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Beyond Survival: How Adaptive Leadership and Knowledge Drive Entrepreneurial Breakthroughs in SMEs

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Abstract

National competitiveness is strongly impacted by economic development, which also heavily relies on the performance of entrepreneurs. The aim of this study is to investigate the relationship between entrepreneurial performance and knowledge competency and adaptive leadership. In this study, stakeholder pressure serves as a moderating variable. The sampling method used was purposive sampling. PLS-SEM was used to analyze the data from 203 SMEs' owners, managers, shop heads, and decision-makers. The results showed that intellectual capacity and adaptable leadership significantly impacted entrepreneurial success. Furthermore, just as stakeholder pressure improves the relationship between knowledge competency and entrepreneurial performance, it also strengthens the relationship between adaptive leadership and entrepreneurial performance. However, it has no discernible effect. To achieve corporate sustainability, this study gives SMEs valuable insights on how to increase their knowledge capacity, adaptive leadership, and ability to respond to stakeholder demands.

Keywords: adaptive leadership, knowledge capability, stakeholder pressure, entrepreneurial performance, SMEs

INTRODUCTION

National competitiveness is impacted by entrepreneurial performance, which is essential to economic development (Dima, 2021; Rusu et al., 2022). Since entrepreneurial performance affects small and medium-sized firms' success, it is crucial to monitor it (Nasution et al., 2020; Henelya & Wijaya, 2020). Understanding how firms help manage stakeholder pressure and take advantage of future opportunities depends on entrepreneurial performance. Entrepreneurial performance in South Korea is influenced by adaptive leadership and the capacity to handle pressure from business stakeholders (Jones, Hutcheson, & Camba, 2021; Reynal et al., 2023). According to research conducted in Asia, knowledge competency is essential for enhancing entrepreneurial performance and accounts for 65% of the sustainability of businesses (Danibrahim, Kohar, & Indiran, 2022).

The connection between entrepreneurial performance and other factors has been the subject of numerous research. According to Aboramadan (2020), a number of elements that impact business success have an impact on entrepreneurial performance. The significance of entrepreneurial performance and knowledge competency in generating business stakeholder pressure, on the other hand, is explained by

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Bouguerra et al. (2023). Similarly, Malaysian SMEs that successfully use technology or other knowledge capabilities enhance their business performance by controlling stakeholder pressure (Ha et al., 2021). In Indonesia, however, Seraj, Fazal, and Alshebami (2022) clarify that both entrepreneurial performance and knowledge competence improve business sustainability, whereas Hamel and Wijaya (2020) demonstrate that entrepreneurial performance positively impacts knowledge capability. However, the impact of entrepreneurial performance can differ based on the economic growth stage of a nation. Since knowledge competency has a direct impact on company success, it requires more research. Future business prospects could be lost if these factors are ignored (Rusu et al., 2022; Rajabbeigi, Moshiri, & Safarzadeh, 2022).

Prior research has not thoroughly examined the interplay of variables in the setting of dynamic and quickly changing entrepreneurial performance. Barney (2000) proposed the Resource-Based View (RBV) theory, which is used in this study. He clarifies that distinctive resources that are priceless, uncommon, hard to replicate, and irreplaceable have an impact on entrepreneurial success and help businesses establish a long-term competitive edge. RBV helps businesses enhance strategic innovation and performance through optimal resource management by emphasizing internal capabilities. Entrepreneurial performance satisfies the requirements of adaptive leadership and stakeholder pressure and entails the management of resources, which may be strengths or weaknesses. Stakeholder pressure and adaptive leadership must change to keep up with the corporate world's growing level of competition (Dionysus and Arifin, 2020; Pujianto et al., 2023). Leaders of businesses need to be able to modify and adapt to the ever-changing external environment. Performance development in identifying competitive resources, identifying new opportunities, and applying adaptive leadership to entrepreneurial performance are examples of this skill (Karneli, 2023). Thus, stakeholder pressure and entrepreneurial performance are moderating factors that will affect the sustainability of a corporation.

To address the research issue, this study examines entrepreneurial performance in SMEs and stakeholder pressure. First, the study began by formulating hypotheses based on appropriate concepts from earlier studies and applying them to SMEs. Second, to guarantee that the research objectives were completed legitimately and reliably, the researcher also developed a questionnaire to gather relevant data. Third, the middle level, which included managers, department heads, decision-makers, and SPVs, served as the unit of analysis for this study. Fourth, the middle-level data was analyzed using PLS-SEM using a variety of techniques (Hair et al., 2019). In the end, this study sheds light on earlier research and offers recommendations for further investigation.

This study makes several contributions. First, it contributes to the RBV theory by examining the relationship between entrepreneurial performance and its moderating effect on stakeholder pressure, a link that has not been explored in the local context. Second, this study further develops the concept of entrepreneurial performance, particularly in the business context, building on studies conducted by Li et al. (2020) in China, Nikitina et al. (2020) in Africa, Makwara, Sibanda, & Iwu (2023) in the UK, Thalia et al. (2024) in Australia, and Nguyen & Lam (2022) in Vietnam. Empirical studies on entrepreneurial performance in Asia are limited. With many businesses, Indonesia ranks 50th out of 141 countries (Tallia, Hafeez, &

Syed, 2022; Sundari & Alfatihah, 2023). Therefore, stakeholder pressure is used to strengthen businesses, enhance competitiveness, and improve entrepreneurial performance, making a significant contribution to business sustainability in Indonesia.

Adaptive Leadership and Entrepreneurial Performance

Adaptive leadership is a leadership style that focuses on innovation, managing change, and motivating followers in the face of complex challenges. It is closely related to entrepreneurial performance because it enables entrepreneurs to adapt to market changes and manage uncertainty (Fauziyah et al., 2024; Basu et al., 2022). In the absence of adaptive leadership, entrepreneurial performance may suffer due to a lack of market changes. Growth and competitiveness may be hindered because the organization's ability to respond to opportunities and challenges is diminished (Zada & Sopiana, 2021). Adaptive leadership is a crucial component in enhancing entrepreneurial performance. Even with limited resources, adaptive leadership in SMEs helps leaders navigate change and foster innovation, thereby improving entrepreneurial performance. It facilitates flexible and innovative change management in SMEs (Naushad, 2022; Saah, Mbohwa, & Madonsela, 2024). Meanwhile, entrepreneurial performance reflects business achievements through growth, innovation, and efficiency, as seen in culinary SMEs facing pandemic challenges by implementing delivery services and digital marketing strategies to increase revenue and attract more customers (Sumiati, 2020; Purnama et al., 2022).

H1: Adaptive leadership has a positive effect on entrepreneurial performance

Knowledge Capability and Entrepreneurial Performance

Knowledge capability is the ability of individuals or organizations to effectively manage, create, and use knowledge to achieve objectives. Knowledge capability plays a significant role in enhancing entrepreneurial performance by helping entrepreneurs make better decisions and form strategic alliances to gain a competitive edge (Ganguly, Talukdar, & Chatterjee, 2019; Mostafiz, Hughes, & Sambasivan, 2022). Without knowledge capability, entrepreneurial performance is hindered due to challenges in decision-making and in capitalizing on market opportunities (Chung, Ding, & Ma., 2019). In the context of SMEs, knowledge capability is closely tied to entrepreneurial performance because the knowledge possessed by business owners influences their ability to make the right decisions (Sasono, Farida, & Soesanto, 2023). According to Ying, Hassan, & Ahmad (2019), knowledge capability in SMEs can improve performance through better market understanding and more efficient resource management. Entrepreneurial performance in SMEs reflects the extent to which a small or medium-sized enterprise can achieve its business goals, such as SMEs in the food and beverage sector improving their performance by introducing new menus based on market research and customer feedback (Shah & Ahmad, 2019; Ridha & Hidayat, 2021).

H2: Knowledge Capability Has a Positive Effect on Entrepreneurial Performance

Adaptive Leadership, Entrepreneurial Performance and Stakeholder Pressure

Adaptive leadership tends to focus more on internal innovation and long-term vision without considering stakeholder pressure, but this ap-

proach risks losing valuable external feedback, which is crucial for maintaining relevance to market needs. Meanwhile, entrepreneurial performance can benefit from greater creative freedom, but without external pressure, there is a potential to lose strategic direction and focus on business sustainability (Cabrera, 2021; Satria et al., 2023). However, by promoting responsiveness, market focus, and accountability, stakeholder pressure can enhance both adaptive leadership and entrepreneurial performance. If improperly managed, though, it can stifle innovation and lead to stress. For pressure to be constructive, it is essential to balance stakeholders' requirements with the organization's long-term vision and mission (Guo & Wang, 2022; Tian & Tian, 2021).

H3: Adaptive leadership and entrepreneurial performance are strengthened by stakeholder pressure

Knowledge Capability, Entrepreneurial Performance and Stakeholder Pressure

Entrepreneurial performance and knowledge capability are more linearly connected when stakeholder pressure is absent. But without shareholder pressure, companies might lose their ability to respond to market changes and their drive to adjust to outside demands (Kanaan et al., 2024; Graham, 2020). Businesses frequently improve their knowledge competency in response to stakeholder demand by adopting outside expertise, encouraging innovation, and accelerating up organizational learning to satisfy stakeholder expectations (Asimakopoulos, Revilla, & Slavova, 2020). This type of pressure can improve business performance, give entrepreneurs a competitive advantage, and promote entrepreneurial success, but it can also be dangerous if the company cannot quickly adjust to changes (Perdana & Prasasti, 2023).

H4: Entrepreneurial performance and knowledge capability are strengthened by stakeholder pressure.

METHOD

This study examines the relationship between adaptive leadership, knowledge competency, stakeholder pressure, and entrepreneurial performance using a quantitative approach and descriptive methodology. Determining how these factors impact entrepreneurial performance in small and medium-sized businesses (SMEs) is the aim. This method makes it possible to investigate further how each variable improves SMEs' competitiveness. To determine the correlation and causal influence among the links between the variables, the study employs a standardized questionnaire to gather quantitative data, which will subsequently be statistically analyzed. Both primary and secondary data are used in the study (Hair et al., 2020).

The two East Javan cities/districts with the highest concentration of SMEs, Surabaya and Sidoarjo, were the sites of this study. The study was conducted from November to December. With factors including food and beverage SMEs, fashion, furniture, textiles, electronics, beauty, agriculture, and construction, a purposive sample technique was used. According to Taherdoost (2022), the researcher created a "readable" questionnaire in the initial step to make sure that the statements were unambiguous and straightforward, enabling participants to give honest and pertinent answers. In the second phase, the researchers distributed the questionnaires to SME owners, managers, shop heads, supervisors, and decision-makers. The study's participants were SMEs from two cities/districts: Sidoarjo, which had 80,442 SMEs,

and Surabaya, which had 215,364 SMEs. Cluster sampling calculations, with a 10% margin of error, yielded a sample size of 99.5, rounded to 100 respondents.

Adaptive leadership emphasizes the ability to adjust, learn, and foster constructive change in the face of difficult challenges and a changing environment (Abukalusa & Oosthuizen, 2023). Ten questions from the study by Nöthel et al. (2023) were used to assess adaptive leadership, including: "As a leader, I vary my approach appropriately, depending on the task." Knowledge capability refers to the ability of individuals or organizations to effectively acquire, manage, and use knowledge to support decision-making and goal achievement (Kivijärvi, 2024). Twelve items from the study by Pranowo et al. (2022) were used to evaluate knowledge capability, including: "As a leader, I always provide opinions and insights to advance the business."

Stakeholder pressure refers to the encouragement or demands made by interested parties to influence organizational decisions and activities in order to achieve shared objectives. Eight study items, including "As a leader, I feel pressure from government environmental policies," were used to measure stakeholder pressure (Abdel-Maksoud, Jabbour, & Abdel-Kader, 2021; Zhang et al., 2020). Entrepreneurial performance is assessed by the extent to which a firm achieves its objectives, such as growth, innovation, profitability, and customer satisfaction (Pepple & Enuoh, 2020). Eleven study questions, including "As a leader, I have improved in the last three years," are used to measure entrepreneurial success (Sariwulan et al., 2020). This survey employs a 5-point Likert scale, with 1 denoting "strongly disagree" and 5 denoting "strongly agree." This scale has been previously validated and is appropriate for the SME context. The components of the questionnaire were divided into different aspects relevant to this study.

The measurement model (outer model) and the structural model (inner model) are the primary methods used to assess the validity of the data. Factor loading and Average Variance Extracted (AVE) analysis are used in the measurement model to evaluate construct validity; acceptable validity is indicated by factor loading values greater than 0.7 and AVE values greater than 0.5. Cronbach's Alpha and Composite Reliability are used to assess construct reliability; scores above 0.7 indicate strong internal consistency (see Table 1). Meanwhile, the structural model's ability to explain the variance in SME performance was evaluated using the R^2 value. The t-statistic value was determined by applying the bootstrapping procedure. The study was considered significant if the t-statistic value exceeded 1.96 at the 5% significance level (Hair et al., 2020).

The data in this study were analyzed using PLS-SEM. PLS-SEM was chosen because it can be used with small sample sizes, does not assume a normal distribution of data, and is effective for creating structural models that include factors such as knowledge capability, adaptive leadership, stakeholder pressure, and entrepreneurial performance. Cross-validation was employed to confirm the stability and accuracy of the results, while bootstrapping techniques were used to examine the significance of the relationships between the variables (Hair et al., 2019; Hair et al., 2020). This method allows for the analysis of both direct and indirect effects between variables. It provides insights into how knowledge capability and stakeholder pressure influence entrepreneurial performance in SMEs, as well as how adaptive leadership impacts entrepreneurial performance.

Table 1 Item Measurement, Outer Loading, Reliability, dan AVE

Item Measurement	Factor Loading	Cronbach's Alpha	Composite Reliability	AVE
Adaptive Leadership		0.966	0.973	0.794
1. As a leader, I vary in appropriate ways depending on the task.	0.722			
2. As a leader, I vary appropriately, depending on my subordinates.	0.725			
3. As a leader, I have a wide range of leadership behaviors that I can selectively apply.	0.793			
4. As a leader, I cannot use a variety of complementary behaviors (for example, taking control but also sharing responsibility).	0.969			
5. As a leader, I know how to support shared leadership, where leadership responsibilities are evenly distributed among my team members.	0.951			
6. As a leader, I quickly understand the optimal leadership behavior for a given situation.	0.960			
7. As a leader, I realize when my leadership style has to change due to changes in the situation.	0.947			
8. As a leader, I often fail to realize that my leadership behavior is not optimal for the situation.	0.951			
9. As a leader, I don't adjust my leadership style if the external environment requires it.	0.951			
Knowledge Capability		0.955	0.972	0.687
1. As a leader, I always give my opinions and thoughts for the betterment of the business.	0.800			
2. As a leader, I learn new skills or acquire new information. I share it with my coworkers.	0.819			
3. When my coworkers have learned new skills, they let me know.	0.803			
4. As a leader, sharing knowledge among coworkers is normal in my company.	0.879			
5. As a leader, I often share information, knowledge, skills, and experiences with my coworkers.	0.816			
6. As a leader, I gather information and skills from my coworkers.	0.798			
7. As a leader, I share my knowledge and skills with my colleagues.	0.882			
8. As a leader, I ask my colleagues to teach me about their experiences and skills.	0.818			
9. As a leader, I often share existing reports and official documents with members of my organization. If I need new knowledge and information, I will ask others.	0.794			
10. As a leader, I share my experiences with my colleagues.	0.880			
11. As a leader, I answer others' questions in team meetings.	0.816			

Stakeholder Pressure		**0.889**	**0.893**	**0.602**
1. As a leader, I feel the pressure of the government's environmental policies.	0.774			
2. As a leader, those who do not comply with environmental regulations will be sanctioned.	0.782			
3. As a leader, customers told me I should pay more attention to environmental protection in operational processes.	0.707			
4. As a leader, I feel pressure from customers to provide green services.	0.846			
5. As a leader, I felt the pressure from the requirements of the e-commerce platform environment.	0.756			
6. As a leader, I got a suggestion from a collaborative e-commerce platform to require us to provide green services.	0.701			
7. As a leader, I am under pressure from e-commerce platforms to reduce the volume of business for non-environmental SMEs.	0.850			
Entrepreneurial Performance		0.976	0.977	0.809
1. As a leader, I have improved in the past 3 years.	0.912			
2. As a leader, I experienced increased product capacity.	0.766			
3. As a leader, I experienced an increase in sales volume.	0.916			
4. As a leader, I added new business units.	0.944			
5. As a leader, I achieved the targeted quantity and quality of products.	0.909			
6. As a leader, I have innovative new products.	0.773			
7. As a leader, the product capacity of my business can meet consumer demand.	0.879			
8. As a leader, I provide after-sales service to ensure customer satisfaction.	0.944			
9. As a leader, I saw many new customers buying my products.	0.941			
10. As a leader, I have achieved the annual sales target I set.	0.943			
11. As a leader, I have increased profits.	0.940			

RESULTS

Based on the information obtained from the distribution of questionnaires, the descriptive profile of SME owner respondents, totaling 203 individuals, is as follows: The majority of business owners are from Sidoarjo, with 126 respondents (62%), while 76 respondents (37%) are from Surabaya. The culinary sector is the most dominant in terms of business field category, with 73 respondents (36%), followed by the fashion sector with 48 respondents (24%). The furniture and textile sectors each have 24 respondents (12%), followed by the beauty sector with 23 respondents (11%), technology with 20 respondents (10%), construction with 9 respondents (4%), and agriculture with the smallest number, 5 respondents (2%). Regarding the length of operation, most businesses have been operating for 3–10 years, comprising 153 respondents (75%). Businesses under 3 years old accounted for 15 respon-

Table 2 Test Results Variance Inflation Factor (VIF)

Variables	VIF
Adaptive Leadership (X1) -> Entrepreneurial Performance (Y)	1.829
Knowledge capability (X2) -> Entrepreneurial Performance (Y)	2.148
Stakeholder Pressure (M) x Adaptive Leadership (X1) -> Entrepreneurial Performance (Y)	1.435
Stakeholder Pressure (M) x Knowledge Capability (X2) -> Entrepreneurial Performance (Y)	1.233

Table 3 Test Results R Square

Variable	R Square	R Square Adjusted
Entrepreneurial Performance (Y)	0.718	0.711

dents (7%), while those established for more than 10 years totaled 35 respondents (17%). In terms of the age of the business owners, most were between 25–44 years old, with a total of 89 respondents (44%). Business owners under 25 accounted for 35 respondents (17%), while those over 55 years old totaled 79 respondents (37%).

According to the findings of the collinearity statistics (VIF) analysis on the inner model, all of the variables in this study had VIF values less than 5 (see Table 2). The model's independent variables do not exhibit multicollinearity, as indicated by this low VIF score. Therefore, it can be said that this study model is resilient and does not suffer from collinearity-related bias.

R square values over 0.25 are considered weak, those greater than 0.50 are considered moderate, and those greater than 0.75 are considered significant (see Table 3). As seen in the table above, the entrepreneurial performance variable's R square value is 0.718, or 71.8%. According to the model testing results, the model structure indicates that the entrepreneurial performance variable's R square value falls within the medium range. With a 95% confidence level (Cronbach's Alpha 5% or 0.05), the Bootstrapping test is used to test the hypothesis based on the PLS analysis findings. The study's hypothesis states that the hypothesis is accepted if the T-statistic value is more than the t-table, rejected if the p-value is more significant than the confidence level and accepted if the T-statistics are less than the confidence level. According to the hypothesis test that was performed, the following are the findings:

Table 4 Results Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P values
Adaptive Leadership (X1) -> Entrepreneurial Performance (Y)	0.312	0.308	0.048	6.444	0.000
Knowledge capability (X2) -> Entrepreneurial Performance (Y)	0.307	0.305	0.065	4.712	0.000
Stakeholder Pressure (M) x Adaptive Leadership (X1) -> Entrepreneurial Performance (Y)	0.080	0.082	0.038	2.117	0.034
Stakeholder Pressure (M) x Knowledge Capability (X2) -> Entrepreneurial Performance (Y)	0.087	0.088	0.045	1.915	0.055

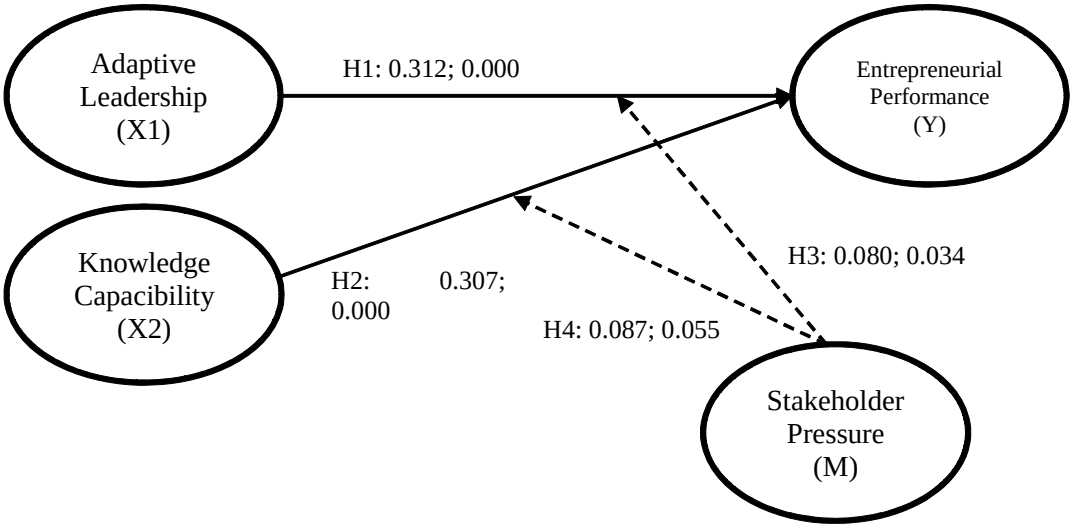

Figure 1 Hypothesis Testing

Adaptive leadership (X1) has a positive and significant influence on entrepreneurial performance (Y), according to the results of a PLS analysis with a 95% confidence level (Figure 1). The p-value of 0.000 is less than 0.05, and the t-statistic value of 6.444 exceeds the t-table value, demonstrating that adaptive leadership significantly enhances entrepreneurial performance. Additionally, knowledge capability (X2) has a significant and positive effect on entrepreneurial performance, as indicated by a t-statistic value of 4.712 and a p-value of 0.000. Thus, knowledge capability is a crucial factor that drives entrepreneurial success.

Furthermore, a t-statistic value of 2.117 and a p-value of 0.034 demonstrate that the interaction between stakeholder pressure (M) and adaptive leadership (X1) has a substantial impact on entrepreneurial performance. This implies that the impact of knowledge competency on entrepreneurial performance may be amplified by stakeholder pressure. However, as the t-statistic value of 1.915 is less than the t-table value and the p-value of 0.055 is more than 0.05, the interaction between stakeholder pressure (M) and knowledge competency (X2) does not substantially affect entrepreneurial performance. Stakeholder pressure, however, strengthens the link between knowledge competency and entrepreneurial performance. According to these results, entrepreneurial performance is directly impacted by knowledge competency and adaptive leadership, and their link is strengthened by stakeholder pressure.

According to the moderation test results, the average value is represented by the blue line, the effect of low stakeholder pressure (-1 SD) is represented by the red line, and the effect of high stakeholder pressure (+1 SD) on entrepreneurial success is represented by the green line. These three lines' gradients highlight the significance of adaptable leadership and the ways in which varying degrees of stakeholder demand impact entrepreneurial performance. Stakeholder pressure considerably moderates this connection, with the largest effect happening at high stakeholder pressure levels (+1 SD). This implies that when shareholder pressure increases, so does the influence on entrepreneurial performance (see Figure 2).

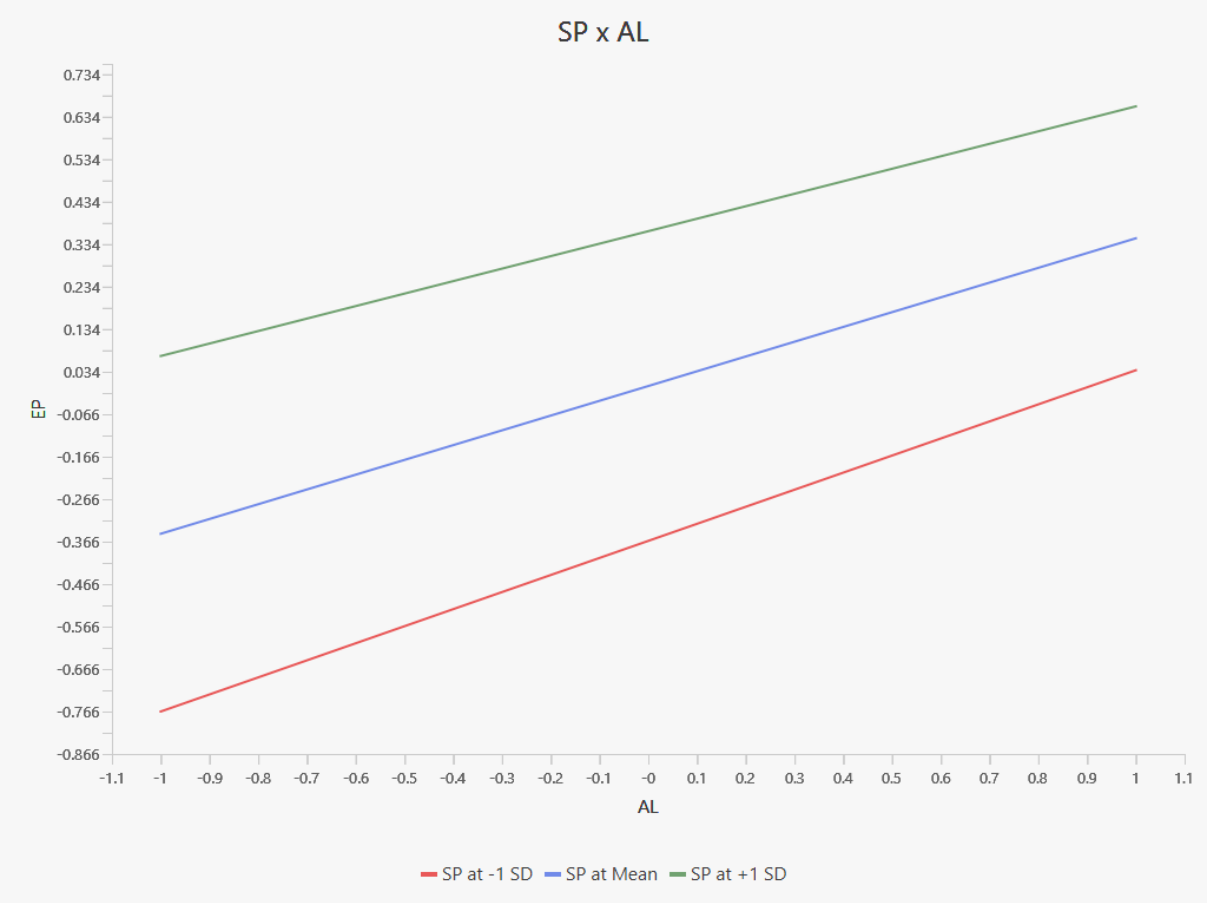

Figure 2 Simple Slop Analysis Stakeholder Pressure X Adaptive Leadership

According to the results of the moderation test, the average value is represented by the blue line, the red line by the low stakeholder pressure (-1 SD), and the green line by the impact of high stakeholder pressure (+1 SD) on entrepreneurial performance in relation to knowledge competency. The difference in gradients between the three lines shows that stakeholder pressure strongly moderates the effect of knowledge competence on entrepreneurial success, with the most significant effects at high stakeholder pressure (+1 SD). This implies that when stakeholder demand increases, so does the influence on entrepreneurial performance and knowledge competency (see Figure 3).

DISCUSSION

The idea that entrepreneurial performance and adaptable leadership are closely associated is supported by this study. By managing change and innovation, adaptive leadership in SMEs can improve entrepreneurial performance and allow leaders to react to changes in a flexible, creative, and strategic manner (Basu et al., 2022; Naushad, 2022; Saah, Mbohwa, & Madonsela, 2024). Furthermore, stakeholder pressure makes adaptive leadership more effective in meeting external obstacles and market demands. Leaders are encouraged by this pressure to be more receptive and modify their approaches to leadership in response to changes

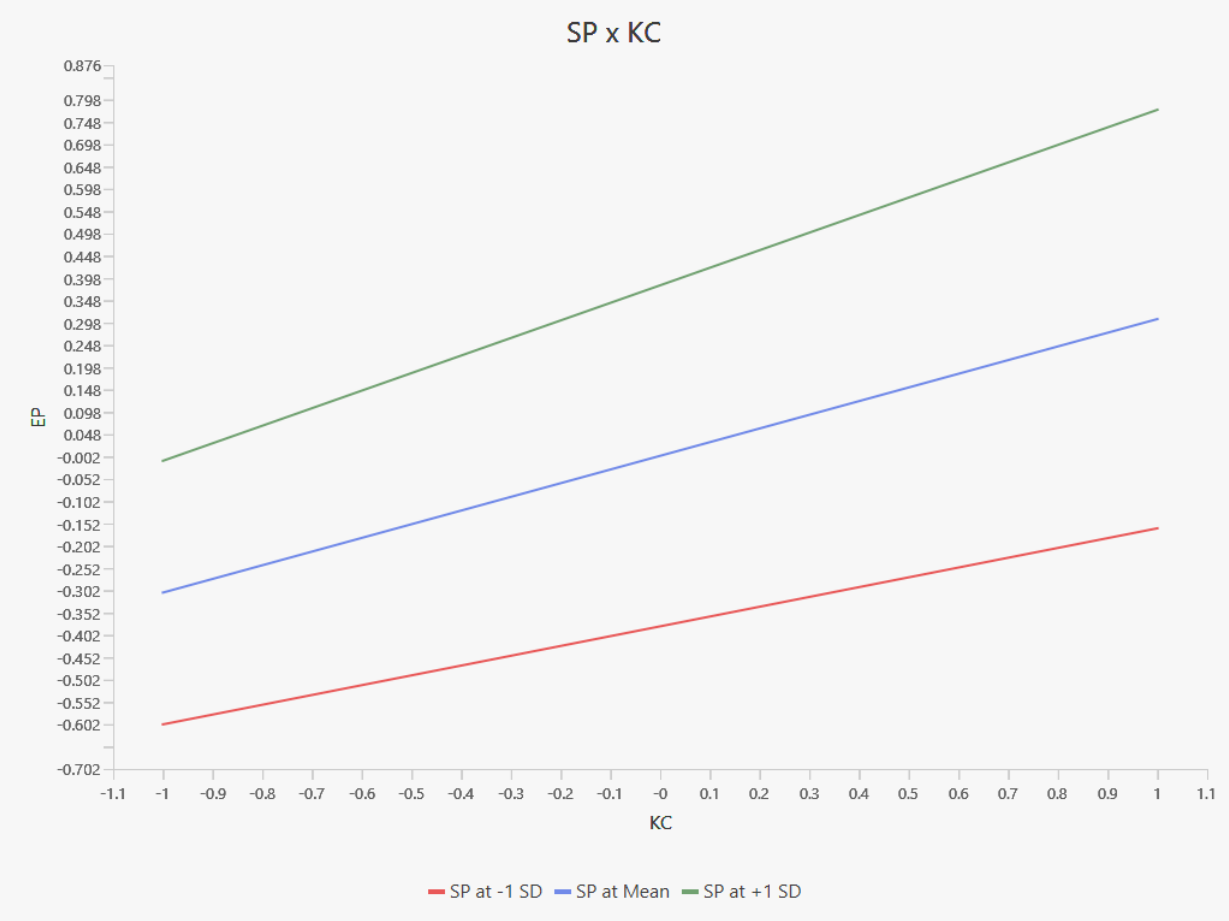

Figure 3 Simple Slop Analysis Stakeholder Pressure X Knowledge Capability

in the market. Stakeholder pressure, when properly handled, can serve as a stimulant for cooperation and creativity, preserving stability between the corporate vision and external demands (Guo & Wang, 2022; Tian & Tian, 2021).

According to Cabrera (2021), adaptive leadership runs the danger of becoming less relevant in the market by concentrating on internal innovation free from stakeholder pressure. Stakeholder pressure, on the other hand, boosts entrepreneurial performance by providing strategic direction and highlighting external needs. According to Barney's (2000) Resource-Based View (RBV), adaptive leadership provides SMEs with a long-term competitive edge and is a unique, valuable, hard-to-replicate, and irreplaceable resource. By spotting new opportunities and controlling risks in a changing corporate environment, adaptive leadership improves entrepreneurial performance.

Additionally, stakeholder pressure is an outside force that reinforces the benefits of adaptive leadership by motivating SMEs to maximize internal resources by being more accountable and responsive. SMEs may respond to market shifts with flexibility, creativity, and strategy when adaptive leadership is properly executed. For example, they can launch new goods in response to consumer input. Stake-

holder pressure that is properly managed can also encourage cooperation and innovation, such as collaborating with academic institutions or other companies to develop goods that satisfy consumer needs and increase competitiveness. Stakeholder pressure and adaptable leadership work together to give SMEs a long-term competitive edge in a changing business climate.

Entrepreneurial performance is greatly impacted by knowledge competency. To manage, create, and apply knowledge to accomplish strategic objectives, people or organizations must possess knowledge competency (Mostafiz, Hughes, & Sambasivan, 2022; Ganguly, Talukdar, & Chatterjee, 2019). In the context of SMEs, knowledge competence also improves performance through better market comprehension, effective resource management, and relevant innovation (Ridha & Hidayat, 2021). The findings of Sasono, Farida, and Soesanto (2023), who stress the importance of knowledge competency in assisting entrepreneurs in addressing business difficulties in a strategic and creative manner, are also reflected in this study.

Stakeholder pressure, however, has a complicated moderating effect. In line with Hughes et al. (2022), who noted that knowledge capabilities, which enhance knowledge production and management processes, have a tendency to become more entrepreneurially oriented, resulting in higher profitability, this study discovered that stakeholder pressure strengthens the relationship between knowledge capability and entrepreneurial performance. Stakeholder pressure can promote market focus and responsibility, which in turn improves entrepreneurial success, according to Guo & Wang (2022). Stakeholder pressure and entrepreneurial performance, however, did not appear to be significantly correlated.

Knowledge capability is a strategic asset that can give a long-term competitive advantage since it is valuable, uncommon, and challenging to replicate, according to the Resource-Based View (RBV) (Barney, 2000). SMEs benefit from knowledge competency in terms of resource management, innovation, and market comprehension. For instance, fashion SMEs combine local cooperation with international trends to produce sustainable goods that appeal to contemporary consumers. For SMEs to stay competitive and sustainable, it is crucial to combine stakeholder pressure with knowledge competency.

CONCLUSION

This study shows that knowledge capacity and adaptive leadership have a big impact on the entrepreneurial success of SMEs in Sidoarjo and Surabaya. Knowledge capability increases productivity and creativity, whereas adaptive leadership aids SME leaders in adapting to changes in the market. The association between adaptive leadership and entrepreneurial success is strengthened by stakeholder pressure, but the relationship between performance and knowledge competency is insignificant. The results support the Resource-Based View (RBV) hypothesis by indicating that, although external pressures may prevent their optimal usage, internal resources such as knowledge competency and adaptive leadership are essential for maintaining competitive advantage. Future research could apply Dynamic Capability Theory to explore how organizations adapt to environmental changes. Additionally, expanding the study's scope to other regions and incorporating variables such as innovation and digital transformation could provide more comprehensive insights into SME performance improvement.

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