necessarily applicable to the conditions of BPRs in Indonesia.

FURTHER STUDY

This research can be expanded by including other Strategic Orientation variables or sub-dimensions, such as technological orientation (TO) or digital banking, as important elements in enhancing BPR Firm Performance. Similarly, external influences like government support (regulators) and the business environment on BPR Firm Performance can be considered. Therefore, in the future, there are opportunities for other researchers to develop conceptual models by adding research variables.

This research is also limited to Rural Banks (BPR) in the Greater Jakarta area (Jabodetabek) with a conventional BPR population. In the future, there are opportunities for similar research with a broader population, namely BPRs and Islamic Rural Banks (BPRS). Likewise, the respondent sample can be expanded to regions outside Jabodetabek or nationwide.

Research involving other stakeholders outside of BPRs can make the assessment more complex and objective, especially concerning Firm Performance and bank health levels. Other institutions that can be involved include the Financial Services Authority (OJK) as the regulator and Perbarindo, which plays a role as an organization that supports, protects, and develops the BPR/BPRS industry in Indonesia.

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