

Entrepreneurial orientation strategy for sustainable SME development in developing countries: A SWOT analysis approach

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Abstract: This study aims to examine how Small and Medium Enterprises (SMEs) utilize an entrepreneurial orientation (EO) to achieve sustainable development amid the complexities of the institutional environment in developing countries, with a focus on the Special Region of Yogyakarta. Using a descriptive qualitative approach supplemented by quantitative evaluation, data were collected through semi-structured, in-depth interviews with 8 key informants (SME owners, managers, and association representatives), as well as a literature review. Data were analyzed using the Internal Factor Analysis Summary (IFAS) and External Factor Analysis Summary (EFAS) matrices. The results indicate that SMEs in Yogyakarta exhibit strong internal entrepreneurial capabilities—driven by proactivity, innovation, and cultural intelligence—which are currently counterbalanced by structural resource constraints, yielding a neutral net internal score (IFAS score of 0.00). Meanwhile, significant external opportunities arising from digital adoption and sustainability integration outweigh macro-environmental threats (EFAS score of +0.30). This synthesis positions SMEs in Quadrant I (Aggressive/Growth Strategy), directly on the vertical threshold with coordinates (0.00; +0.30). Amid institutional voids and macroeconomic instability, a purely defensive stance is insufficient; a conditional growth strategy—leveraging external sustainability opportunities while systematically addressing internal management and capital bottlenecks—is essential for converting systemic barriers into long-term economic, social, and environmental growth.

Keywords: *Developing countries, SWOT, Entrepreneurial orientation, SMEs, Sustainable development.*

1. Introduction

Entrepreneurship plays a crucial role in strengthening socioeconomic resilience while addressing environmental and structural challenges, particularly within the broader context of sustainability in developing countries [1]. In developing countries, small and medium-sized enterprises (SMEs) are widely recognized as the driving force behind job creation, innovation, and inclusive growth. However, these enterprises operate in a highly dynamic environment characterized by institutional weaknesses, regulatory uncertainty, technological limitations, and a limited financial ecosystem [2, 3]. Mounting environmental pressures, the demands of digital transformation, and sustainability expectations from global markets further exacerbate the complexity of their operational landscape. Under such conditions, growth-oriented strategies alone are insufficient; SMEs must develop adaptive strategic capabilities that enable them to navigate uncertainty while aligning with sustainability demands [4, 5]. Entrepreneurs inherently pursue innovative opportunities while bearing the risks that may arise from market volatility, disruptive technologies, environmental instability, and structural weaknesses [6].

The ability to identify opportunities and act proactively despite resource constraints is critical to long-term survival and competitiveness. As conceptualized by Lumpkin and Dess [7], companies that exhibit entrepreneurial behavior reflect a strategic mindset characterized by innovation, proactivity, a

willingness to take risks, autonomy, and competitive aggressiveness. Organizations led with an entrepreneurial management style tend to exhibit distinctive strategic choices and operational philosophies [8]. Empirical evidence consistently shows that the effective utilization of internal resources, particularly human resources, significantly influences the success of SMEs [9], while resilient owner-managers play a crucial role in overcoming uncertainty and challenges [10]. Consequently, entrepreneurial orientation (EO) has become a central construct in entrepreneurship research, receiving substantial theoretical and empirical attention [11]. Several studies have documented a positive relationship between EO and business performance across various industries [9, 12]. Furthermore, research indicates that the impact of EO on performance is often mediated by knowledge competence and innovation capability, highlighting the importance of contextual and organizational conditions [13]. Although such research is abundant, several significant gaps remain.

First, most research on EO conceptualizes it primarily as a strategic posture that enhances performance, with limited attention paid to its role as an adaptive mechanism that supports sustainable transitions, particularly in developing countries where environmental and institutional pressures are more acute [14, 15]. Second, empirical findings regarding the outcomes of EO are often fragmented and context-dependent, with factors of strength and weakness studied separately rather than systematically integrated [16, 17]. Third, existing reviews rarely synthesize how strengths, weaknesses, opportunities, and threats collectively shape the adoption of EO in structurally constrained environments.

Addressing this gap is a matter of urgency. From a practical perspective, SMEs in developing countries are increasingly expected to innovate sustainably, comply with environmental standards, and participate in global value chains; however, they often lack the internal capabilities and external support structures necessary to effectively implement entrepreneurial strategies [18]. Policy interventions often focus narrowly on financial assistance or isolated training initiatives, neglecting the systemic interactions between internal capabilities and external enabling conditions [19]. Therefore, a comprehensive synthesis of these determining factors is essential to support the development of more coherent and impactful development strategies.

In response to these practical challenges, this study seeks to reposition EO as a strategic factor focused on sustainability, rather than merely a driver of financial performance. Specifically, this study addresses the following research question: “What internal and external strategic factors facilitate the adoption of sustainability-oriented EO among SMEs in developing countries?” To answer this question, this study conducted a literature review and interviews with expert respondents to synthesize empirical evidence regarding the adoption of EO among SMEs in developing countries, categorizing strengths, weaknesses, opportunities, and threats into internal and external dimensions.

This study contributes to the body of knowledge in two main aspects. First, it expands entrepreneurship theory by reexamining EO as a strategic mechanism for sustainable adaptation, rather than merely a strategy to drive growth. Second, it presents a structured synthesis of the drivers and barriers affecting the implementation of EO in developing countries, thereby addressing the fragmentation found in previous research. In practical terms, these findings offer actionable insights for policymakers, SME development agencies, and the entrepreneurial ecosystem by highlighting the need to simultaneously strengthen internal capabilities, such as knowledge development, human resources, and organizational culture, and improve external enabling conditions, including access to technology, networks, and financial resources.

2. Literature Review

2.1. Theoretical Framework: RBV and Institutional Theory

To better understand how EO drives the sustainable growth of SME in developing countries, this study combines two complementary theoretical approaches, namely the Resource-Based View (RBV) and Institutional Theory.

The RBV states that competitive advantage and long-term survival of a company depend on the possession of internal resources that are valuable, rare, difficult to imitate, and non-substitutable [20].

In the context of SMEs, which often face limited physical assets, intangible strategic capabilities such as EO, which encompasses innovation, proactivity, and risk-taking, are key factors driving survival. Through the RBV approach, recent studies have shown that EO is an ever-changing capability, positively promoting SME participation in sustainable development [21, 22]. Furthermore, Ooi et al. [23] emphasize the importance of aligning entrepreneurial characteristics with sustainability-based strategies, where green practices act as a mediator that transforms EO into tangible business performance improvements. Even in highly unstable and limited conditions, this strategic orientation proves crucial for building economic resilience by mediating environmental practices [24]. Together, this RBV approach explains how internal mechanisms and knowledge management starting from EO can guide SMEs to achieve sustainability in the economic, environmental, and social fields [22, 24].

However, relying solely on internal capabilities based on the RBV is insufficient to ensure the survival of SMEs in developing countries. Institutional Theory helps address this limitation by emphasizing that an organization's survival also depends heavily on its ability to adapt to the external environment to gain legitimacy [25]. In developing countries, which often lack institutional systems, SMEs face unique coercive, mimetic, and normative pressures [26]. While formal institutional mechanisms are still underdeveloped, pressure from foreign customers and environmental regulations act as significant impetus for continued entrepreneurial activity. Furthermore, Wales et al. [27] point out that a country's institutional environment, such as the legal system, financial system, and cultural support, plays a crucial role as a contextual boundary that influences the effectiveness of EO in improving firm performance. The impact of these institutions is even more pronounced in economically developing (efficiency-focused) countries compared to developed ones.

2.2. Entrepreneurial Orientation in SMEs

EO, reflected in innovativeness, proactiveness, and risk-taking, is a crucial strategic capability that provides a competitive advantage for SMEs compared to conventional management approaches [28, 29]. Implementing EO has been shown to help improve SMEs' ability to survive, become more resilient, and be sustainable, especially in the face of increasing market uncertainty [30]. However, concrete evidence suggests that each aspect of EO has a distinct and changing impact on business sustainability outcomes.

Consistent innovation and proactiveness have a significant positive impact on the performance and sustainability of SMEs, as they enable companies to respond quickly to market opportunities and threats [30, 31]. In fact, these two dimensions often interact to form a function called proactive innovation, which drives sales growth and improves long-term sustainability performance [29]. Conversely, the risk-taking dimension exhibits complex impacts; while it can drive asset and workforce growth in the short term [29, 30], uncontrolled or overly aggressive risk-taking behavior can have negative impacts and disrupt SME sustainability performance. Therefore, recent literature shows that to maintain the business continuity of SMEs in developing countries, a balanced EO approach is needed, namely, prioritizing proactive innovation but still balancing it with careful risk management so that the business can remain sustainable in the long term [31].

2.3. Sustainable SME Development in Developing Countries

A country's economic development and growth, particularly in developing countries, are highly dependent on the performance and sustainability of its SME sector [32]. SME sustainability is now assessed not only by traditional financial metrics but also through the use of broader indicators, encompassing various aspects such as economic (e.g., productivity, profitability, resilience, and added value), environmental (e.g., energy efficiency and eco-friendly product design), and social (e.g., employee health and legal compliance) [32]. While integrating these three dimensions is crucial for long-term sustainability, implementing environmentally friendly practices in SMEs in developing countries faces numerous barriers, such as limited access to raw materials, economic constraints, and specific challenges in industrial operations [33]. Despite these limitations from relevant agencies, investment in circular

technologies such as recycling and collaboration between stakeholders are key factors in creating environmentally friendly production while generating jobs [33].

On the other hand, debate regarding the factors influencing the sustainable performance of SMEs in developing countries continues due to the influence of both external and internal contextual variables [34]. In a highly constrained environment, business growth and the ability of SMEs to maintain stability are highly dependent on market dynamics and ease of access to capital [32, 34]. Interestingly, concrete evidence suggests that exceptional performance does not necessarily require highly dynamic market conditions or access to significant funding; SMEs can still achieve superior and sustainable results with stable markets, balanced access to finance, and internal strategic capabilities [34]. Therefore, achieving sustainable development of small and medium enterprises (SMEs) in developing countries requires balanced strategic interventions, both through internal training based on innovation and networking and external policies that ensure economic stability, to transform environmental challenges into opportunities to increase competitiveness [32, 34].

3. Methodology

3.1. Location and Object of Study

This research was conducted in the SME sector in the Special Region of Yogyakarta, Indonesia, which is one of the provinces with the largest SME and creative economy centers among developing countries. This study was conducted in three main SME industrial centers in Yogyakarta, each of which represents a different type of operation: SMEs engaged in handicrafts and furniture, SMEs in the culinary and processed food sector, and SMEs in the fashion and textile sector. This study highlights the creation of EO strategies to increase entrepreneurial spirit so that businesses can grow sustainably by combining the company's own capabilities with obstacles from external institutions.

3.2. Data Collection

Respondents were selected using purposive sampling to obtain informants with real-world experience, authority, and sufficient knowledge in making strategic decisions and managing businesses. Eight key informants were selected, consisting of business owners, operational managers of SMEs in the Special Region of Yogyakarta, and representatives from local SME associations. Data collection used qualitative methods, with in-depth interviews as the primary data source, and was also supplemented by an extensive literature review as a secondary data source. Semi-structured interviews were conducted in person, recorded with the permission of the interviewee, and then transcribed in full for further analysis. The literature review was conducted to collect secondary data regarding regulatory policies, SME progress reports, and previous empirical research related to EO and sustainability.

3.3. Research Procedures

This research was conducted in two main phases. The first phase involved gathering information through in-depth interviews with SMEs and reviewing various relevant regulations and documents. The data obtained was then analyzed descriptively and qualitatively to understand the actual conditions and key issues related to entrepreneurial attitudes and the ability to maintain business continuity. The identified results were then placed within a SWOT (Strengths, Weaknesses, Opportunities, and Threats) framework to examine internal factors, such as SME strategic capabilities, and external factors, such as the state of developing-country institutions within a context relevant to the current business system.

Further analysis was conducted using the Internal Factor Analysis Summary (IFAS) and External Factor Analysis Summary (EFAS) matrices. The identified internal and external factors were then weighted and scored based on their importance and urgency through a consensus-based scientific analysis. The results of these SWOT quadrants were used to determine the current competitive position of SMEs and to develop various strategic options for developing entrepreneurship.

The second phase focused on developing strategic recommendations for sustainable SME

development. This phase was carried out by combining the positions of the four SWOT aspects and considering economic, social, and environmental sustainability factors to provide practical management and policy recommendations and be able to adapt to the institutional limitations of SMEs in developing countries.

3.4. Data Analysis

Data analysis was conducted by extracting descriptive-qualitative information from in-depth interviews and compiling a literature review to identify key factors related to the research questions. These findings were then structured within a SWOT framework to distinguish internal influencing factors, namely, the strengths and weaknesses of SME strategies, from external influencing factors, namely, opportunities and threats in the developing-country environment. The IFAS and EFAS matrices were used to evaluate the level of importance, weight, and impact of each factor based on expert confirmation. This analysis provides a clear understanding of the importance of SME development in the Special Region of Yogyakarta and helps in developing an entrepreneurial strategy that is appropriate to the conditions and limitations of existing institutions.

4. Results

In line with the previously determined research procedures, the results of the data analysis are presented in two main stages: the assessment of internal and external conditions using the IFAS-EFAS matrix, and the preparation of alternative strategies based on the SWOT quadrant position.

4.1. Descriptive Evaluation and SWOT-IFAS-EFAS Matrix Analysis

The primary data in this study were obtained through in-depth interviews with eight key informants selected using a purposive sampling method. All informants consisted of business owners, senior managers, and representatives of local SME associations who had full authority and a deep understanding of business management and the direction of entrepreneurship in the SME sector in the Special Region of Yogyakarta. The biographical and demographic information of the eight respondents is presented in Table 1.

Table 1.
Demographic profile and biodata of respondents.

Name	Gender	Age	Position	Length of working period
J	Male	30	Owner	4
DE	Female	27	Manager	3
A	Male	35	SME Associations	7
YDS	Female	28	Owner	3
K	Male	30	Owner	10
BA	Male	27	Manager	3
H	Male	34	Manager	6
IF	Male	40	Manager	15

4.1.1. IFAS Evaluation

Before conducting quantitative calculations, all qualitative data obtained from in-depth interviews and the literature review were transformed into a strategy statement. This statement describes the actual state of internal capabilities, including those that can be improved and weaknesses that need to be addressed, within the SME sector in the Special Region of Yogyakarta. The initial mapping of these internal strategic factors is shown in Table 2.

Table 2.
Internal strategic factor matrix of SMEs.

Strengths		
Code	Internal factors	Statement
S1	Innovativeness	SMEs actively develop new products, services, or production methods that differ from those of their competitors [35, 36].
S2	Risk-taking	Management is willing to allocate resources to new projects with high profit potential, even if the risks are significant [37, 38].
S3	Proactiveness	SMEs consistently anticipate future market needs and act more quickly than their competitors [39].
S4	Market orientation	SMEs have robust systems for collecting, analyzing, and responding to information regarding customer needs and competitor movements [36].
S5	Resilience	SMEs have the ability to recover quickly and adapt operationally when facing economic crises or market disruptions [37].
S6	Learning orientation	SMEs routinely encourage employees to improve their skills and integrate new knowledge into daily operations [40].
S7	Cultural intelligence	SMEs are able to adapt their business strategies and communication to the cultural diversity of the local communities where they operate [3].
Weaknesses		
Code	Internal factors	Statement
W1	Limited financial resources	SMEs face difficulties in accessing working capital and external financing for long-term expansion [2].
W2	Technological constraints	SMEs still rely on conventional infrastructure or equipment due to cost constraints and a lack of expertise to adopt modern technology [2].
W3	Networking capability	SMEs face limitations in building and leveraging relationship strategies with business partners, universities, and industry associations [3].
W4	Lack of formal strategic planning	SME owners/managers rarely formalize their business strategies, leading to highly centralized and ad-hoc decision-making [41].
W5	Low compliance with sustainability	SMEs struggle to implement formal eco-friendly operations due to high operational costs and short-term profit focus [41].
W6	Low talent retention	SMEs face high employee turnover due to limited capacity to offer competitive salaries, structured careers, or formal benefits [42].
W7	Weak marketing capability	SMEs heavily rely on word-of-mouth or basic marketing channels, lacking structured branding for high-value customer acquisition [43].

After the internal strategic factors are known qualitatively in Table 2, the next step is to evaluate them quantitatively using the IFAS matrix. Strengths and Weaknesses aspects are given priority weights separately, where each indicator is given a weight based on its level of importance (total weight = 1.00) and an assessment value (scale 1–4) based on agreement on its importance in the field. The final calculation results of the IFAS matrix to assess the internal capabilities of SMEs in the Special Region of Yogyakarta are shown in Table 3.

Table 3.
IFAS matrix.

Strengths				
Code	Internal strategic factors	Weight	Rating	Score
S1	Innovativeness	0.14	3.13	0.44
S2	Risk-taking	0.14	3.13	0.44
S3	Proactiveness	0.15	3.38	0.51
S4	Market orientation	0.14	3.13	0.44
S5	Resilience	0.14	3.13	0.44
S6	Learning orientation	0.14	3.25	0.46
S7	Cultural intelligence	0.15	3.50	0.53
Total strength score		1.00		3.26
Weaknesses				
Code	Internal strategic factors	Weight	Rating	Score
W1	Limited financial resources	0.16	3.50	0.56
W2	Technological constraints	0.14	3.13	0.44
W3	Networking capability	0.11	2.50	0.28
W4	Lack of formal strategic planning	0.16	3.50	0.56
W5	Low compliance with sustainability	0.14	3.38	0.47
W6	Low talent retention	0.14	3.13	0.44
W7	Weak marketing capability	0.15	3.38	0.51
Total weaknesses score		1.00		3.26
Total IFAS matrix score (average)		1.00		3.26

Note: Individual weighted scores were calculated as weight x rating. total weights for strengths and weaknesses are each normalized to 1.00.

4.1.2. EFAS Evaluation

Before conducting quantitative analyses of the external environment, all qualitative data obtained from in-depth interviews and a literature review were transformed into an external strategy statement. This statement describes the actual macro-environmental situation, including market opportunities that can be exploited and threats from the lack of supporting institutions in developing countries, which impact the sustainability of the micro, small, and medium enterprise sector in the Special Region of Yogyakarta. The initial mapping of these external strategic factors is shown in Table 4.

Table 4.
External strategic factor matrix of SMEs.

Opportunities		
Code	External strategic factors	Statement
O1	Sustainability practices	Growing consumer awareness of eco-friendly products is opening up new, high-value market niches [15, 21].
O2	Technological innovation	The availability of affordable digital platforms and automation tools provides opportunities for SMEs to improve operational efficiency [36].
O3	International orientation	Free trade policies and global e-commerce platforms make it easier for SMEs to penetrate foreign markets [3, 21].
O4	Institutional support	The availability of training programs, incubation initiatives, and technical assistance from the government or NGOs specifically dedicated to SME development [44].
O5	Economic and social sustainability	Current investment trends and partnership programs tend to prioritize businesses that have a positive social impact on local communities [15].
O6	Green supply chain integration	Large corporations and local governments increasingly prioritize or require green-certified SME partners for supply chain integration [45].
O7	Growth of local financial inclusion	The expansion of local microfinance institutions, peer-to-peer lending, and customized SME credit schemes reduces dependency on traditional collateral [46].
Threats		
Code	External strategic factors	Statement
T1	Dynamic market conditions	Rapidly changing consumer preferences and fluctuations in raw material prices threaten the stability of SME revenue [39].
T2	Regulatory environment	Tighter legal standards (such as environmental certification or labor regulations), which are capital-intensive, place a compliance burden on SMEs [35, 47].

T3	Intense market competition	The influx of cheap foreign products and aggressive expansions by large-scale retail companies saturate local markets [48].
T4	Institutional voids	Weak protection of contract enforcement, unstable regional policies, and corrupt bureaucracy increase the transaction costs of doing business [49].
T5	Climate change and environmental degradation	Physical environmental impacts (such as unpredictable weather patterns or local resource depletion) directly disrupt supply chains and production [50].
T6	Digital security risks	Increasing cyber threats and digital fraud are targeting small businesses that are currently migrating to e-commerce without proper cybersecurity [51].
T7	Volatile macroeconomic environment	High inflation rates, shifting energy/fuel prices, and regional currency fluctuations reduce the purchasing power of the target market [52].

After the external strategic factors were qualitatively identified in Table 4, the next step was to conduct a quantitative assessment using the EFAS matrix. Similar to the previous internal evaluation, the opportunities and threats were weighted separately according to their relative importance, with each group having a total weight of 1.00. The rating value was the average of the urgency scores given by the eight key informants. The final results of the EFAS matrix calculation are presented in Table 5.

Table 5.
EFAS matrix.

Opportunities				
Code	External strategic factors	Weight	Rating	Score
O1	Sustainability practices	0.12	2.50	0.30
O2	Technological innovation	0.17	3.88	0.66
O3	International orientation	0.14	3.13	0.44
O4	Institutional support	0.16	3.63	0.58
O5	Economic and social sustainability	0.15	3.50	0.53
O6	Green supply chain integration	0.11	2.50	0.28
O7	Growth of local financial inclusion	0.15	3.50	0.53
Total opportunities score		1.00		3.32
Threats				
Code	External strategic factors	Weight	Rating	Score
T1	Dynamic market conditions	0.13	2.75	0.36
T2	Regulatory environment	0.10	2.00	0.20
T3	Intense market competition	0.18	3.75	0.68
T4	Institutional voids	0.14	2.88	0.40
T5	Climate change and environmental degradation	0.13	2.63	0.34
T6	Digital security risks	0.14	2.88	0.40
T7	Volatile macroeconomic environment	0.18	3.63	0.65
Total threats score		1.00		3.02
Total EFAS matrix score (average)		1.00		3.17

Note: Individual weighted scores were calculated as weight x rating. total weights for strengths and weaknesses are each normalized to 1.00.

4.1.3. Determining coordinates and SWOT quadrant diagrams

To determine the strategic position of the SME sector in the Special Region of Yogyakarta, the final scores from the internal factor evaluation (IFAS matrix) and external factor evaluation (EFAS matrix) were combined. Position coordinates were determined by calculating the difference between the total scores of each matrix, as follows:

$$\text{X-axis (Internal factors)} = \text{Total Strengths Score} - \text{Total Weaknesses Score} = 3.26 - 3.26 = 0.00$$

$$\text{Y-Axis (External factors)} = \text{Total Opportunities Score} - \text{Total Threats Score} = 3.32 - 3.02 = +0.30$$

Based on the calculation results, a specific coordinate point was found, namely (0.00; 0.30). The geometric position of this coordinate point is visually depicted in the SWOT quadrant diagram shown in Figure 1 below.

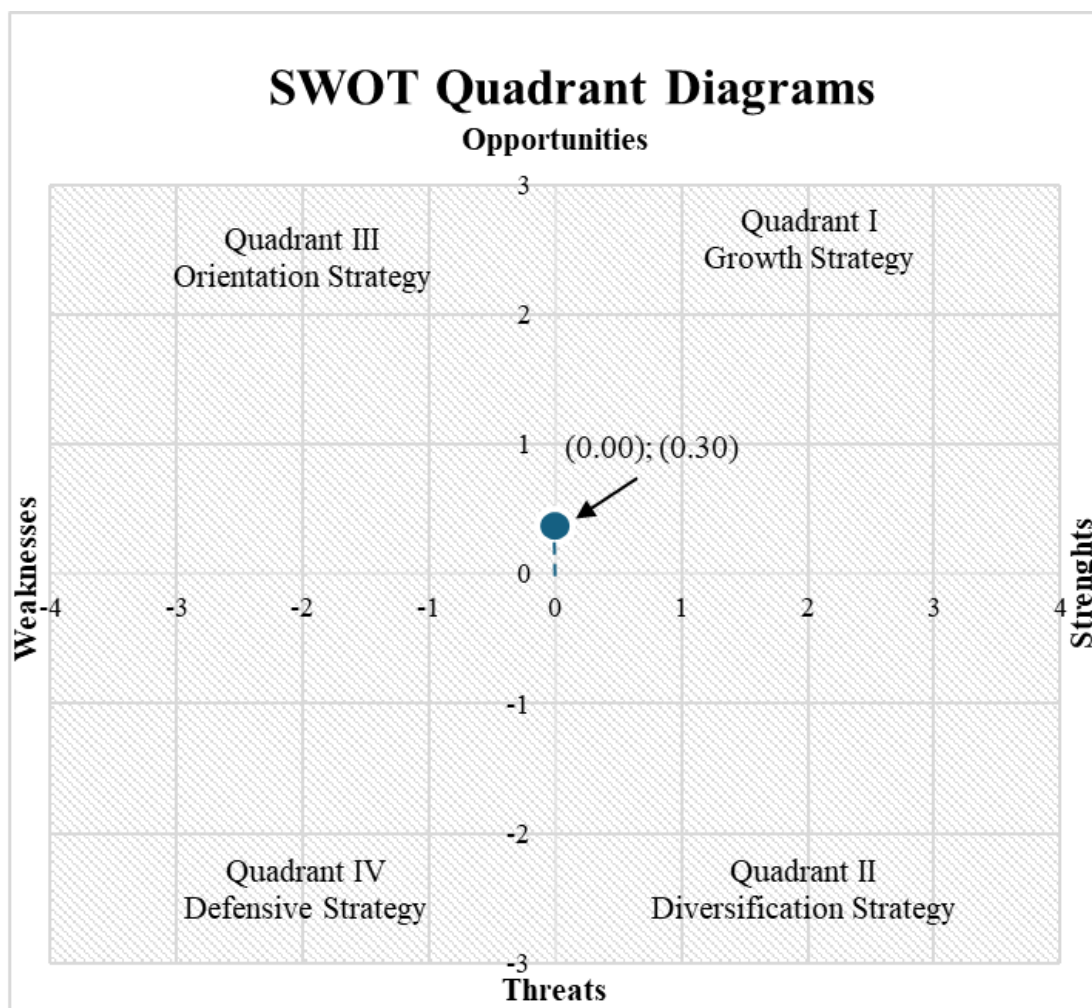


Figure 1.
SWOT quadrant diagram of SME strategic position.

As seen in Figure 1, the coordinate points (0.00; 0.30) indicate a strategic position that ensures strong SME growth in Quadrant I (Aggressive/Growth Strategy). This position indicates a highly favorable situation, where the SME sector has a very strong internal competitive advantage, while being supported by very positive macro-environmental opportunities in developing countries. Therefore, the organization is in an optimal condition to implement an offensive strategy. The main focus of the business EO should be aggressive expansion, utilizing all internal capabilities and capacities to maximize market opportunities, maintain good sustainability, and simultaneously mitigate the impact of existing institutional barriers.

4.2. Strategic Formulation of Sustainable SME Development

The analysis of internal and external factors established the central focus of this research, titled "EO Strategy for Sustainable SME Development in Developing Countries," by harmonizing theoretical concepts with empirical field findings. First, EO acts as a foundational internal strength, where primary variables such as Innovativeness, Risk-Taking, and Proactiveness—complemented by Market Orientation, Learning Orientation, and Cultural Intelligence—provide vital strategic capital for SMEs in the Special Region of Yogyakarta.

However, when evaluated alongside severe internal constraints like limited financial resources and a lack of formal strategic planning, the cumulative internal net score yields an X-axis value of 0.00, reflecting a balanced state where strong entrepreneurial capabilities are directly counterbalanced by structural resource bottlenecks. Second, sustainable SME growth serves as a primary direction for expansion, driven by pressing environmental and social demands within the modern business environment. Indicators including sustainability practices, social-economic sustainability, and green supply chain integration confirm that markets and policymakers increasingly require economically viable and eco-friendly business models, resulting in a net-positive external score on the Y-axis of +0.30.

Finally, the broader context of developing countries presents persistent institutional challenges, as internal weaknesses like capital limits and technological constraints interact with external threats such as macroeconomic volatility, intense market competition, and institutional voids to shape a complex operating environment for small enterprises.

5. Discussion

This section discusses the research findings in relation to previous literature and proposed hypotheses, examining their managerial and policy implications within a developing country context. The SME sector in the Special Region of Yogyakarta is positioned in Quadrant I (Aggressive/Growth Strategy) with coordinate values of (0.00; +0.30). Located directly on the vertical boundary between Quadrant I and Quadrant III, this position indicates that while external opportunities outweigh macro-environmental threats, internal strengths are currently matched by persistent internal weaknesses.

5.1. EO as an Internal Driver Based on RBV

The findings indicate that key dimensions of EO—Innovativeness (S1), Risk-Taking (S2), and Proactiveness (S3)—demonstrate strong internal strategic capabilities. Within the RBV framework, this internal capital serves as a source of competitive advantage. These results align with Keen et al. [37] and Hoffmann and Marticke [36], who argue that SMEs' ability to adopt market orientation and dynamically learn enhances operational resilience during disruptions.

A unique finding in Yogyakarta is the high score on Cultural Intelligence (S7), reflecting the integration of local cultural values with modern business practices (e.g., Amanah or local Javanese business ethics). This enhances community trust, supporting Ahmad-Fauzi and Saad [3], who emphasize cultural intelligence as a crucial component of EO in culturally rich regions. However, unlike traditional RBV assumptions of overwhelming internal superiority, the net internal score of $X = 0.00$ shows that these internal strengths are currently absorbed by equal internal vulnerabilities, particularly financial limitations (W1) and lack of formal planning (W4).

5.2. Navigating Institutional Barriers and Sustainability Opportunities

Despite external pressures, SMEs face persistent institutional challenges. Limited financial capital (W1) and technological infrastructure constraints (W2) reflect institutional voids (T4), as described by Boehm and Oberfield [49].

Nevertheless, with a net external score of $Y = +0.30$, external opportunities outweigh external threats (T1–T7). SMEs actively address macroeconomic volatility (T7) and market competition (T3) by leveraging opportunities in digital technology innovation (O2) and institutional support (O4). This supports Audretsch et al. [44], showing that institutional initiatives such as incubation and microfinance can compensate for formal financial system failures in developing countries. Furthermore, growing sustainability awareness (O1, O5) drives SMEs toward environmentally friendly operations and green supply chain integration, serving as a strategic imperative for market retention, as explained by Do et al. [15] and Faheem et al. [45].

5.3. Strategic Implications in a Broader Context

Positioned at coordinate (0.00; +0.30), SMEs reside in Quadrant I, but on the threshold of Quadrant III. This indicates a Prerequisite Growth (Conditional Expansion) trajectory: SMEs possess favorable external conditions to pursue growth, but must address internal structural bottlenecks to sustain long-term expansion.

5.3.1. Managerial Implications

SME managers and owners should adopt a dual-track strategy. Externally, they must capitalize on favorable opportunities by utilizing affordable digital platforms (O2) to expand market reach and adopt green supply chain practices (O6). Internally, they must immediately address key weaknesses by formalizing strategic planning (W4), strengthening marketing capabilities (W7), and improving talent retention (W6). Addressing these internal gaps is necessary to prevent operational failure during market expansion.

5.3.2. Policy Implications

Policymakers should move beyond short-term relief toward structural support systems. Governments should streamline regulations and lower green certification costs for small industries to reduce compliance burdens (T2), as suggested by Taha et al. [47]. Additionally, expanding tech-based financial inclusion and alternative credit schemes (O7) can mitigate capital access difficulties (W1) without requiring traditional collateral.

6. Conclusions

This study evaluated the strategic positioning of the SME sector in the Special Region of Yogyakarta within the Entrepreneurial Orientation (EO) framework for sustainable development. Quantitative evaluations using the IFAS and EFAS matrices positioned the SME sector in Quadrant I (Aggressive/Growth Strategy) at the coordinate intersection of (0.00, +0.30). This coordinate reveals a nuanced strategic reality: while macro-environmental opportunities outweigh external threats ($Y = +0.30$), internal entrepreneurial strengths are currently balanced by severe resource constraints ($X = 0.00$). From the Resource-Based View and Institutional Theory perspectives, strong EO dimensions—such as proactiveness, innovativeness, and cultural intelligence—provide the necessary strategic orientation to capture emerging digital and sustainability opportunities. However, persistent structural barriers, including limited capital, conventional technology, and informal strategic planning, prevent immediate, unconstrained expansion. Ultimately, the theoretical contribution of this study underscores that an offensive EO strategy remains viable in developing countries, provided it is executed alongside targeted internal capacity building. Practically, SMEs can effectively navigate institutional voids by aligning internal cultural strengths with external sustainability trends once internal management systems are formalized.

Despite its valuable insights, this study has several limitations that suggest directions for future research. First, its geographic scope is restricted to the Special Region of Yogyakarta, where unique local cultural intelligence plays a prominent role, meaning the results may differ in regions with alternative social and policy environments. Second, the qualitative-descriptive input derived from eight key informants limits broader statistical generalization across the wider industry. To address these boundaries, future research should employ large-sample quantitative or mixed-method designs across multiple provinces or developing nations to validate the statistical generalizability of the model. Additionally, longitudinal studies are recommended to observe whether addressing internal weaknesses enables SMEs to move deeper into Quadrant I over time.

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Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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