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Resource-Based View, Dynamic Capabilities, and Entrepreneurial Orientation: Their Impact on MSME Performance and Sustainable Competitive Advantage of MSMEs in Bali

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ABSTRACT
Micro, Small, and Medium Enterprises (MSMEs) in Bali play a crucial role in employment generation, the development of the tourism sector, and the strengthening of the regional economy. However, most MSMEs continue to face challenges related to low levels of digitalization, limited resources, and vulnerability to external shocks. This study integrates the perspectives of the Resource-Based View (RBV), Dynamic Capabilities (DC), and Entrepreneurial Orientation (EO) to explain MSME performance and Sustainable Competitive Advantage (SCA) in Bali. A quantitative approach with an explanatory research design was employed, involving 200 active MSME owners, and the data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). The findings indicate that RBV, DC, and EO have positive and significant effects on MSME performance and sustainable competitive advantage, with Dynamic Capabilities emerging as the most dominant factor in promoting MSME sustainability in a dynamic business environment. These results extend MSME research by emphasizing the importance of integrating internal resources, adaptive capabilities, and entrepreneurial orientation in the context of digital transformation. Practically, this study provides strategic insights for MSME owners to strengthen adaptability and innovation, and for policymakers to design MSME development programs that prioritize capability building and digital literacy to enhance long-term competitiveness.

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Bali serve as the main drivers of the regional economy. They absorb labor, promote equitable economic distribution, and support key sectors such as tourism and the creative industries. Recent data indicate several common challenges faced by MSMEs in Bali that hinder their ability to achieve sustainable competitive advantage. Digitalization remains a prominent issue only about 34% of MSMEs have adopted digital systems in marketing and finance, while the majority still operate using traditional methods. On the other hand, external shocks such as health crises like the COVID-19 pandemic have reduced international tourist demand and distribution, leading to decreased income for local businesses. Many MSMEs have experienced significant declines in revenue and have struggled to maintain their competencies in the post-crisis period. These conditions reveal a critical gap between the possession of resources and the ability of MSMEs to sustain competitiveness in a highly volatile, tourism-dependent environment. This demonstrates that possessing resources alone does not guarantee success; rather, adaptability, entrepreneurial orientation, and dynamic capabilities are crucial for ensuring not only business continuity but also the creation of sustainable competitive advantage.

Despite the strategic importance of MSMEs in Bali's tourism-based economy, existing studies have not sufficiently explained how internal resources and strategic orientations are transformed into sustained competitiveness under conditions of environmental turbulence. In response to these challenges, this study seeks to address a fundamental question concerning how internal resources and strategic orientations can be

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transformed into sustainable competitiveness under dynamic environmental conditions. Specifically, this research is guided by the following questions: (1) how Resource-Based View (RBV), Entrepreneurial Orientation (EO), and Dynamic Capabilities (DC) influence MSME performance, and (2) how these factors jointly contribute to the creation of sustainable competitive advantage. Accordingly, this study explicitly aims to examine the integrative role of RBV, EO, and DC as a unified theoretical framework for explaining both short-term performance and long-term sustainability of MSMEs in Bali.

According to Barney (1991), the Resource-Based View (RBV) fundamentally theorizes that a company's resources can serve as a pathway toward achieving long-term sustainable competitive advantage if those resources are valuable, rare, inimitable, and non-substitutable (Abbasi Kamardi et al., 2022). Empirical studies have shown that RBV effectively explains MSME performance when combined with internal and external factors acting as mediators or moderators. For example, the study The Role of Market Orientation and Entrepreneurial Orientation in Predicting Business Performance Mediated by Absorptive Capacity found that EO and absorptive capacity have a positive and significant effect on business performance (W & Ie, 2023).

In facing rapidly changing external environments, the concept of Dynamic Capabilities (DC) emerges as an extension of RBV to address organizational needs (Teece in Mu et al., 2025). DC encompasses elements such as sensing, seizing, and reconfiguring, which enable organizations not only to utilize existing resources but also to actively adjust to market changes. The study Creating Sustainable Competitive Advantage through Dynamic Capabilities and Innovation Performance in Creative MSMEs by Farida et al. (2022) revealed that sensing, seizing, and reconfiguring positively influence innovation performance and sustainable competitive advantage in Jember's creative industries.

Similarly, a study on retail MSMEs in Solo found that EO influences competitive advantage through DC (Michael & Suprapto, 2021). In addition to EO and DC, learning orientation also emerges in the literature as an important variable. The study The Role of Entrepreneurial Orientation and Learning Orientation in Improving MSME Performance in Yogyakarta found that EO and learning orientation positively affect both competitive advantage and business performance (Suyatmi & Pahlevi, 2021).

Although several previous studies have examined the relationship among RBV, DC, and EO, there remain research gaps that warrant further exploration. First, Bali has unique characteristics as a region heavily dependent on the tourism sector and grounded in local cultural values. However, this context has rarely been used as a research locus, particularly studies integrating all three variables simultaneously. Second, most prior studies have employed cross-sectional designs, which are limited in capturing the long-term dynamics of sustainable competitiveness. Third, many studies tend to treat business performance solely as an outcome, while a more comprehensive approach linking short-term performance with sustainable competitive advantage as a long-term outcome remains limited. These gaps indicate that existing studies have not yet fully explained how MSMEs transform valuable resources and entrepreneurial behavior into sustainable competitive advantage through adaptive capabilities over time. Therefore, this study contributes theoretically by positioning Dynamic Capabilities as a key mechanism that bridges RBV and EO with MSME performance and sustainability, particularly within the tourism-dependent and culturally embedded context of Bali. By doing so, this research extends the RBV framework from a static perspective toward a more dynamic and process-oriented explanation of MSME competitiveness.

Sustainable Competitive Advantage (SCA)

Sustainable Competitive Advantage (SCA) refers to an organization's ability to maintain superior competitive positioning over time through the effective utilization of unique resources, innovative strategies, and advantages that are difficult for competitors to replicate. According to Barney in Abbasi Kamardi et al. (2022), SCA can only be achieved when a firm possesses resources that meet the VRIN criteria *Valuable, Rare, Inimitable,* and *Non-substitutable*. This view aligns with Teece in Mu et al. (2025), who emphasizes that SCA requires dynamic capabilities that enable firms to adapt to environmental changes while sustaining differentiation. In the MSME context, SCA is commonly measured through dimensions such as product differentiation, cost efficiency, continuous innovation, and unique value offerings (Clara et al., 2024). Differentiation enables MSMEs to develop distinctive attributes that are difficult to substitute, while cost efficiency enhances price competitiveness. Continuous innovation plays a vital role due to the dynamic nature of the MSME business environment, and unique customer value strengthens loyalty and long-term relationships. Empirical studies have identified several internal factors influencing SCA. Triwijayati et al. (2023) found that continuous innovation helps businesses sustain competitiveness over time. Similarly, Farhan et al. (2022) emphasized that the combination of Entrepreneurial Orientation (EO) and Dynamic Capabilities (DC) enhances

the sustainability of competitive advantage among tourism-based MSMEs. In Indonesia, Yulianto and Iryani (2024) revealed that knowledge-based resources play a critical role in building SCA, particularly among digital-based MSMEs.

MSME Performance

MSME performance is shaped by a combination of internal factors, dynamic capabilities, and external influences. Khairani et al. (2025), through a systematic literature review, identified innovation, digital literacy, and business networks as dominant determinants of MSME success. Performance indicators encompass both financial and non-financial dimensions. Financial performance is reflected in profitability, sales growth, and cost efficiency, while non-financial performance includes customer satisfaction, loyalty, and business reputation. Moreover, growth indicators such as the increase in customer base, product variety, and market coverage also serve as important measures of MSME performance (Triwijayati et al., 2023; Sudirjo et al., 2023). Therefore, MSME performance should be viewed as a combination of short-term achievements and long-term sustainability to provide a more comprehensive evaluation of business success.

Resource-Based View (RBV)

The Resource-Based View (RBV) emphasizes the significance of internal resources that are valuable, rare, inimitable, and non-substitutable (VRIN/VRIO) as the foundation of sustainable competitive advantage (Abbasi Kamardi et al., 2022). However, recent developments suggest that RBV alone is insufficient to explain competitiveness in a dynamic business environment; it must be integrated with other theories such as Dynamic Capabilities to account for environmental volatility (Clara et al., 2024). RBV posits that competitive advantage stems from a firm's ability to manage its unique assets and internal resources that possess VRIN characteristics (Abbasi Kamardi et al., 2022). Empirically, studies have shown that the ownership and strategic management of VRIN-based resources enhance both operational and innovative capacities of MSMEs, thereby improving financial and non-financial performance (Abbasi Kamardi et al., 2022; Clara et al., 2024). At the national level, evidence from Indonesia's craft and retail sectors indicates that the management of key resources such as capital, human skills, and brand reputation has a significant correlation with sales growth and business stability (Efrina S et al., 2024; Situmorang et al., 2023). RBV theoretically explains that resources without rarity or inimitability only yield temporary advantages (Abbasi Kamardi et al., 2022; Clara et al., 2024). Empirical findings in MSME contexts support this claim; studies in creative and small-scale industries reveal that unique asset combinations and strategic management produce longer-lasting SCA compared to easily replicable assets (Farida et al., 2022).

H1: Resource-Based View has a significant positive effect on MSME Performance.
H2: Resource-Based View has a significant positive effect on Sustainable Competitive Advantage.

Dynamic Capabilities (DC)

The theory of Dynamic Capabilities (DC) complements RBV by emphasizing an organization's ability to *sense*, *seize*, and *reconfigure* resources to respond to changing environments. Sari et al. (2023), through a systematic literature review, demonstrated that DC significantly influences innovation performance. Similarly, Shiferaw and Amentie Kero (2024) confirmed that DC practices enhance organizational resilience amid market turbulence. Teece, as cited in Clara et al. (2024), defines DC through three core dimensions: sensing (detecting opportunities and threats), seizing (responding effectively through strategic action), and reconfiguring (realigning resources and organizational structures). These capabilities enable MSMEs to remain adaptive and relevant in a rapidly changing global market (Arifin et al., 2025). Recent studies establish DC as a mechanism that transforms resources into tangible outcomes. Both meta-analyses and empirical evidence confirm that sensing, seizing, and reconfiguring capabilities contribute significantly to innovation and operational performance, enabling MSMEs to grow more rapidly (Sari et al., 2023; Shiferaw & Amentie Kero, 2024). In Indonesia, digital and creative sector MSMEs exhibit a strong positive relationship between dynamic capability levels and key performance indicators such as revenue growth, product development, and market expansion (Pratamansyah, 2024; Agustin et al., 2023). Furthermore, DC enhances the potential for achieving SCA by continuously realigning resource portfolios to remain relevant amid competitive pressures and technological disruption. International literature highlights DC as both a mediator and moderator between RBV-based resources and long-term outcomes such as SCA (Clara et al., 2024; Sari et al., 2023). Evidence from Indonesia's creative MSMEs confirms that reconfiguring and learning capabilities foster continuous innovation, forming the foundation for enduring competitive advantage (Farida et al., 2022).

H3: Dynamic Capabilities have a significant positive effect on MSME Performance.
H4: Dynamic Capabilities have a significant positive effect on Sustainable Competitive Advantage.

Entrepreneurial Orientation (EO)

Entrepreneurial Orientation (EO) represents a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking (Wales et al., 2021). Recent studies confirm that EO positively influences MSME performance, though its magnitude depends on available resources and organizational capabilities. Adam et al. (2024) found that EO enhances the ability of Indonesian MSMEs to innovate, with outcomes varying according to the level of digitalization and market competition. EO encompasses five dimensions innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness that collectively drive business growth (Wales et al., 2021). EO fosters creativity and strengthens competitiveness, particularly for MSMEs operating in highly dynamic environments (Efiana Manilang & Desi, 2024). Empirical research demonstrates that MSMEs with higher EO tend to develop new products faster, enter new markets, and achieve better revenue performance, provided that resource and capability support is available (Wales et al., 2021; Adam et al., 2024). In the Indonesian context, EO combined with digital literacy and human capital significantly improves both operational and financial outcomes (Kurnia & Indriani, 2025). EO also contributes to the creation of SCA when entrepreneurial orientation is expressed through continuous innovation and difficult-to-imitate market strategies. International evidence indicates that EO enhances the likelihood of achieving sustained advantage when supported by reconfiguration capabilities and complementary resources (Clara et al., 2024; Adam et al., 2024). Nationally, research in the creative and culinary sectors shows that EO facilitates product differentiation and unique value propositions particularly when paired with dynamic capabilities and relational quality thereby fostering long-term competitive advantage (Farida et al., 2022).

H5: Entrepreneurial Orientation has a significant positive effect on MSME Performance.
H6: Entrepreneurial Orientation has a significant positive effect on Sustainable Competitive Advantage.

2. METHOD

This study employed a quantitative approach with an explanatory research design to examine the causal relationships among the Resource-Based View (RBV), Dynamic Capabilities (DC), and Entrepreneurial Orientation (EO) on the performance of Micro, Small, and Medium Enterprises (MSMEs) and their Sustainable Competitive Advantage (SCA) in Bali Province. The population comprised all MSMEs officially registered with the Bali Provincial Office of Cooperatives and MSMEs. A purposive sampling technique was used to ensure that respondents met specific inclusion criteria: (1) MSMEs had been operating for at least three years, (2) employed a minimum of five workers, and (3) were actively involved in marketing activities, either online or offline. These criteria ensured that the respondents possessed sufficient organizational experience and operational stability to provide reliable data. Although purposive sampling may introduce selection bias by excluding newly established or micro-scale enterprises with limited formal structures, this approach was intentionally adopted to enhance internal validity by focusing on MSMEs that had demonstrated operational continuity and strategic decision-making capacity. Consequently, the findings are most generalizable to relatively established MSMEs with comparable characteristics, rather than to all MSMEs in Bali indiscriminately. This limitation is acknowledged and considered acceptable given the study's objective of examining strategic and capability-based constructs that require a minimum level of organizational maturity.

Following the guidelines proposed by Hair et al. (2017), a sample size of 200 MSME respondents was determined to meet the analytical requirements of Structural Equation Modeling–Partial Least Squares (SEM-PLS). The sample distribution covered multiple sectors including food and beverages, crafts, fashion, and tourism services to enhance representativeness and reduce sampling bias. The selection of these sectors was theoretically and empirically justified, as they represent the dominant MSME segments in Bali's economy and are closely linked to tourism-driven value chains. Food and beverage, crafts, and fashion MSMEs are particularly sensitive to fluctuations in tourist demand, while tourism services MSMEs face high environmental uncertainty and competitive intensity. These characteristics make the selected sectors highly relevant for examining the roles of RBV, EO, and Dynamic Capabilities in shaping performance and sustainable competitive advantage.

Data were obtained from both primary and secondary sources. Primary data were collected using structured questionnaires distributed directly to MSME owners or managers. Each item was measured using a

five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Prior to the main survey, a pilot study involving 30 MSMEs was conducted as a critical step in the instrument validation process. The pilot test aimed to evaluate item clarity, wording precision, response consistency, and the contextual relevance of the indicators to MSME conditions in Bali. Feedback from pilot respondents enabled the refinement of ambiguous statements, the elimination of redundant items, and the simplification of technical terminology, thereby improving respondent comprehension and reducing the risk of systematic measurement error. In addition, content validity was rigorously assessed through expert judgment involving three academics with expertise in strategic management and entrepreneurship, as well as two MSME practitioners with extensive managerial experience. This process ensured that each indicator accurately reflected the theoretical constructs of RBV, Dynamic Capabilities, Entrepreneurial Orientation, MSME performance, and Sustainable Competitive Advantage, while also maintaining contextual appropriateness for a tourism-dependent regional economy.

Construct validity and reliability were evaluated through outer loadings, Average Variance Extracted (AVE), cross-loadings, Cronbach's Alpha, and Composite Reliability (CR). All indicators met the recommended thresholds (outer loading > 0.70, AVE > 0.50, Cronbach's Alpha > 0.70, and CR > 0.70), confirming that the measurement model was both valid and reliable. Secondary data were gathered from the Central Statistics Agency (BPS), annual reports of the Bali Provincial Office of Cooperatives and MSMEs, and relevant academic publications. Data analysis was conducted using SmartPLS 4.0 software in two main stages: the Outer Model analysis, which tested the validity and reliability of the measurement instruments, and the Inner Model analysis, which assessed the relationships among latent variables through the evaluation of R^2, Q^2, and path coefficients to test the research hypotheses.

3. RESULT AND DISCUSSION

The results of testing the research variables based on the outer model evaluation are shown in Figure 2.

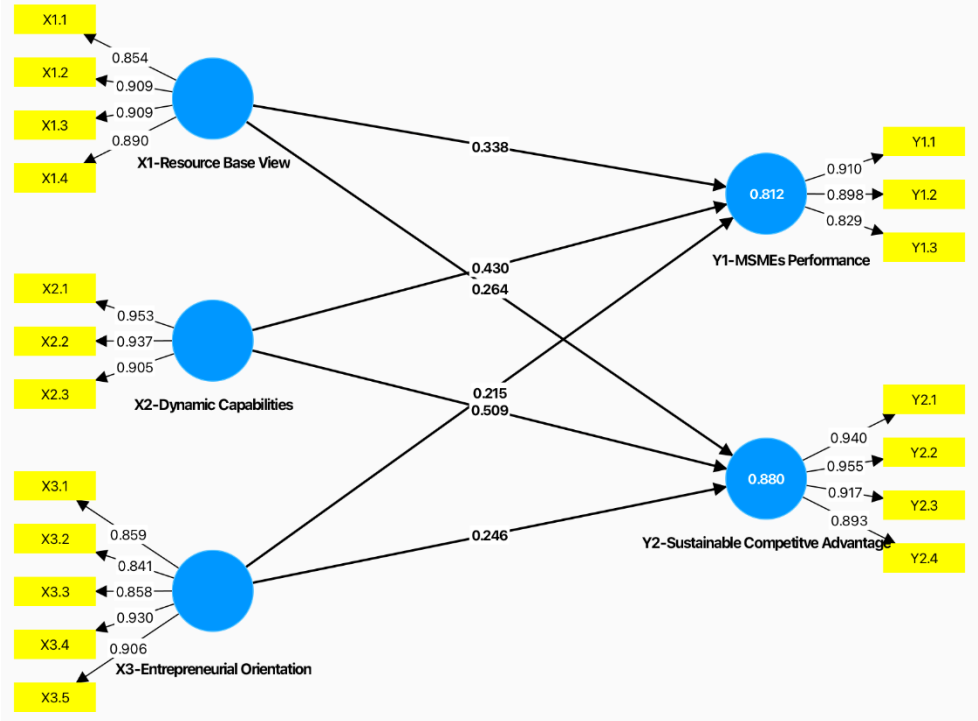

Figure 2. Results of SmartPLS Data Processing Stage 1

Figure 2 in Stage 1 shows the results of the outer model evaluation, with the results of data processing of the outer loadings values showing that all variable indicators have values > 0.7 and are shown in Table 1.

Table 1. Outer Loadings

	A	X2-Dynamic Capabilities	X3 Entrepreneurial Orientation	Y1-MSMEs Performance	Y2-Sustainable Competitive Advantage
X1.1	0.854				
X1.2	0.909				
X1.3	0.909				
X1.4	0.890				
X2.1		0.953			
X2.2		0.937			
X2.3		0.905			
X3.1			0.859		
X3.2			0.841		
X3.3			0.858		
X3.4			0.930		
X3.5			0.906		
Y1.1				0.910	
Y1.2				0.898	
Y1.3				0.829	
Y2.1					0.940
Y2.2					0.955
Y2.3					0.917
Y2.4					0.893

Source: Data processed from SmartPLS output

The results of the outer model evaluation, with the results of data processing of the Construct reliability and Validity values, show that the Cronbach's alpha value for all measured variables has a value of > 0.7, the Composite reliability value for all measured variables has a value of > 0.7, the Average Variance Extracted (AVE) value for all measured variables has a value of > 0.5 and is shown in Table 2.

Table 2. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
X1-Resource Base View	0.913	0.914	0.939	0.794
X2-Dynamic Capabilities	0.924	0.926	0.952	0.869
X3-Entrepreneurial Orientation	0.926	0.928	0.945	0.774
Y1-MSMEs Performance	0.853	0.856	0.911	0.774
Y2-Sustainable Competitive Advantage	0.945	0.946	0.961	0.859

Source: Data processed from SmartPLS output

The analysis results are as follows:

a. An indicator or dimension is considered valid if it has a loading value above 0.7. From the results of the outer loadings, all dimensions or indicators of the latent variable (X1, X2, X3, Y1, and Y2) have values above 0.7. Therefore, all dimensions are valid. In addition to the outer loadings, convergent validity can also be seen from the Average Variance Extracted (AVE) value. In this study, the AVE value for each construct was above 0.5, so there were no convergent validity issues in the tested model.
b. Table 2 shows that the variables Resource-Based View (X1), Dynamic Capabilities (X2), Entrepreneurial Orientation (X3), MSMEs Performance (Y1), and Sustainable Competitive Advantage (Y2) have a Cronbach Alpha value above 0.7 and a Composite Reliability value above 0.7, so that all indicators in the variables are valid and reliable.
c. The Cross Loading results in Table 3 show that each indicator in the variable has a value exceeding 0.7 and each indicator in the measured variable has a higher loading value compared to other loading constructs.

Table 3. Cross Loadings Results

	X1-Resource Base View	X2-Dynamic Capabilities	X3-Entrepreneurial Orientation	Y1-MSMEs Performance	Y2-Sustainable Competitive Advantage
X1.1	0.854	0.618	0.687	0.728	0.694
X1.2	0.909	0.649	0.714	0.749	0.756
X1.3	0.909	0.657	0.718	0.732	0.763
X1.4	0.890	0.621	0.667	0.687	0.706
X2.1	0.725	0.953	0.774	0.822	0.863
X2.2	0.618	0.937	0.708	0.750	0.795
X2.3	0.651	0.905	0.716	0.775	0.830
X3.1	0.734	0.694	0.859	0.757	0.773
X3.2	0.655	0.643	0.841	0.721	0.706
X3.3	0.649	0.649	0.858	0.674	0.677
X3.4	0.707	0.745	0.930	0.732	0.805
X3.5	0.690	0.723	0.906	0.707	0.780
Y1.1	0.757	0.729	0.687	0.910	0.728
Y1.2	0.766	0.741	0.770	0.898	0.789
Y1.3	0.617	0.749	0.698	0.829	0.785
Y2.1	0.818	0.824	0.810	0.840	0.940
Y2.2	0.764	0.850	0.808	0.818	0.955
Y2.3	0.723	0.827	0.765	0.808	0.917
Y2.4	0.733	0.802	0.779	0.766	0.893

Source: Data processed from SmartPLS output

The results of the evaluation of the structural model or Inner Model in Table 4 show that the R2 value for the MSMEs Performance variable (Y1) has a strong coefficient of determination ($0.75 \leq R^2 \leq 1$)with a value of 0.812 and the Sustainable Competitive Advantage (Y2) variable has a strong coefficient of determination ($0.75 \leq R^2 \leq 1$)with a value of 0.880.

Table 4. R2 Results

	R-square	R-square adjusted
Y1-MSMEs Performance	0.812	0.809
Y2-Sustainable Competitive Advantage	0.880	0.878

Source: Data processed from SmartPLS output

The results of the Inner Model in Table 5 show that the Q2predict value for the MSMEs Performance variable (Y1) has high predictive relevance ($0.5 \leq Q^2 \leq 1$) with a value of 0.809 and the Sustainable Competitive Advantage (Y2) variable has a high relevance prediction ($0.5 \leq Q^2 \leq 1$) with a value of 0.879.

Table 5. Q2 Results

	Q²predict	RMSE	MAE
Y1-MSMEs Performance	0.809	0.448	0.320
Y2-Sustainable Competitive Advantage	0.879	0.358	0.252

Source: Data processed from SmartPLS output

Table 6 shows the influence between variables with t-statistic values with = 0.05. The t-statistic value of hypothesis 1 test is 6.282 (t-statistic > 1.96) with a p-value of 0.000 (p-value < 0.05) with = 0.05, which indicates that Hypothesis 1 in this study has a positive and significant effect. The t-statistic value for testing hypothesis 2 is 5.708 (t-statistic > 1.96) with a p-value of 0.000 (p-value < 0.05) with = 0.05, which indicates that Hypothesis 2 in this study has a positive and significant effect. The t-statistic value for testing hypothesis 3 is 6.090 (t-statistic > 1.96) with a p-value of 0.000 (p-value < 0.05) with = 0.05, which indicates that Hypothesis 3 in this study has a positive and significant effect. The t-statistic value for testing hypothesis 4 is 9.786 (t-statistic > 1.96) with a p-value of 0.000 (p-value < 0.05) with = 0.05, which indicates that Hypothesis 4 in this study has a positive and significant effect. The t-statistic value for testing hypothesis 5 is 2.944 (t-

statistic > 1.96) with a p-value of 0.003 (p-value < 0.05). = 0.05, which indicates that Hypothesis 5 in this study has a positive and significant effect. The t-statistic value for testing hypothesis 6 is 4.793 (t-statistic > 1.96) with a p-value of 0.000 (p-value < 0.05) with = 0.05 which shows that Hypothesis 6 in this study has a positive and significant effect.

Table 6. Path Coefficients Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
X1-Resource Base View -> Y1-MSMEs Performance	0.338	0.338	0.054	6,282	0.000
X1-Resource Base View -> Y2-Sustainable Competitive Advantage	0.264	0.264	0.046	5,708	0.000
X2-Dynamic Capabilities -> Y1-MSMEs Performance	0.430	0.427	0.071	6,090	0.000
X2-Dynamic Capabilities -> Y2-Sustainable Competitive Advantage	0.509	0.507	0.052	9,786	0.000
X3-Entrepreneurial Orientation -> Y1-MSMEs Performance	0.215	0.217	0.073	2,944	0.003
X3-Entrepreneurial Orientation -> Y2-Sustainable Competitive Advantage	0.246	0.247	0.051	4,793	0.000

Source: Data processed from SmartPLS output

Influence of Resource-Based View on MSMEs Performance

The path from RBV to MSME performance in this study (β = 0.338; t = 6.282; p < 0.001) shows a meaningful and statistically robust effect. In other words, MSMEs in Bali that sufficiently manage and deploy internal resources those that are valuable, rare, inimitable and non-substitutable tend to achieve better performance outcomes. This result aligns with the fundamental argument of resource-based theory (Barney, 1991). More recently, Indonesian evidence indicates that entrepreneurial orientation combined with resource flexibility supports MSME performance (Pramesti, 2023). Although that study emphasised EO rather than pure RBV, the underlying logic is similar: resources matter. Interestingly, the strength of the effect here (0.338) is moderate but not overwhelming, which resonates with findings in resource-constrained environments where resource endowments alone are insufficient unless complemented by other capabilities (Fainshmidt et al., 2016). For instance, in Nigerian MSMEs, Ojo (2025) found dynamic capabilities to be stronger predictors of growth than resource ownership alone. Thus, while our finding confirms RBV's relevance in the Bali MSME context, it also implicitly supports the view that resources must be activated via organisational routines to translate into performance. In the context of Bali, where many MSMEs operate in tourism-related crafts and services with limited formal infrastructure, the RBV effect suggests that firms which recognise and invest in unique local resources (cultural heritage, artisanal skills, customer service orientation) have better performance. However, the moderate magnitude implies that resource advantages may be fragile unless supported by adaptability.

Influence of Resource-Based View on Sustainable Competitive Advantage

The effect of RBV on SCA (β = 0.264; t = 5.708; p < 0.001) is positive and significant, though somewhat smaller than the effect on performance. This suggests that while internal resources contribute to competitive advantage, their capacity to deliver a sustained or long-term advantage is somewhat less pronounced in the Bali MSME setting. This finding is consistent with prior scholarship which argues that resources alone may yield short-term benefits, but sustainable advantage often requires complementary dynamic capabilities (Teece, 2007; Fainshmidt et al., 2016). Comparatively, research in Papua on MSMEs found that dynamic capabilities (rather than mere resource competence) were the key driver of SCA in resource-limited contexts (Thamrin et al., 2024). That finding mirrors our insight: RBV provides a base, but by itself may not guarantee sustainability of advantage in volatile markets. For Bali MSMEs, this means that unique local assets (e.g.,

environment, cultural identity) help differentiate, yet maintaining that edge requires continuous development, protection against imitation, and responsiveness to market shifts. Thus, the result underscores the practical implication that resource investment should be complemented by strategic renewal and organisational mechanisms to translate into long-lasting competitive positioning.

Influence of Dynamic Capabilities on MSMEs Performance

Dynamic Capabilities had a strong influence on MSME performance ($\beta = 0.430$; $t = 6.090$; $p < 0.001$), the largest coefficient among the performance paths. This finding emphasises that in the Bali setting, the ability to sense opportunities and threats, seize them, and reconfigure resources stands out as a critical driver of firm performance. This is in line with the dynamic capabilities perspective, which builds upon RBV by emphasising adaptability in changing environments (Teece, 2007). Comparative studies reinforce this finding. For example, a Thai study on SMEs found that dynamic capabilities significantly improved performance (Mongkol, 2021). Also, Indonesian research on dynamic capabilities and financial performance recovery among MSMEs (Supramono et al., 2025) confirms that adaptability matters. The stronger coefficient here relative to RBV suggests that in Bali's tourism-intensive, externally vulnerable environment, adaptability may matter more than static resource holdings. For MSME practitioners and policy makers in Bali, this indicates that building routines and competencies to monitor market shifts (e.g., tourism trends, digital marketing changes), to quickly act on them, and to reconfigure resource allocations (e.g., shifting production, service offerings) can yield higher performance gains than focusing solely on acquiring resources.

Influence of Dynamic Capabilities on Sustainable Competitive Advantage

The strongest overall path in this study is Dynamic Capabilities on Sustainable Competitive Advantage ($\beta = 0.509$; $t = 9.786$; $p < 0.001$). This confirms that dynamic capabilities are not only crucial for immediate performance, but are most important for creating sustained competitive advantage in MSMEs. This aligns strongly with theoretical expectations: sustainable advantage is less about resource possession and more about renewal capabilities (Teece, 2007; Fainshmidt et al., 2016). Empirical support from Indonesia adds further strength. The Papua study found dynamic capability competence significantly increased SCA (Thamrin et al., 2024). Internationally, meta-analytic evidence shows DC to be a major predictor of long-term organisational advantage (Fainshmidt et al., 2016). That such a high coefficient appears in the Bali context demonstrates the robustness of DC's effect across regions, while also highlighting the contextual urgency of adaptability in tourism-driven, externally dependent MSMEs. Practically, it means that MSMEs which embed processes for continuous learning, market scanning, resource realignment and innovation can develop more durable competitive positions. Policy frameworks in Bali should thus emphasise training on sensing market shifts (digital trends, global travel patterns), encouraging experimental service/package design, and supporting reconfiguration of operations when needed.

Influence of Entrepreneurial Orientation on MSMEs Performance

The path for Influence of Entrepreneurial Orientation on MSMEs Performance ($\beta = 0.215$; $t = 2.944$; $p = 0.003$) is positive and statistically significant but the smallest among the performance-paths. This suggests that firms with higher entrepreneurial orientation (innovativeness, proactiveness, risk-taking) do perform better but the effect is more modest compared to DC and RBV. This matches patterns in the literature: EO matters, but its effectiveness often depends on resource systems and supporting capabilities (Soares & Perin, 2019). Recent Indonesian evidence (Balya & Yuldinawati, 2024) found EO significantly affected performance among Gen Z MSMEs, again underlining the generalizability of the effect. However, the modest size of the coefficient in this study implies that in Bali's MSMEs the entrepreneurial mindset alone may not be sufficient for strong performance unless supported by internal resources and dynamic capabilities. For practice, this suggests that entrepreneurship training and culture should be promoted but must be complemented by strengthening resource base and dynamic routines. MSME owners should not just engage in creative initiatives but ensure that those initiatives are actionable via resource provision and capability support.

Influence of Entrepreneurial Orientation on Sustainable Competitive Advantage

The result for Influence of Entrepreneurial Orientation on Sustainable Competitive Advantage ($\beta = 0.246$; $t = 4.793$; $p < 0.001$) is likewise positive and significant. Interestingly, the effect size is somewhat larger than EO's effect on performance, which suggests that entrepreneurial orientation may contribute more to creating distinctive value propositions and differentiation (key to SCA) than to immediate performance alone. This aligns with studies showing that EO fosters uniqueness and strategic renewal which underpin longer-term

competitive advantage (Soares & Perin, 2019). While fewer studies focus specifically EO and SCA in the MSME context, the finding here strengthens the case for entrepreneurial orientation as a driver of sustainable advantage when combined with other constructs (Clara et al., 2024). In the Bali context, entrepreneurial MSMEs that develop novel tourism experiences, niche craft products or digitally delivered services may build value that is harder for competitors to replicate thus contributing to SCA. From a practical vantage, this means that entrepreneurial orientation should be encouraged not only for short-term gains, but with a view toward building business models, brands, and service-offerings that deliver unique customer value and are defensible over time.

Overall, the pattern of findings shows clear support for all six hypotheses. Among them, dynamic capabilities emerge as the dominant generator of both performance and sustainable competitive advantage. RBV continues to play a significant role, but its effect is comparatively smaller for SCA than DC. Entrepreneurial orientation remains relevant but plays a smaller independent role, suggesting its impact is potentiated when resources and capabilities are present. Comparatively, these results echo international and Indonesian findings: Thai SMEs (Mongkol, 2021) and Indonesian MSMEs (Supramono et al., 2025; Thamrin et al., 2024) show strong DC-performance and DC-SCA links. They also echo findings that resource advantages must be activated by capabilities to yield long-term advantage (Fainshmidt et al., 2016). The specific magnitude differences between the Bali context and these other settings demonstrate both robustness (i.e., similar patterns) and contextual uniqueness (i.e., tourism- and place-based MSMEs in Bali may rely more heavily on adaptiveness due to external shocks, seasonality, digitalisation gaps). The uniqueness of the Bali context lies in how tourism exposure, cultural assets, and digital adoption gaps create a high-velocity environment for MSMEs. Thus, the elevated importance of DC ($\beta = 0.509$ for SCA) may reflect the necessity for rapid sensing and reconfiguring in this micro-environment. At the same time, the moderate RBV effect indicates resource advantages exist but may degrade quickly unless continually refreshed.

4. CONCLUSION

This study provides strong empirical evidence that the Resource-Based View (RBV), Dynamic Capabilities (DC), and Entrepreneurial Orientation (EO) significantly influence both the performance and sustainable competitive advantage (SCA) of MSMEs in Bali. Among these constructs, dynamic capabilities emerge as the most dominant determinant, highlighting that the ability to sense changes, seize opportunities, and reconfigure resources plays a critical role in enhancing both organizational performance and long-term competitiveness. These results reinforce the theoretical premise that success in a dynamic environment is not solely determined by the possession of valuable resources, but by how effectively those resources are mobilized and renewed. The positive and significant influence of RBV indicates that unique internal assets such as knowledge, skills, and relationships remain essential drivers of MSME performance and competitiveness. Meanwhile, the significant contribution of EO suggests that innovativeness, proactiveness, and risk-taking behavior are crucial for business growth, especially in the context of digital transformation and competitive market pressures. Together, the findings highlight the complementary relationship between internal resource management, adaptive capability, and entrepreneurial orientation as a foundation for achieving sustained performance. From a practical standpoint, MSME owners and policymakers should prioritize strategies that strengthen organizational learning, innovation, and digital adaptability. At the firm level, MSME owners are encouraged to systematically develop sensing capabilities by regularly monitoring market trends, customer preferences, and technological developments; enhance seizing capabilities through rapid decision-making and pilot-based innovation; and reinforce reconfiguring capabilities by reallocating resources, upskilling employees, and redesigning business processes when environmental conditions change. Practical actions may include adopting basic digital analytics tools, engaging in continuous entrepreneurial training, and forming strategic partnerships with suppliers, digital platforms, or local business networks to accelerate capability development.

For policymakers, the findings imply the need for more targeted and integrated support programs rather than generic assistance schemes. Government initiatives should combine entrepreneurship mentoring, hands-on digital transformation support, and capability-based training that focuses on strategic adaptation and innovation management. Sector-specific programs tailored to tourism-related MSMEs may be particularly effective in enhancing resilience against external shocks. Although this study contributes valuable insights, it has certain limitations. The cross-sectional design limits causal inference, and the focus on MSMEs in Bali may reduce generalizability. Specifically, the findings are most applicable to relatively established MSMEs operating in tourism-dependent and culturally embedded regions and may not fully represent newly established enterprises or MSMEs in regions with different economic structures. Additionally, the reliance on self-reported data may

introduce perceptual bias, which should be considered when interpreting the results. Future research could employ longitudinal designs to observe how dynamic capabilities and entrepreneurial orientation evolve over time. Additionally, extending the study to other provinces or industrial sectors would allow for broader comparative insights and deepen understanding of how RBV, DC, and EO collectively shape sustainable advantage. In conclusion, this study underscores that MSMEs' sustainable competitiveness depends not merely on the possession of resources but on their ability to continuously adapt, innovate, and align strategic actions with environmental changes.By translating resources into dynamic capabilities and entrepreneurial actions, MSMEs can mitigate environmental uncertainty and convert structural limitations into enduring sources of competitive strength. Strengthening these capacities will enable MSMEs in Bali and similar regions to transform resource limitations into enduring sources of competitive strength.

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