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Hikmah Entrepreneurial Orientation and Financial Performance: Evidence from Batik MSMEs in Central Java

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ABSTRACT
This study examines the influence of Hikmah Entrepreneurial Orientation (HEO) on financial performance among batik Micro, Small, and Medium Enterprises (MSMEs) in Central Java, Indonesia. Although Entrepreneurial Orientation (EO) has been widely recognized as a determinant of firm performance, previous research still inconsistent, particularly in emerging economies. This study extends EO theory by embedding Islamic wisdom (hikmah) into its core dimensions proactiveness, innovativeness, and risk-taking. A quantitative research was conducted with 200 batik MSME owners or managers. Statistics analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM). Results indicated that Hikmah Proactiveness, Hikmah Innovativeness, and Hikmah Risk-Taking significantly influence both investment decisions and financial performance. Investment Decision exhibits the strongest effect on financial performance and partially mediates the relationship between HEO and financial outcomes. The model explains 77.8% of variance in financial performance. The findings contribute theoretically by expanding EO into a culturally embedded, value-based construct and resolving inconsistencies in EO-performance literature. Practically, the study underscores the importance of calculated risk-taking, responsible innovation, and strategic investment planning in enhancing financial sustainability. Integrating ethical and spiritual dimensions into entrepreneurial strategy strengthens long term competitiveness and resilience.
Keywords: Entrepreneurial Orientation; Financial Performance; Hikmah Investment Decision; MSMEs..

INTRODUCTION:

Entrepreneurial orientation (EO) is a foundational construct in entrepreneurship and strategic management, describing a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking (Miller, 1983; Lumpkin & Dess, 1996). EO captures organizational processes and managerial practices that enable opportunity recognition and exploitation under uncertainty. In micro, small, and medium enterprises (MSMEs), EO is often considered especially critical because these firms operate under resource constraints, volatile demand, and institutional limitations, making strategic flexibility and entrepreneurial action central to survival and performance (Covin & Miller, 2014; Wiklund & Shepherd, 2005).

Meta-analytic evidence generally supports a positive EO performance relationship, indicating that EO can improve growth and profitability through product novelty, early market entry, and proactive strategic positioning (Rauch et al., 2009). However, findings remain context-sensitive and inconsistent, as research gap particularly across developing economies and culturally embedded sectors (Aktan & Bulut, 2008; Cho & Lee, 2020). EO does not automatically translate into superior outcomes when firms lack complementary capabilities, governance routines, or decision quality especially in environments with market turbulence and limited managerial infrastructure (Hughes et al., 2020; Rauch et al., 2009). This implies that EO may be better understood not only as entrepreneurial behavior, but also as a function of *how* entrepreneurial decisions are evaluated, justified, and executed.

A key limitation of conventional EO is its emphasis on behavioral tendencies, often overlooking the quality of judgment guiding entrepreneurial action. Innovativeness and risk-taking, if pursued without prudence, may lead to overinvestment, capability overstretch, ethical exposure, or strategic drift risks that are amplified in MSMEs where margins, liquidity buffers, and formal controls are typically limited. This limitation is particularly relevant in culturally grounded industries (e.g., traditional crafts), where entrepreneurial action is shaped by social legitimacy, moral expectations, and value systems beyond purely instrumental rationality.

In Muslim majority settings such as Indonesia, entrepreneurship is frequently embedded in ethical religious norms that shape business meaning, responsibility, and long-term orientation. The Islamic concept of hikmah (wisdom) denotes sound judgment, moral discernment, balance, and purposeful action

qualities that guide decision-making toward benefit (maslahah) while avoiding harm (mafsadah) (Rice, 1999). In Islamic thought, hikmah is closely associated with prudent reasoning and ethically grounded choices, rather than impulsive pursuit of advantage (Madelung & Mayer, 2014). Integrating hikmah into EO offers a value-based extension in which entrepreneurial behaviors are directed by ethical responsibility, long-term sustainability, and social benefit.

Accordingly, this study proposes Hikmah Entrepreneurial Orientation (HEO) as a contextual extension of EO that embeds hikmah-based judgment within the core EO dimensions: hikmah innovativeness, hikmah proactiveness, and hikmah risk-taking. Hikmah innovativeness emphasizes ethical and sustainable value creation; hikmah proactiveness focuses on opportunity pursuit aligned with fairness and societal benefit; and hikmah risk-taking reflects calculated, accountable risk commitments guided by knowledge and moral responsibility. This conceptual development responds to increasing calls for culturally embedded theorizing and context-sensitive entrepreneurship research, especially in emerging economies (Hughes et al., 2020).

The batik MSME sector in Central Java provides a theoretically and practically important setting for examining HEO. Batik is simultaneously a heritage-based creative industry and an export-relevant economic sector. Government reporting indicates that Indonesia's batik exports reached approximately USD 532.7 million in 2020 (Kementerian Perindustrian Republik Indonesia, 2021). Yet batik MSMEs remain vulnerable due to limited financial management capacity, technology gaps, and constrained access to capital factors that can weaken the conversion of entrepreneurial posture into sustained financial outcomes. Under these conditions, EO-like behaviors may be necessary but insufficient: innovation without prudent capital allocation can erode liquidity, and risk-taking without ethical governance can undermine sustainability and legitimacy.

In MSMEs, financial performance is typically assessed through profitability, revenue development, and asset strengthening (Neely et al., 2003). A consistent stream of strategic entrepreneurship research indicates that entrepreneurial posture influences performance more reliably when translated into strategic actions and disciplined resource allocation, often via investment-related decisions (Wiklund & Shepherd, 2005; Zahra & Garvis, 2000). From a finance perspective, value creation depends not only on entrepreneurial intent but also on capital budgeting, investment appraisal, and allocation efficiency (Myers, 2001). Therefore, this study positions Investment Decision quality as a key mechanism linking HEO to financial performance.

This research contributes in three ways. First, it extends EO theory by integrating a wisdom-based, Islamic ethical dimension as a culturally grounded enhancement to entrepreneurial strategy. Second, it advances explanation of inconsistent EO–performance findings by highlighting how entrepreneurial effects strengthen when filtered through decision quality and investment discipline. Third, it offers actionable implications for batik MSMEs by emphasizing that ethically guided entrepreneurship when supported by sound investment decisions can improve financial sustainability without sacrificing cultural legitimacy.

2. Research Methods

This study employed a quantitative research design to examine the effect of Hikmah Entrepreneurial Orientation (HEO) on financial performance among batik MSMEs in Central Java. Data were collected using a structured survey complemented by field observations and semi-structured interviews to enhance contextual understanding and reduce common method bias (Podsakoff et al., 2003). The questionnaire was developed based on established EO scales (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005) and adapted to incorporate hikmah-based dimensions (hikmah innovativeness, hikmah proactiveness, and hikmah risk-taking). All items were measured using a five-point Likert scale.

The population in this research are owners or managers of batik MSMEs in Central Java. Using purposive sampling, respondents were selected based on the criteria: (1) owner/manager of a batik MSME, (2) operating for more than one year, and (3) classified as micro or small enterprise (<100 employees). A total of 200 valid responses were collected, exceeding the minimum sample size requirement for Partial Least Squares Structural Equation Modeling (PLS-SEM). According to Hair et al. (2014), PLS-SEM is suitable for predictive and exploratory models with complex constructs and sample sizes between 100 and 200. Data were analyzed using SmartPLS 4. The analysis followed a two-step approach: assessment of the measurement model (reliability and validity) and evaluation of the structural model (path coefficients, R^2, and significance levels) (Hair et al., 2019). Convergent validity was assessed using average variance extracted (AVE > .50) and composite reliability (> .70), while discriminant validity was evaluated using the Fornell Larcker criterion. Bootstrapping with 5,000 resamples was employed to test hypothesis significance. This methodological approach enables robust examination of the structural relationships between HEO, investment decisions, and financial performance within the batik MSME context.

3. RESULTS AND DISCUSSION

This section presents the empirical results and discussion in this study: to examine how Hikmah Entrepreneurial Orientation (HEO) operationalized as Hikmah Proactiveness, Hikmah Innovativeness, and Hikmah Risk Taking influences Investment Decision quality and Financial Performance among batik micro, small, and medium-sized enterprises (MSMEs) in Central Java, Indonesia. The analysis follows a Partial Least Squares Structural Equation Modeling (PLS-SEM) procedure, starting with descriptive statistics, evaluating the measurement model, and then assessing the structural model and hypotheses. The discussion is grounded in entrepreneurial orientation theory (Lumpkin & Dess, 1996; Miller, 1983; Wiklund & Shepherd, 2005) and established PLS-SEM guidelines (Hair, Hult, Ringle, &

Sarstedt, 2018), while emphasizing hikmah (wisdom) as a moral–ethical foundation for entrepreneurial action.

3.1. Sample Profile and Descriptive Context

The study was conducted among batik MSMEs in Central Java in 2026. Respondents were business owners or managers, totaling 200 participants. All questionnaires were completed and usable for analysis. The respondent profile indicates a mature and experienced entrepreneurial population. Women represented 60.5% of respondents, suggesting a strong participation of female entrepreneurs in the batik sector. Most respondents were older than 40 years (66.0%), and most had operated their businesses for more than 15 years (66.0%). This pattern implies accumulated tacit knowledge, relationship networks, and adaptive capacity developed through sustained market exposure factors that are often critical for opportunity recognition and risk calibration in traditional craft industries (Harrison, 2005). Educational attainment was relatively high: 75.0% held a bachelor's degree, which may strengthen analytical decision making and managerial competence in competitive and export-oriented contexts.

CHARACTERISTIC	CATEGORY	FREQUENCY	PERCENT
GENDER	Men	79	39.5%
GENDER	Women	121	60.5%
AGE	30–35	23	11.5%
AGE	36–40	45	22.5%
AGE	> 40	132	66.0%
FIRM AGE	5–10 Years	23	11.5%
FIRM AGE	11–15 Years	45	22.5%
FIRM AGE	> 15 Years	132	66.0%
EDUCATION	High School	12	6.0%
EDUCATION	Diploma	24	12.0%
EDUCATION	Bachelor's	150	75.0%
EDUCATION	Graduate	14	7.0%

Table 1: Respondent characteristics (N = 200)

Note. Source: Primary data processed (2026). Percentages may not sum to 100 due to rounding.

3.2. Descriptive Statistics Result

All indicators were measured on a 1–10 agreement scale (1 = strongly disagree; 10 = strongly agree). Following a three-box interpretation method, index values were categorized as low (1.00–3.99), moderate (4.00–6.99), and high (7.00–10.00). Across constructs, mean index values fell in the moderate range, indicating that HEO practices, investment decision quality, and perceived financial performance are present but not yet maximized. For MSMEs, such "moderate maturity" is common because innovation and strategic routines tend to evolve gradually under resource constraints and market uncertainty (Eisenhardt, 1989).

Hikmah Proactiveness achieved the highest overall index among HEO dimensions (M = 6.35, moderate). The strongest indicator was wisdom (6.64), reflecting planning and future orientation that considers long term benefits and collective well-being. Hikmah Innovativeness (M = 5.60) was also moderate, led by understanding (6.01), suggesting that creative experimentation is most salient when grounded in knowledge and contextual awareness. Hikmah Risk Taking (M = 5.44) remained moderate, with understanding (5.99) as the highest indicator and ethics (5.13) as the lowest implying room to strengthen ethical governance in resource allocation under uncertainty. Investment Decision (M = 5.33) was moderate, driven by strategic investment planning (5.38). Financial Performance (M = 5.40) was moderate, with profit (5.46) slightly higher than revenue and assets.

CONSTRUCT	HIGHEST INDICATORS	OVERALL INDEX	CATEGORY
HIKMAH PROACTIVENESS	Wisdom (6.64); Fairness (6.56)	6.35	Moderate

HIKMAH INNOVATIVENESS	Understanding (6.01); Morality (5.72)	5.60	Moderate
HIKMAH RISK TAKING	Understanding (5.99); Wisdom (5.48)	5.44	Moderate
INVESTMENT DECISION	Strategic Investment Planning (5.38)	5.33	Moderate
FINANCIAL PERFORMANCE	Profit (5.46)	5.40	Moderate

Table 2: Summary of index scores by construct

Note. Indices are based on the 1–10 response scale and three-box interpretation.

3.3. Measurement Model Assessment

PLS-SEM was employed because it is suitable for predictive modeling, complex latent-variable structures, and data distributions that may deviate from normality—conditions often observed in MSME survey research (Hair et al., 2018). Convergent validity was assessed via indicator loadings and their bootstrapped significance. All indicators demonstrated statistically significant loadings ($p < .05$), and most exceeded the recommended threshold of .70, supporting adequate convergence (Hair et al., 2018). Discriminant validity was evaluated using the Fornell Larcker criterion, requiring that the square root of AVE for each construct exceeds its correlations with other constructs. The results met this criterion, indicating that Hikmah Proactiveness, Hikmah Innovativeness, Hikmah Risk Taking, Investment Decision, and Financial Performance are empirically distinct despite their conceptual relatedness. Internal consistency reliability was supported because Cronbach's alpha and composite reliability were above .70 for all constructs, meeting recommended thresholds for reflective measurement models (Hair et al., 2018).

CONSTRUCT	COMPOSITE RELIABILITY	CRONBACH'S ALPHA
HIKMAH PROACTIVENESS	0.935	0.932
HIKMAH INNOVATIVENESS	0.949	0.945
HIKMAH RISK TAKING	0.927	0.923
INVESTMENT DECISION	0.907	0.907
FINANCIAL PERFORMANCE	0.806	0.764

Table 3: Internal consistency reliability

Note. Values ≥ .70 indicate acceptable reliability (Hair et al., 2018).

3.4. Structural Model Assessment

The structural model was assessed using explained variance (R^2), effect sizes (f^2), and path significance. The model explained a substantial proportion of variance in Financial Performance ($R^2 = .778$; adjusted $R^2 = .774$) and a moderate proportion of variance in Investment Decision ($R^2 = .422$; adjusted $R^2 = .413$). In PLS-SEM, R^2 values around .75 are typically considered substantial, around .50 moderate, and around .25 weak (Hair et al., 2018). Thus, the model provides strong predictive accuracy for financial outcomes in the batik MSME context.

ENDOGENOUS CONSTRUCT	R^2	ADJUSTED R^2
INVESTMENT DECISION	0.422	0.413
FINANCIAL PERFORMANCE	0.778	0.774

Table 4: R^2 For Endogenous Constructs

Note. Higher R^2 indicates stronger predictive accuracy (Hair et al., 2018).

Effect sizes suggest that Investment Decision exerts a very strong incremental impact on Financial Performance ($f^2 = 1.387$), implying that investment planning and financial analysis function as the most proximate mechanism translating entrepreneurial

orientation into financial results. This is consistent with corporate finance perspectives emphasizing that value creation depends critically on capital allocation and investment appraisal (Myers, 2001). Meanwhile, the direct effects of HEO dimensions on the outcomes are comparatively smaller, reflecting a common pattern in EO research where strategic posture influences performance through decision processes and resource deployment (Wiklund & Shepherd, 2005).

3.5. Result of Hypothesis

Hypothesis were evaluated using bootstrapped t statistics and p values, with $\alpha = .05$. A path was considered significant when $p < .05$ or $t > 1.96$. All seven hypothesized relationships were positive and statistically significant.

HYPOTHESIS	PATH	B	T	P	CONCLUSION
H1	Hikmah Proactiveness → Financial Performance	0.275	4.683	< .001	Supported
H2	Hikmah Proactiveness → Investment Decision	0.237	4.308	< .001	Supported
H3	Hikmah Innovativeness → Financial Performance	0.224	3.692	< .001	Supported
H4	Hikmah Innovativeness → Investment Decision	0.199	3.119	.002	Supported
H5	Hikmah Risk Taking → Financial Performance	0.388	6.193	< .001	Supported
H6	Hikmah Risk Taking → Investment Decision	0.397	5.778	< .001	Supported
H7	Investment Decision → Financial Performance	0.729	18.852	< .001	Supported

Table 5: PLS-SEM hypothesis testing results (bootstrapping)

Note. β = standardized path coefficient. Source: Primary data processed (2026).

3.6. Discussion of Findings

Overall, the results support the proposed model: Hikmah Entrepreneurial Orientation positively influences Financial Performance both directly and indirectly through Investment Decision quality. The strongest driver of Financial Performance is Investment Decision, indicating that the translation of hikmah-grounded entrepreneurial posture into financial outcomes occurs primarily through disciplined capital allocation. This pattern aligns with the strategic entrepreneurship view that entrepreneurial orientation enhances performance when it shapes concrete strategic actions and resource commitments (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005).

3.6.1 H1 and H2: Hikmah Proactiveness, Financial Performance, and Investment Decisions

Hikmah Proactiveness significantly predicted Financial Performance ($\beta = 0.275$, $p < .001$) and Investment Decision ($\beta = 0.237$, $p < .001$). In EO theory, proactiveness reflects anticipatory action and the tendency to seek opportunities ahead of competitors (Miller, 1983).

Within the hikmah framework, proactiveness is guided by understanding and moral discernment, ensuring that opportunity seeking is aligned with fairness, ethical conduct, and long-term benefit. The descriptive results indicate that 'wisdom' is the most salient indicator, suggesting that respondents interpret proactiveness as careful and future oriented planning.

In the batik MSME context, proactive and wise planning can reduce operational waste and stabilize quality through better forecasting of demand, timelier procurement of materials, and earlier adoption of market trends (e.g., eco-friendly dyes, contemporary patterns, and customization). Such actions support profitability and revenue continuity. Empirically, prior studies have shown that proactiveness can strengthen small-firm performance by improving market responsiveness and strategic fit (Wiklund & Shepherd, 2005). The present findings suggest that these benefits are amplified when proactiveness is disciplined by hikmah-based considerations of collective welfare and ethical integrity.

3.6.2. H3 and H4: Hikmah Innovativeness, Financial Performance, and Investment Decisions

Hikmah Innovativeness significantly predicted Financial Performance ($\beta = 0.224$, $p < .001$) and Investment Decision ($\beta = 0.199$, $p = .002$). Innovativeness is central to EO and refers to a firm's tendency to engage in experimentation, novelty, and creative processes (Lumpkin & Dess, 1996). The hikmah framing emphasizes innovation as ethical value creation developing products and services that generate benefit without undermining moral and social responsibilities. Batik MSMEs increasingly innovate through design consultations, custom orders, premium product lines, workshop packages for tourism, and digital services such as online catalogs and marketplace selling. These innovations can enhance financial performance by enabling differentiation, premium pricing, higher repeat purchases, and diversified income streams. Research on management innovation suggests that mobilizing tacit and explicit knowledge is critical for converting innovation into performance outcomes (Magnier-Watanabe & Benton, 2017). The moderate innovativeness index in this study suggests that many MSMEs are innovating but may need to institutionalize innovation routines and knowledge capture practices to scale their benefits (Dalkir, 2011).

3.6.3. H5 and H6: Hikmah Risk Taking, Financial Performance, and Investment Decisions

Hikmah Risk Taking showed significant positive effects on Financial Performance ($\beta = 0.388$, $p < .001$) and Investment Decision ($\beta = 0.397$, $p < .001$), and it represents the strongest direct HEO dimension in the model. Risk taking in EO reflects the willingness to commit significant resources to uncertain opportunities (Miller, 1983). The hikmah approach reframes risk taking as calibrated courage, where boldness is guided by understanding, prudence, and ethical accountability. In batik MSMEs, risk-taking investments may include adopting new production technologies, experimenting with alternative dye sources, expanding to new markets, offering premium lines, pursuing export channels, and building collaborations. These commitments can improve financial outcomes when they are guided by informed analysis and strategic planning. The descriptive results showing a relatively lower 'ethics' indicator suggest the need to strengthen ethical safeguards such as clear criteria for responsible sourcing, transparent labor practices, and risk limits to ensure that bold investments remain aligned with hikmah principles. Agency theory highlights the importance of informed oversight and accountability for value-enhancing risk taking (Eisenhardt, 1989; Jensen & Meckling, 1976).

3.6.4. H7: Investment Decision as the Primary Driver of Financial Performance

Investment Decision had the strongest effect on Financial Performance ($\beta = 0.729$, $p < .001$), indicating that financial outcomes are highly sensitive to the quality of capital allocation and investment planning. This result is consistent with finance research suggesting that value creation depends on selecting projects and investments with favorable long-term cash flows and manageable risks (Myers, 2001). For batik MSMEs, investment decisions include not only physical assets (equipment, facilities) but also capability-building investments (training artisans, quality assurance, branding, digital marketing infrastructure). The moderate investment decision index suggests that many MSMEs would benefit from strengthening formal financial routines, including budgeting, investment appraisal, and scenario analysis. Such routines can help translate entrepreneurial insights into disciplined execution and reduce costly trial-and-error. By serving as a bridge between HEO and performance, investment decision quality explains why the model achieves substantial explanatory power for financial performance.

3.7. Integrated Implications and Contribution

The study provides evidence that integrating a hikmah-based moral ethical orientation into entrepreneurial posture is compatible with strong financial outcomes. Rather than constraining entrepreneurship, hikmah appears to guide decision making toward sustainable opportunity pursuit particularly when entrepreneurial behaviors are channeled into robust investment decisions. These results contribute to EO research by showing that value-based framing can complement strategic entrepreneurship and help explain performance variance in culturally embedded MSME sectors.

4. CONCLUSION

This study was conducted to address the research gap concerning the inconsistent relationship between Entrepreneurial Orientation (EO) and financial performance, particularly within MSMEs in emerging economies. By integrating Islamic values into the EO

framework, this research developed a novel construct Hikmah Entrepreneurial Orientation (HEO) and empirically examined its influence on investment decisions and financial performance among batik MSMEs in Central Java. The findings confirm that HEO, conceptualized through three dimensions Hikmah Proactiveness (HP), Hikmah Innovativeness (HI), and Hikmah Risk Taking (HRT) significantly enhances both investment decisions and financial performance. HEO is defined as entrepreneurial behavior grounded in wisdom (*hikmah*), where proactiveness, innovativeness, and risk taking are guided by moral responsibility, ethical awareness, and spiritual consciousness. This study demonstrates that entrepreneurial actions embedded with wisdom do not hinder performance; rather, they strengthen financial sustainability and business resilience.

mpirically, all three HEO dimensions positively and significantly influence Investment Decision (ID) and Financial Performance (FP). Hikmah Risk Taking emerged as the strongest predictor of investment decisions, while Investment Decision showed the largest direct effect on financial performance. These findings indicate that HEO improves financial outcomes both directly and indirectly through better quality investment decisions. In other words, entrepreneurial wisdom enhances financial performance by shaping strategic resource allocation, capital planning, and long term investment orientation. The study also resolves prior theoretical controversies in EO literature. While previous research produced inconsistent findings regarding EO's impact on financial performance, this research clarifies that the effect becomes stronger and more consistent when mediated by investment decisions and embedded within value-based wisdom. Thus, EO theory does not need to be rejected but expanded through a culturally grounded, ethically informed framework such as HEO.

Overall, this research contributes to entrepreneurship theory by demonstrating that integrating spiritual and ethical dimensions into strategic orientation creates a more comprehensive explanation of MSME performance. For batik MSMEs in Central Java, the findings highlight that wise proactiveness, responsible innovation, and calculated risk taking supported by sound investment decisions form the foundation of sustainable financial performance and long term business resilience.

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