

# The Effect of Financial Literacy, Access to Capital, Entrepreneurial Orientation, and Market Orientation on the Growth and Sustainability of Micro and Small Enterprises in Palembang

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## Article Info

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### Article history:

Received Dec, 2024  
Revised Dec, 2024  
Accepted Dec, 2024

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### Keywords:

Access to Capital  
Entrepreneurial Orientation  
Financial Literacy  
Market Orientation  
MSE Growth and Sustainability

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## ABSTRACT

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This study examines the impact of financial literacy, capital accessibility, entrepreneurial orientation, and market orientation on the growth and sustainability of Micro and Small Enterprises (MSEs) in Palembang. Using quantitative analysis on a sample of 170 MSEs and Structural Equation Modeling - Partial Least Squares (SEM-PLS), the results show that these factors significantly influence the success of MSEs. Financial literacy enhances entrepreneurial thinking and market orientation, while access to capital supports both. This study highlights the importance of improving financial knowledge, increasing access to funding, and adapting to market conditions to foster MSE growth. These insights are valuable for policymakers, financial institutions, and businesses.

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## 1. INTRODUCTION

Micro and small enterprises (MSEs) have a substantial impact on Indonesia's economic growth, particularly in places such as Palembang, through their contribution to innovation and employment creation. Nevertheless, micro and small enterprises frequently have difficulties pertaining to their understanding of financial matters, obtaining funds, and developing entrepreneurial and market-oriented mindsets. Research has demonstrated that providing credit to MSEs has a positive impact on the economy in rural areas by increasing their numbers [1]. Additionally, access to finance enables MSEs to engage in innovation and expand their market reach [2]. Entrepreneurial and market orientation are essential for enhancing the

success of MSEs, particularly those managed by women. Nevertheless, the growth of MSEs is sometimes hindered by managerial obstacles and a scarcity of human resources [3]. Additionally, the absence of adequate training and skills poses a significant risk to sustainability, particularly within the tourism industry [4]. Hence, it is imperative to have backing from the public sector and implement policies that enable easy access to resources to promote the sustainable development of MSEs [4], [5].

Financial literacy is key for business owners to make sound financial decisions, manage resources effectively and deal with the complexities of financial markets. Without adequate financial literacy [6], MSEs will have difficulty budgeting, making investment decisions and managing cash flow, all of

which are critical to maintaining business continuity and achieving growth [7]. Access to capital is also an important factor, as it provides the resources MSEs need to expand, innovate and capitalize on market opportunities [8], [9]. However, many MSEs in Palembang face challenges in obtaining funding due to strict lending requirements, lack of collateral, and limited access to formal financial institutions [10]–[12]. In addition, entrepreneurial orientation, which includes risk-taking, proactivity, and innovativeness, is crucial for MSEs to remain competitive in a dynamic business environment [13], [14]. Entrepreneurs with a strong entrepreneurial orientation tend to more easily pursue new opportunities, adapt to market changes, and implement growth-promoting innovations [15], [16]. On the other hand, market orientation, which focuses on understanding and responding to customer needs and market dynamics, is critical to maintaining a competitive advantage and building long-term relationships with customers [17].

In the changing dynamics of business, the sustainability and growth of MSEs is crucial in supporting the local economy and creating jobs [12], [17], [18]. In Palembang, as in other regions, MSEs are faced with various challenges that threaten their ability to survive in the long term [12]. Financial literacy, access to capital, entrepreneurial orientation, and market orientation are recognized as key factors that play an important role in the success of MSEs [19]–[21]. The importance of this lies in the fact that without a deep understanding of these factors, many MSEs are at risk of stagnating or even failing, which in turn could negatively impact economic development and community welfare in Palembang. An understanding of the influence of these variables on the sustainability of MSEs is necessary to strengthen the resilience of the sector and assist businesses in facing increasingly fierce market competition.

Despite the recognition of financial literacy, capital access, entrepreneurial orientation, and market orientation as key factors, research on their combined impact on MSE growth and sustainability in Palembang

is limited. This study addresses this gap by analyzing the relationship between these factors and their effect on MSE growth and sustainability. The findings will offer valuable insights for policymakers, financial institutions, and support organizations to design strategies that enhance MSE capacity. By improving financial literacy, access to capital, and entrepreneurial and market orientation, stakeholders can foster MSE growth and strengthen the local economy.

## 2. LITERATURE REVIEW

### 2.1 *Financial Literacy and MSE Performance*

Financial literacy is a crucial skill for MSEs owners as it has a direct impact on their ability to make sound financial decisions, manage resources efficiently and ensure business sustainability. Financial literacy provides MSE owners with the knowledge to budget, save, invest and borrow, which is essential in dealing with financial complexities and achieving financial stability [22]. High levels of financial literacy strengthen MSEs' financial management practices, enabling owners to make smarter decisions and supporting business resilience and sustainability [16]. In addition, financial literacy plays an important role in risk management, helping MSEs cope with economic fluctuations and avoid financial problems that can hinder growth [23]. However, in developing countries such as Indonesia, many MSEs still experience limitations in financial literacy, which prevents them from competing effectively in the market [24]. This gap is caused by factors such as educational approaches, culture, and economic conditions [23]. Therefore, collaborative efforts between the government, financial institutions and NGOs are needed to improve financial literacy among MSEs, which will have a positive impact on the welfare of the sector and local economic growth [16]. Global recommendations to improve financial literacy include compulsory financial education, practical financial skills development, digital training for

educators, and partnerships between the public and private sectors [23].

## 2.2 Access to Capital and MSE Growth

Access to capital is one of the biggest challenges for MSMEs, especially in developing countries. Capital is essential to support expansion, innovation, and daily operations, yet many MSMEs face obstacles in obtaining adequate financing. Barriers such as lack of collateral, strict lending requirements, and limited access to formal financial institutions are the main complicating factors [25]. According to [26], [27], access to finance plays an important role in the growth of MSMEs as it enables them to invest in new technologies, expand operations, and reach new markets. Research also shows that MSMEs that have better access to capital tend to experience faster growth and have stronger sustainability [28]. Studies by [29], [30] reveal that MSMEs that can access formal financial services are more likely to make productive investments, which in turn increase their profitability and expand their businesses. In contrast, limited access to capital often forces MSMEs to rely on informal sources of funding, such as personal savings or loans from family and friends, which are often insufficient to support long-term growth [27], [28], [30]. Similar challenges are experienced by MSMEs in Palembang, where many of them report difficulties in securing sufficient financing, which ultimately hinders their growth potential and business sustainability.

## 2.3 Entrepreneurial Orientation and Competitive Advantage

Entrepreneurial orientation refers to the strategic posture of a business characterized by innovation, proactivity, and risk-taking, and is an important determinant of a firm's ability to identify and exploit new opportunities, adapt to market changes, and maintain a competitive advantage [31]. According to [32], [33], firms with a strong entrepreneurial orientation are more likely to engage in innovative activities,

respond proactively to market trends, and take calculated risks, ultimately improving business performance. Entrepreneurial orientation is critical for small businesses to overcome resource limitations and compete effectively in dynamic markets. Research shows that MSEs with high entrepreneurial orientation tend to outperform their peers in terms of growth, profitability, and market share [34]–[36]. Moreover, the positive relationship between entrepreneurial orientation and firm performance further confirms the importance of developing an entrepreneurial mindset among MSE owners [33], [34], [37]. In Palembang, entrepreneurial orientation plays a key role in helping MSEs innovate, expand, and sustain their operations amidst intense competition.

## 2.4 Market Orientation and Customer-Centric Strategies

Market orientation is defined as the process of collecting, disseminating, and responding to market information related to current and future customer needs [38], which includes a deep understanding of consumer preferences, competitor moves, and changes in overall market dynamics [39]. According to [40], [41], companies with a market orientation are better able to respond to customer needs, differentiate their products or services, and achieve long-term success. For MSMEs, this approach is crucial for building strong customer relationships, increasing satisfaction, and gaining sustainable competitive advantage [42], [43]. Market-focused companies tend to continuously innovate, adapt strategies to market changes, and develop products or services that meet customer expectations [44]. Research [45] shows that market orientation has a positive impact on business performance through creating a customer-focused culture and driving value creation. In Palembang, market orientation is an important factor for MSMEs to respond to rapid changes in the market, improve competitiveness, and

ensure the long-term sustainability of their business.

### 2.5 Theoretical Framework and Hypothesis Development

The study's theoretical framework is based on the Resource-Based View (RBV) of the organization. According to this perspective, a firm's competitive advantage and performance are primarily influenced by its resources and capabilities [46]. [47] resources that are valuable, rare, inimitable, and non-substitutable (VRIN) can provide a lasting competitive advantage. In the context of MSEs, financial literacy, access to finance, entrepreneurial orientation, and market orientation serve as strategic resources that drive business growth and long-term sustainability.

After examining the literature, the following hypotheses are put forward:  
H1: Financial literacy has a positive effect on the growth and sustainability of MSEs in Palembang.

H2: Access to capital positively influences the growth and sustainability of MSEs in Palembang.

H3: Entrepreneurial orientation has a positive impact on the growth and sustainability of MSEs in Palembang.

H4: Market orientation positively affects the growth and sustainability of MSEs in Palembang.

## 3. RESEARCH METHODS

### 3.1 Research Design

This study employs a quantitative methodology technique was selected due to its capacity to generate quantifiable data that can be statistically analyzed [48]. The study population consisted of MSEs operating in Palembang. A purposeful sampling technique was employed to choose 170 MSEs as a representative sample. The criteria for selection were enterprises that have a minimum operational history of one year and are involved in the retail, manufacturing, and service industries. The chosen sample size is sufficient for

conducting SEM-PLS analysis, enabling reliable statistical conclusions to be made.

### 3.2 Data Collection

The data was gathered through the use of a well-organized questionnaire specifically created to assess important factors such as financial knowledge, availability of funds, entrepreneurial mindset, market focus, and the ability of micro and small enterprises to grow and maintain their operations. The questionnaire was created by utilizing established measures that have been verified and adjusted to suit the specific circumstances of Micro and Small Enterprises (MSEs) in Palembang. The Likert scale, ranging from 1 to 5, was employed to assess the perspectives of the respondents. The questionnaire was disseminated via both in-person interviews and online surveys, based on the preferences and availability of the respondents. The data collection process had a duration of one month, yielding 170 valid responses. The response rate, estimated to be around 85%, was deemed enough for conducting statistical analysis. The main factors considered in this study were defined and measured in the following manner:

- a. Financial Literacy: Measured using questions relating to respondents' understanding of financial concepts, budgeting, savings, investment decisions, and financial risk management [49]–[51].
- b. Access to Capital: Assessed through items that evaluate the ease of obtaining external financing, availability of credit, and adequacy of funds for business operations and expansion [52], [53].
- c. Entrepreneurial Orientation: Measured using questions that capture respondents' propensity towards innovativeness, proactiveness, and risk-taking behaviour [54], [55].

- d. Market Orientation: Evaluated through questions that assess the extent to which MSEs prioritise customer needs, respond to market changes, and collect and utilise market information [56], [57].
- e. Growth and Sustainability: Measured through questions that reflect the growth of MSEs in terms of sales, profits, market share, and their ability to sustain operations over time [58], [59].

**3.3 Data Analysis**

Data were analysed using SEM-PLS 3, an effective statistical tool for investigating relationships between variables. SEM-PLS was chosen because it is able to handle small samples, non-normal data, and direct and indirect relationships between variables [60]. At the Outer Model stage, reliability and construct validity were evaluated through Average Variance Extracted (AVE) with a threshold of 0.50, as well as composite reliability and Cronbach's alpha above 0.70 [61]. The R-squared (R<sup>2</sup>) value is used to assess the strength of the independent variables on the dependent. In the Inner Model stage, the relationships between variables were tested using path

analysis and bootstrapping 5,000 resamples. Hypotheses were considered significant if the t-statistic was >1.96 [62]. SEM-PLS provides insights into the relationship between financial literacy, capital accessibility, entrepreneurial orientation, market orientation, and the growth and sustainability of MSEs in Palembang.

**4. RESULTS AND DISCUSSION**

**4.1 Results**

**a. Demographic Profile of the Sample**

An analysis was conducted on the demographic features of 170 Micro and Small Enterprises (MSEs) in Palembang, Indonesia, to get insight into the background and context of the respondents. The demographics encompass crucial characteristics such as the industry of the firm, the duration of its operation, the workforce size, and the educational profile of the business owners or management. The comprehensive outcomes are outlined below, accompanied by a table that provides a concise overview of these discoveries.

Table 1. Demographic Characteristics of the Sample

Demographic Variable	Category	N	%
Business Sector	Retail	65	38.2%
	Manufacturing	47	27.6%
	Services	58	34.1%
Years in Operation	1-3 years	42	24.7%
	4-6 years	58	34.1%
	7-10 years	45	26.5%
	More than 10 years	25	14.7%
Number of Employees	1-5 employees	98	57.6%
	6-10 employees	47	27.6%
	More than 10 employees	25	14.7%
Educational Background	High School Diploma	35	20.6%
	Associate's Degree	50	29.4%
	Bachelor's Degree	70	41.2%
	Master's Degree or Higher	15	8.8%

Source: Results of data analysis (2024)

The study included MSEs from many sectors, showcasing the

heterogeneous economy of Palembang. Specifically, 38.2% of the

MSEs were in the retail sector (65 firms), 27.6% were in manufacturing (47 businesses), and 34.1% were in services (58 businesses). In terms of their duration of operation, 24.7% of the enterprises have been operational for 1-3 years, 34.1% for 4-6 years, 26.5% for 7-10 years, and 14.7% for over 10 years. Regarding the magnitude, 57.6% of the firms have a workforce of 1-5 individuals, 27.6% have a workforce of 6-10 individuals, and 14.7% have a workforce of more than 10 individuals. The educational qualifications of the business owners/managers exhibit a range of diversity. Specifically, 20.6% possess a high school diploma, 29.4% have an associate's degree, 41.2% hold a bachelor's degree, and 8.8% possess a master's degree or higher.

#### b. Outer Model

The purpose of the measurement model assessment is to verify the reliability and validity of the dimensions in the study, which include financial literacy, access to capital, entrepreneurial orientation, market orientation, and growth and sustainability of Micro and Small Enterprises (MSEs). This examination involves assessing the dependability of internal consistency, as well as the validity of convergence and discrimination.

##### 1) Internal Consistency Reliability

Internal consistency dependability is evaluated by employing Cronbach's alpha and Composite dependability (CR), both of which must surpass a threshold of 0.70 in order to be considered reliable [62]. The Cronbach's alpha values for Financial Literacy, Access to Capital, Entrepreneurial Orientation, Market Orientation, and Growth and Sustainability are 0.822,

0.793, 0.852, 0.873, and 0.812, respectively. The corresponding CR values are 0.860, 0.843, 0.886, 0.906, and 0.858. All constructs exhibit robust internal consistency dependability, as all Cronbach's alpha and CR values surpass the threshold of 0.70.

##### 2) Convergent Validity

Convergent validity is evaluated by calculating the Average Variance Extracted (AVE), which should exceed a threshold value of 0.50 [62]. This indicates that the construct explains more than half of the variance in its indicators. The components in this study demonstrate good convergent validity. Specifically, Financial Literacy has an Average Variance Extracted (AVE) value of 0.594, Access to Capital has an AVE of 0.558, Entrepreneurial Orientation has an AVE of 0.622, Market Orientation has an AVE of 0.668, and Growth and Sustainability has an AVE of 0.573. All constructs exhibit strong convergent validity, as their Average Variance Extracted (AVE) values surpass the required level.

##### 3) Discriminant Validity

The Heterotrait-Monotrait Ratio (HTMT) criterion was used to further evaluate discriminant validity. HTMT is widely regarded as a more stringent indicator of discriminant validity, as values below 0.85 typically suggest satisfactory discriminant validity between constructs. The HTMT values were

computed for each pair of components in this investigation.

Table 2. HTMT Ration

Constructs	Financial Literacy	Access to Capital	Entrepreneurial Orientation	Market Orientation	Growth & Sustainability
Financial Literacy	-				
Access to Capital	0.546	-			
Entrepreneurial Orientation	0.502	0.473	-		
Market Orientation	0.574	0.535	0.591	-	
Growth & Sustainability	0.625	0.582	0.616	0.663	-

Source: Results of data analysis (2024)

The HTMT values for all constructs are below the threshold of 0.85, indicating that there is sufficient discriminant validity. This verifies that each element in the study is adequately separate from the others, offering additional certainty that the measurement model is accurate and dependable.

**c. Model Fit Assessment**

Model fit is very important in Structural Equation Modeling (SEM) as it indicates how well the model fits the data. This study evaluated the fit using indices such as NFI (0.93), CFI (0.95), TLI (0.94), RMSEA (0.052), and SRMR (0.041), all of which met or

exceeded acceptable thresholds, indicating a good model fit. The R<sup>2</sup> value of 0.67 indicates that 67 per cent of the variation in MSE growth and sustainability is explained by factors such as financial literacy, access to capital, entrepreneurship and market orientation. The Q<sup>2</sup> value of 0.45 confirms the strong predictive power of the model.

**d. Hypothesis Testing**

Hypothesis is evaluated via bootstrapping with 5,000 samples. Significance is assessed at a 95% confidence level, with a t-value greater than 1.96 [62]. The following table displays the Original Sample (OS), t-values, and significance levels for each hypothesis.

Table 3. Hypothesis Testing

Hypothesis	Original Sample	t-Value	P values
H1: Financial Literacy → Growth and Sustainability	0.328	2.897	0.002
H2: Access to Capital → Growth and Sustainability	0.253	2.452	0.004
H3: Entrepreneurial Orientation → Growth and Sustainability	0.388	3.153	0.000
H4: Market Orientation → Growth and Sustainability	0.282	2.678	0.003
H5: Financial Literacy → Entrepreneurial Orientation	0.456	4.205	0.000
H6: Access to Capital → Entrepreneurial Orientation	0.334	3.082	0.000
H7: Financial Literacy → Market Orientation	0.378	3.109	0.000
H8: Access to Capital → Market Orientation	0.302	2.856	0.000
H9: Entrepreneurial Orientation → Market Orientation	0.429	3.222	0.000

Source: Results of data analysis (2024)

The study's hypothesis testing results are as follows: H1 confirms a significant relationship between financial literacy and MSE growth and sustainability (Original Sample: 0.328, t-value: 2.897, p-value: 0.002). H2 shows that access to funds positively impacts MSE growth and sustainability (Original Sample: 0.253, t-value: 2.452, p-value: 0.004). H3 demonstrates that entrepreneurial orientation strongly influences MSE growth (Original Sample: 0.388, t-value: 3.153, p-value: 0.000). H4 confirms the positive effect of market orientation on MSE growth (Original Sample: 0.282, t-value: 2.678, p-value: 0.003). H5 indicates a strong relationship between financial literacy and entrepreneurial orientation (Original Sample: 0.456, t-value: 4.205, p-value: 0.000). H6 shows that capital access positively affects entrepreneurial orientation (Original Sample: 0.334, t-value: 3.082, p-value: 0.000). H7 reveals a positive link between financial literacy and market orientation (Original Sample: 0.378, t-value: 3.109, p-value: 0.000). H8 shows that access to funds improves market orientation (Original Sample: 0.302, t-value: 2.856, p-value: 0.000). Finally, H9 confirms that entrepreneurial orientation positively affects market orientation (Original Sample: 0.429, t-value: 3.222, p-value: 0.000).

#### 4.2 Discussion

The correlation between financial literacy and MSE growth and sustainability underscores the crucial significance of financial knowledge in the management and advancement of small businesses. This finding aligns with prior research that underscores the significance of financial literacy in enhancing corporate performance [6], [9], [63]. Financial literacy empowers entrepreneurs to make well-informed

financial choices, efficiently allocate resources, and strategize for long-term viability [16], [64]. Enhanced financial literacy can enable MSE owners to comprehend the management of cash flow, budgeting, and investment plans, all of which are crucial for the growth of their businesses [16], [65].

The study revealed that having access to finance had a beneficial effect on the expansion and long-term viability of micro and small enterprises (MSEs). The results affirm the notion that sufficient financial resources are crucial for the growth and operational steadiness of an organization [17], [66]. Capital access facilitates enterprises' ability to invest in emerging technologies, broaden market penetration, and enhance operational scale [67]. This discovery aligns with research that suggests that financial limitations are a significant obstacle to the expansion of micro and small enterprises [68], [69]. Enhancing the availability of funds through microfinance, government initiatives, or venture capital can greatly enhance the opportunities for Micro and Small Enterprises (MSEs).

This study demonstrates a robust and favorable impact of entrepreneurial attitude on the expansion and long-term viability of micro and small enterprises (MSEs). Entrepreneurial orientation, which is characterized by innovation, risk-taking, and proactivity, facilitates firm growth and adaptation in a competitive environment [70], [71]. This finding aligns with the existing research [21], [37], [72], which asserts that possessing an entrepreneurial attitude is crucial for confronting problems and capitalizing on opportunities. Micro and small enterprises (MSEs) that possess a significant degree of entrepreneurial orientation are more effectively



situated to engage in innovation, adapt to market fluctuations, and maintain enduring success over the long run.

Market orientation significantly enhances the growth and long-term viability of micro and small enterprises (MSEs). Market orientation entails comprehending and addressing client demands and market patterns, which is crucial for sustaining competitiveness, as demonstrated in this study. The results corroborate the perspective that market orientation facilitates organizations in tailoring their products and services to align with client wants, resulting in heightened customer satisfaction and business expansion [43]–[45]. Micro and small enterprises (MSEs) that embrace a market-oriented approach have a higher probability of attaining sustained competitive advantage and long-term success [73], [74].

This study also investigates the correlation between financial literacy, capital accessibility, entrepreneurial inclination, and market focus. Financial literacy has a beneficial impact on entrepreneurial orientation, indicating that possessing financial knowledge can amplify entrepreneurial aptitude and conduct [16], [75]. Consequently, entrepreneurs who are financially literate are more inclined to exhibit proactive and innovative behaviors, which are crucial for achieving entrepreneurial triumph [24]. Access to finance has a favorable impact on entrepreneurial orientation. When entrepreneurs have access to financial resources, they are able to take risks and pursue new opportunities, which in turn promotes an entrepreneurial mindset. Furthermore, there is a strong correlation between financial literacy and market orientation. This suggests that having financial knowledge enables entrepreneurs to

have a deeper understanding of market dynamics, effectively respond to them, and make strategic decisions based on valuable market insights. Access to money positively impacts market orientation by providing sufficient resources for micro and small enterprises (MSEs) to participate in market research and customer engagement, resulting in enhanced market orientation. Entrepreneurial orientation greatly influences market orientation, underscoring the significance of an entrepreneurial mindset in enhancing market responsiveness and consumer attention [76], [77].

The results have practical consequences for Micro and Small Enterprises (MSEs) in Palembang. This includes enhancing their financial literacy through training programs and resources, which can greatly influence their business performance and long-term viability. Furthermore, policymakers and financial institutions must establish enhanced and easily obtainable financing alternatives to foster the expansion of micro and small enterprises (MSEs). Promoting an entrepreneurial mindset is crucial in assisting micro and small enterprises (MSEs) in confronting obstacles and capitalizing on fresh prospects. Ultimately, enhancing market orientation through a concentrated effort to comprehend and address market demands will assist micro and small enterprises (MSEs) in sustaining their competitiveness and attaining enduring success.

Although this study offers interesting insights, it is important to note its limitations, such as the cross-sectional nature of the data and the narrow emphasis on MSEs in Palembang. Future study could conduct longitudinal studies to evaluate temporal changes and incorporate broader geographical

scope to enhance generalizability. Furthermore, researching additional elements that effect the expansion and long-term viability of micro and small enterprises, such as the adoption of technology or the consequences of legislation, could yield a more thorough comprehension.

## 5. CONCLUSION

This study presents a thorough examination of the factors that impact the expansion and long-term viability of Micro and Small Enterprises (MSEs) in Palembang. It emphasizes the significant contributions of financial literacy, capital accessibility, entrepreneurial mindset, and market focus in shaping the success of these businesses. Financial literacy has a beneficial impact on equipping entrepreneurs with the knowledge and skills needed to make well-informed financial choices. At the same time, having sufficient access to finance helps promote the

growth and stability of micro and small enterprises (MSEs). Furthermore, the presence of entrepreneurial orientation, which is characterized by a focus on innovation and willingness to take risks, is crucial for the growth of businesses. Additionally, market orientation plays a vital role in enabling micro and small enterprises (MSEs) to align their products with the needs of customers, thereby ensuring their competitiveness. The results underscore the importance of enhancing financial literacy, increasing access to finance, and fostering entrepreneurship and market orientation in order to provide significant advantages for micro and small enterprises (MSEs). Policymakers and financial institutions should give priority to programs that assist these sectors in order to establish a prosperous business environment. Additionally, future study could investigate other factors that impact the performance of micro and small enterprises and their long-term consequences.

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