

Local Wisdom and Entrepreneurial Leadership on Competitive Advantage and MSME Performance

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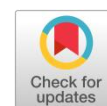
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Abstract

Creative economy MSMEs contribute to economic activity, create employment, and preserve cultural values, yet many face challenges in sustaining and improving performance. This study examines the relationships among local wisdom, entrepreneurial leadership, competitive advantage, and MSME performance, with competitive advantage serving as a mediating variable. The study involved 137 creative economy MSME operators in the culinary, handicraft, and herbal product sectors. Data were analyzed using PLS-SEM with SmartPLS. The results show that local wisdom is positively associated with competitive advantage and MSME performance, while entrepreneurial leadership is positively associated with competitive advantage but has no significant direct relationship with MSME performance. Competitive advantage is positively associated with MSME performance. The mediation analysis indicates that competitive advantage provides complementary partial mediation in the relationship between local wisdom and MSME performance. In contrast, it provides indirect-only mediation in the relationship between entrepreneurial leadership and MSME performance. These findings indicate that local wisdom and entrepreneurial leadership affect MSME performance through different pathways involving competitive advantage. The study extends the Resource-Based View and Dynamic Capabilities perspectives by showing how culturally embedded resources and entrepreneurial leadership may contribute to MSME performance through distinct competitive-advantage pathways.



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Introduction

Law No. 24 of 2019 defines the creative economy as activities based on ideas, creativity, and innovation derived from intellectual property, culture, and technology (Pemerintah Republik Indonesia, 2019). This definition aligns with Aritenang et al. (2020), who emphasize that the creative economy differs from the classical economy in that it is shaped by institutional factors, skills transfer, and local and national networks. MSMEs play a vital role in the Indonesian economy, accounting for approximately 97% of employment and around 61% of national GDP (Tambunan, 2025). The growing importance of the creative economy is also reflected in employment, with the number of workers in the sector increasing from 26.48 million in 2024 to 27.40 million in 2025, accounting for 18.70% of Indonesia's total workforce (Badan Pusat Statistik, 2025).

This study focuses on creative economy MSMEs because ideas, creativity, and innovation play a particularly important role in their value creation. Although creativity, innovation, and differentiation may also matter for MSMEs outside the creative economy, these elements are especially central to value creation in creative economy MSMEs. Creative economy MSMEs may draw on culture, art, design, or technology,

generating value through aesthetics, differentiation, and cultural expression (Aisha et al., 2019; Astuty et al., 2018). These characteristics make creative economy MSMEs a relevant context for examining how cultural resources and entrepreneurial capabilities contribute to competitive advantage and performance. Drawing on the literature on local wisdom in creative enterprises (Mahrinasari et al., 2024), this study operationalizes local wisdom as locally rooted cultural values and knowledge manifested in products, production processes, and consumer experiences. Creativity and cultural identity are treated as characteristics of the creative economy context rather than as dimensions of local wisdom. In contrast, differentiation represents a potential competitive outcome associated with applying local wisdom.

In Riau Province, the economy remains strongly influenced by resource-based sectors, particularly agriculture, mining, and manufacturing (Badan Pusat Statistik Provinsi Riau, 2025). Within this structure, creative economy MSMEs offer key opportunities for economic diversification by leveraging local cultural identity. However, these MSMEs face various operational obstacles, including limited capital, financial literacy, human resources, technological support, and policy support (Andrian et al., 2024; Gunawan & Cahayani, 2022; Mahrinasari et al., 2024; Maksum et al., 2020; Rinaldi et al., 2026; Hidayah et al., 2026). Addressing these challenges requires strategic internal resources and dynamic organizational capabilities.

Grounded in the Resource-Based View (RBV) and Dynamic Capabilities perspectives, this study views local wisdom embedded in cultural products as a potentially distinctive strategic resource. Consistent with the RBV, resources that possess valuable and distinctive characteristics can contribute to competitive advantage (Barney, 1991). In the context of creative economy MSMEs, local wisdom manifested in products such as Malay songket motifs and traditional cuisine may provide a basis for product differentiation. Meanwhile, entrepreneurial leadership can enable MSMEs to mobilize and reconfigure these cultural resources, allowing them to respond to market uncertainties and changing consumer conditions (Acheampong et al., 2023; Teece et al., 1997). Therefore, competitive advantage may link culturally embedded resources and leadership capabilities to MSME performance.

Although prior literature has examined local wisdom (Agustina et al., 2026; Aryanto, 2020; Atahau et al., 2022; Wibowo et al., 2025; Yasa et al., 2020) and entrepreneurial leadership (Nguyen et al., 2021; Anggriani & Kistyanto, 2021; Aránega et al., 2023; Atobishi & Podruzsik, 2025; Ercantan et al., 2024; Khamis et al., 2022; Nawaz et al., 2025; Rumijati & Hakim, 2023; Sari & Ahmad, 2022; Woo, 2025) in relation to firm performance, these two streams of research have largely developed separately. Studies on local wisdom emphasize its potential to improve business outcomes by leveraging culturally embedded knowledge and values, whereas research on entrepreneurial leadership shows that it enables MSMEs to mobilize and reconfigure resources in response to changing market conditions. However, empirical evidence on the relationship between entrepreneurial leadership and firm performance remains inconclusive, with some studies suggesting that its contribution may operate through intervening mechanisms such as dynamic capabilities or competitive advantage (Nguyen et al., 2021). Furthermore, limited research has examined local wisdom and entrepreneurial leadership simultaneously within an integrated framework in which competitive advantage serves as a common mediating mechanism linking these antecedents to MSME performance.

In addition to this empirical and conceptual gap, empirical studies on local wisdom and entrepreneurial leadership among MSMEs have often focused on regions such as Java, Bali, and Makassar (Dewi et al., 2023; Herdina et al., 2023; Saefuddin et al., 2022). Riau provides distinct research settings because of its strong Malay cultural heritage, reflected in traditional crafts such as Tenun Songket and in the preservation of traditional literature (Setiawan et al., 2024). The province has also witnessed the development of creative economy clusters in areas such as Pekanbaru and Indragiri Hilir (Andrian et al., 2024; Zulkarnain et al., 2018). Nevertheless, creative economy MSMEs in Riau continue to face challenges related to product literacy and market reach (Yusriwati & Gustina, 2020). These characteristics make Riau a relevant context for examining how locally embedded cultural resources and entrepreneurial leadership contribute to competitive advantage and MSME performance.

Against this background, this study examines the relationships between local wisdom, entrepreneurial leadership, competitive advantage, and MSME performance among creative economy MSMEs in Riau Province, with competitive advantage positioned as a mediating variable. The study contributes to the Resource-Based View by extending the understanding of how locally embedded cultural resources may provide a basis for competitive advantage in creative economy MSMEs. It also extends the Dynamic Capabilities perspective by examining how entrepreneurial leadership may enable MSMEs to mobilize and reconfigure culturally embedded resources in response to changing market conditions. Empirically, the study integrates local wisdom and entrepreneurial leadership into a single framework and examines competitive advantage as a pathway linking these factors to MSME performance. Contextually, the study extends evidence on creative economy MSMEs to Riau Province, where Malay cultural heritage provides a distinctive setting for examining the interplay between cultural resources, entrepreneurial capabilities, competitive advantage, and MSME performance.

Literature Review and Hypothesis Development

Theory Foundation

According to the Resource-Based View (RBV), a company's competitive advantage and performance are largely determined by its ability to control and utilize internal resources that differ from those of its competitors; these resources must be valuable, rare, inimitable, and non-substitutable to create a sustainable competitive advantage (Barney, 1991). In line with current business developments, the RBV has evolved by integrating the perspective of dynamic capabilities to remain relevant in a dynamic business environment (Holz, 2026; Münter, 2026). Furthermore, RBV also emphasizes the diversity of resources across companies, distinguishing between assets, processes, and knowledge that can generate various strategies and ultimately maximize profits. Thus, this RBV framework aligns with the context of creative economy MSMEs in Indonesia, as they possess diverse cultural capital, creativity, and business management practices.

However, RBV is still considered more static because it emphasizes a company's strategic resources and has not yet addressed current business-environment uncertainties optimally. Therefore, the concept of Dynamic Capabilities (DC) has emerged, focusing on an organization's ability to integrate, build, and reconfigure resources to remain relevant (Xiao et al., 2008). DC emphasizes the process of adapting and reconfiguring resources to generate sustainable competitive advantage (Rihayana et al., 2023; Rotjanakorn et al., 2020). In summary, RBV provides a foundational framework for understanding the importance of strategic resources. At the same time, DC emphasizes how these resources can be leveraged and adapted to environmental changes. The integration of these two theories provides a more comprehensive conceptual framework for explaining the sustainability strategies of culture-based creative MSMEs (Raza et al., 2018).

Within this integrated framework, local wisdom is conceptualized as a culturally embedded strategic resource under the Resource-Based View (RBV), while dynamic capabilities provide a theoretical lens for explaining how entrepreneurial leadership enables MSMEs to mobilize and adapt their resources in response to changing market conditions. Entrepreneurial leadership is not considered synonymous with dynamic capabilities; rather, it is positioned as a micro-foundational capability that may facilitate dynamic processes. Specifically, entrepreneurial leaders may support sensing market opportunities and threats, seizing emerging opportunities through strategic decisions and resource mobilization, and reconfiguring existing resources and business practices in response to environmental changes. These processes provide a theoretical explanation for how entrepreneurial leadership may facilitate the effective utilization and adaptation of resources, including culturally embedded local wisdom, to develop competitive advantage. Competitive advantage, in turn, represents the mediating mechanism through which local wisdom and entrepreneurial leadership may contribute to MSME performance. Therefore, Dynamic Capabilities is used as a theoretical perspective rather than a directly measured construct, and the processes of sensing, seizing, and reconfiguring are not tested independently in the empirical model. This position preserves the distinct theoretical roles of RBV and Dynamic Capabilities: RBV explains the strategic value of local wisdom,

whereas Dynamic Capabilities explains how entrepreneurial leadership may facilitate resource mobilization and adaptation to support competitive advantage and MSME performance.

Local Wisdom and Competitive Advantage

According to the Resource-Based View (RBV) framework, resources that are Valuable, Rare, difficult to Imitate, and Non-substitutable (VRIN) serve as the foundation for creating competitive advantage (Barney, 1991). From an RBV perspective, local wisdom may constitute a strategic resource for creative economy Micro, Small, and Medium Enterprises (MSMEs) because it embodies cultural values, historical heritage, and community-specific knowledge that can be reflected in product production processes and business practices. However, local wisdom's strategic value does not automatically follow from its cultural origins; it depends on how effectively MSMEs incorporate these distinctive cultural elements into their offerings and business activities.

Local wisdom can create competitive advantage by helping MSMEs differentiate their products, strengthen their cultural identity, and offer distinctive value that competitors cannot easily replicate authentically. Because locally embedded knowledge and cultural meanings are shaped by specific historical and social contexts, competitors may find it difficult to reproduce the same combination of authenticity, community recognition, and cultural significance. When integrated into product design, production processes, and marketing strategies, local wisdom can therefore differentiate an MSME and strengthen its competitive position. This argument is consistent with Pratiwi et al. (2025), who identify the contribution of local wisdom to sustainable differentiation in the tourism sector; Mahrinasari et al. (2024), who highlight its role as a contextual resource supporting MSME strategies; and Wibowo et al. (2025), who associate local wisdom with competitive advantage through process innovation. These arguments suggest that local wisdom can function as a strategic resource when its distinctive cultural attributes are effectively translated into market-relevant value. The preceding discussion provides the basis for the following hypothesis:

H1. Local Wisdom has a positive effect on competitive advantage.

Local Wisdom and MSME Performance

From the Resource-Based View, strategic resources not only protect a firm's market position but also drive measurable business outcomes (Barney, 1991). In the creative economy, micro, small, and medium enterprises (MSMEs) can use local wisdom as a culturally embedded resource that contributes to MSME performance when incorporated into products, production processes, and business practices. By translating cultural heritage and locally rooted knowledge into commercially relevant offerings, MSMEs may attract consumer interest, strengthen product appeal, and increase sales and profitability. Local wisdom may also support non-financial performance by reinforcing brand recognition, customer relationships, and business continuity. However, these benefits depend on how effectively businesses integrate cultural resources into their activities and align them with market demands.

Empirical studies provide further support for the potential relationship between local wisdom and MSME performance. Diatmika and Rahayu (2025) demonstrate that applying local wisdom in traditional woven fabrics and culinary products can encourage market-oriented innovation, creating opportunities for improved business outcomes. Similarly, Irjayanti and Lord (2024) highlight that local wisdom strengthens brand image and perceived consumer value, which may strengthen customer retention and profitability. Andria et al. (2025) further indicate that combining cultural values with digital technology can expand market reach and increase consumer engagement. These findings suggest that local wisdom may contribute to MSME performance through several business-related pathways, including product innovation, stronger brand value, customer retention, and market expansion. These arguments lead to the following hypothesis:

H2. Local wisdom positively affects MSME performance.

Entrepreneurial Leadership and Competitive Advantage

Based on the dynamic capabilities perspective (Teece et al., 1997), entrepreneurial leadership serves as a key micro-foundation enabling firms to monitor market changes continuously (sensing), capture opportunities (seizing), and restructure organizational resources (reconfiguring). Within this framework, entrepreneurial leadership can facilitate these processes by directing attention toward emerging opportunities, encouraging calculated risk-taking, and mobilizing organizational resources to support innovation. In the dynamic creative economy sector, these leadership behaviors matter because MSMEs must respond to changing consumer preferences while developing products and business practices that reflect their distinctive resources. By encouraging innovation and aligning business activities with evolving market demands, entrepreneurial leaders may help MSMEs strengthen their competitive position (Atobishi & Podruzsik, 2025).

Entrepreneurial leadership may further contribute to competitive advantage by enabling MSMEs to translate strategic vision, entrepreneurial initiative, and business relationships into market-relevant capabilities. By effectively mobilizing and adapting internal resources, entrepreneurial leaders can support product and process innovation, improve responsiveness to market changes, and develop differentiated offerings. These activities may help MSMEs create value that distinguishes them from competitors and strengthens their market position. Consistent with this argument, Khamis et al. (2022) provide a basis for examining the role of entrepreneurial leadership in developing capabilities that support competitive positioning. These arguments suggest that entrepreneurial leadership can contribute to competitive advantage by facilitating resource mobilization, innovation, and adaptation to changing market conditions. Accordingly, the following hypothesis is proposed:

H3. Entrepreneurial leadership positively affects competitive advantage.

Entrepreneurial Leadership and MSME Performance

From a dynamic capabilities perspective, entrepreneurial leadership can contribute to MSME performance by integrating creativity, innovation, strategic vision, and managerial skills (Omeihe et al., 2023; Segares, 2026). In the dynamic creative economy, entrepreneurial leadership extends beyond routine operational management to foster creativity, build business relationships, and identify growth opportunities. These leadership behaviors may help MSMEs translate entrepreneurial initiatives and innovation into improved business outcomes by aligning business activities with market demands and available resources (Arif & Herawan, 2025; Purwati et al., 2020; Rumijati & Hakim, 2023).

Entrepreneurial leadership may also influence MSME performance through effective strategy formulation, timely decision-making, and the ability to respond to emerging market opportunities. Leaders who provide strategic direction and encourage adaptive business practices can help MSMEs improve operational efficiency, develop market opportunities, and strengthen financial outcomes. Consistent with this argument, previous studies have examined the contribution of visionary and adaptive leadership to business strategies and performance outcomes, including sales growth, operational efficiency, and profitability (Munthe et al., 2024; Nguyen et al., 2021; Thongyai & Potipiroon, 2022). Accordingly, these arguments suggest that entrepreneurial leadership can contribute directly to MSME performance by supporting effective decision-making, innovation, and responsiveness to changing market conditions. The theoretical arguments and empirical evidence support the following hypothesis:

H4. Entrepreneurial leadership positively affects MSME performance.

Competitive Advantage and MSME Performance

Within the Resource-Based View, competitive advantage reflects a firm's ability to create and capture value in ways competitors find difficult to replicate, providing a basis for superior performance (Barney, 1991). For creative economy MSMEs, competitive advantage can arise from distinctive product offerings, effective resource utilization, and operational efficiency that enable firms to provide greater value to customers than competitors. When MSMEs effectively maintain these advantages and align them with market demands,

they can strengthen their market position and achieve better business outcomes (Budiarto et al., 2024; Gunawan & Cahayani, 2022).

Competitive advantage can contribute to MSME performance through several mechanisms. Product differentiation can increase perceived customer value, strengthen customer loyalty, and provide opportunities for premium pricing, while efficient resource utilization and process innovation can improve productivity and responsiveness to market changes (Ong et al., 2018; Zahara et al., 2024). These advantages may subsequently be reflected in performance outcomes such as sales growth, profitability, and market expansion (Otache & Usman, 2024; Yuwono et al., 2025). Thus, competitive advantage provides a mechanism through which the strategic value created by MSMEs can be translated into improved MSME performance. Accordingly, the following hypothesis is proposed:

H5. Competitive advantage positively affects MSME performance.

Competitive Advantage, Local Wisdom, and MSME Performance

Local wisdom encompasses values, cultural heritage, and traditional knowledge that MSMEs may use as strategic resources. However, the contribution of these resources to MSME performance depends on how effectively they are translated into market value. From the Resource-Based View (RBV), local wisdom may enhance MSME performance when its culturally embedded attributes are transformed into distinctive products, differentiated market positioning, and other forms of competitive advantage (Mongkol, 2022). Competitive advantage therefore provides a market-oriented mechanism through which the strategic value of local wisdom can be converted into improved MSME performance. Although local wisdom may also influence performance directly through culturally informed business practices, its indirect contribution is expected to occur when cultural resources are effectively transformed into distinctive offerings and a stronger competitive position.

Previous empirical studies provided support for this proposed mechanism. Local wisdom has been associated with process innovation that strengthens competitive advantage (Wibowo et al., 2025) and with marketing strategies that support distinctive market positioning (Mahrinasari et al., 2024). Furthermore, competitive advantage has been identified as a mediating mechanism linking culture-based strategic orientations and traditional knowledge management to MSME performance (Permatasari et al., 2023; Rahmadi et al., 2026). These theoretical and empirical arguments suggest that competitive advantage can explain how the strategic value embedded in local wisdom is translated into improved MSME performance. Based on the preceding discussion, the following hypothesis is formulated:

H6. Competitive advantage mediates the relationship between local wisdom and MSME performance.

Competitive Advantage, Entrepreneurial Leadership, and MSME Performance

Entrepreneurial leadership may also affect MSME performance indirectly by developing competitive advantage. Grounded in the dynamic capabilities perspective, entrepreneurial leaders act to build strategic agility, drive technological innovation, and instill a market orientation (Nguyen et al., 2024; Nguyen et al., 2021). These leadership behaviors may contribute to performance by enabling MSMEs to translate adaptive and innovative activities into differentiated products, stronger market positioning, and greater customer value. Although entrepreneurial leadership may directly contribute to MSME performance through more effective decision-making and organizational practices, its indirect contribution is expected to emerge when entrepreneurial leadership facilitates the development of competitive advantage. Competitive advantage therefore represents a market-oriented pathway through which entrepreneurial leadership may contribute to MSME performance, distinct from its proposed direct effect on performance.

Previous studies provided support for this proposed mechanism. Entrepreneurial leadership has been associated with adaptive capabilities and innovation strategies that strengthen SME competitiveness in dynamic markets (Correia et al., 2022; Otache & Usman, 2024). In turn, competitive advantage can help MSMEs strengthen their market position and improve operational and financial outcomes (Azzam et al., 2023). Overall, these arguments suggest that competitive advantage may function as an intermediary

mechanism through which entrepreneurial leadership is translated into improved MSME performance by converting adaptive and innovative efforts into a stronger market position. Therefore, the following hypothesis is proposed:

H7. Competitive advantage mediates the relationship between entrepreneurial leadership and MSME performance.

The preceding theoretical and empirical arguments establish the proposed relationships among local wisdom, entrepreneurial leadership, competitive advantage, and MSME performance. From the Resource-Based View, local wisdom is a culturally embedded strategic resource that can create distinctive value, while the dynamic capabilities perspective explains how entrepreneurial leadership can mobilize, adapt, and transform resources in response to changing market conditions. These resources and leadership processes are expected to strengthen competitive advantage, which may subsequently improve MSME performance. Accordingly, the framework proposes both direct effects of local wisdom and entrepreneurial leadership on MSME performance and indirect effects through competitive advantage as a mediating mechanism. The proposed relationships are summarized in the conceptual framework presented in Figure 1.

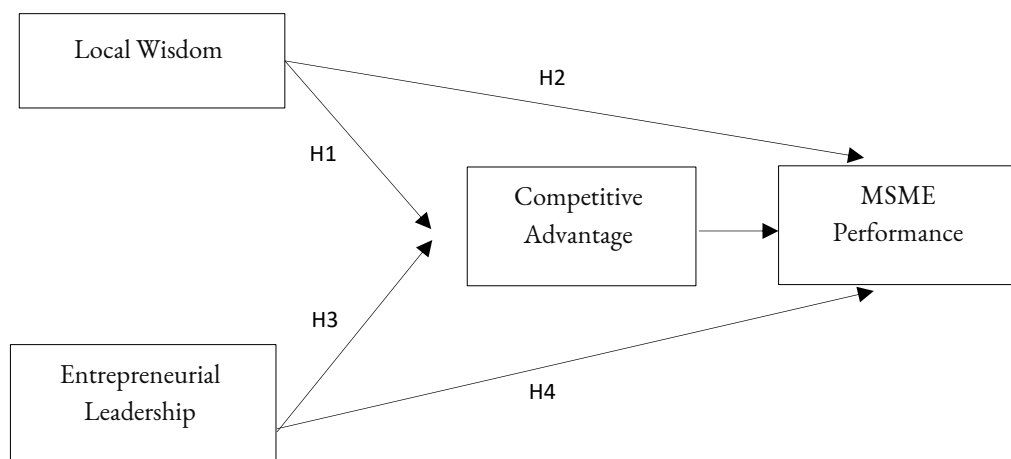


Figure 1. Conceptual Framework of the Study

Research Method

This quantitative study was conducted by distributing questionnaires directly to respondents over approximately two months in late 2025. The minimum sample size was determined using G*Power 3.1.9.7 (Faul et al., 2007), applying an a priori power analysis for a linear multiple regression (fixed model, R^2 deviation from zero) procedure. This procedure was used as a sample-size approximation for the most complex endogenous construct in the proposed PLS-SEM model. The analysis was specified using an effect size (f^2) = 0.15, representing a medium effect, a significance level (α) of 0.05, statistical power ($1-\beta$) of 0.95, and three predictors. The number of predictors was determined by the maximum number of structural paths directed at a single endogenous construct in the proposed model. Specifically, MSME performance is specified as an endogenous construct receiving three structural paths from local wisdom, entrepreneurial leadership, and competitive advantage. Accordingly, the GPower analysis indicated a minimum required sample size of 119 respondents for the most complex structural equation in the proposed PLS-SEM model.

To account for potentially unreturned or invalid questionnaires, the target sample was set above this minimum, resulting in 154 questionnaires being distributed to prospective respondents. Because no comprehensive official registry of creative economy MSMEs was available for the study population, the researchers identified and recruited respondents through direct field visits to MSME business locations in Pekanbaru City, Kampar Regency, and Siak Regency, Riau Province. During these visits, the researchers explained the study's purpose and distributed questionnaires directly to owners or managers who met the eligibility criteria and were willing to participate. All 154 distributed questionnaires were returned. After

screening the data, the researchers excluded 17 questionnaires due to incomplete responses, leaving 137 valid questionnaires for the final analysis.

The study used purposive sampling with the following criteria: creative economy MSMEs in the culinary, handicraft, and herbal product subsectors that had operated for more than one year. These subsectors were selected because local wisdom is particularly relevant to their products, production processes, and business activities.

This study examines four latent variables: local wisdom, entrepreneurial leadership, competitive advantage, and MSME performance. The questionnaire initially comprised 31 measurement items: eight for entrepreneurial leadership, nine for local wisdom, six for competitive advantage, and eight for MSME performance. All items were assessed using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

The instrument was developed by adopting, adapting, and contextualizing items informed by previous research. Entrepreneurial leadership was measured with reference to Renko et al. (2015), with the statements formulated for self-assessment by MSME owners and managers. Local wisdom was measured with reference to Mahrinasari et al. (2024) with additional conceptual support from Parameswara et al. (2023) and Sonhom and Taravet (2023). Competitive advantage was measured with reference to De Villiers (2001); Haseeb et al. (2019); Mahrinasari et al. (2024). MSME performance was measured with reference to Indriartiningtias et al. (2019) and Rumanti et al. (2023). The measurement items were contextualized to reflect the characteristics of creative economy MSMEs in Riau.

The original English-language measurement materials were translated into Indonesian and subsequently back-translated into English to assess semantic consistency. The translated questionnaire was reviewed by three lecturers to evaluate item clarity, conceptual relevance, and contextual appropriateness for creative economy MSMEs in Riau. Based on their feedback, several items were linguistically refined to improve respondent comprehension while preserving their intended conceptual meaning.

Before the main survey, the revised questionnaire was pilot-tested with 30 owners or managers of creative economy MSMEs in Riau who were excluded from the final sample. These respondents shared characteristics like those of the target population. Feedback was collected through written comments on the questionnaire, particularly regarding terminology, clarity of expression, and respondent comprehension. The comments were reviewed, and minor wording adjustments were made to improve readability and contextual clarity. No measurement items were deleted or substantially modified following the pilot test.

Table 1 presents the operational definitions, item domains, item codes, and support literature for each construct. The questionnaire comprised 31 items measuring entrepreneurial leadership, local wisdom, competitive advantage, and MSME performance. In this study, local wisdom is operationalized as locally rooted cultural values and knowledge manifested in MSME business practices, rather than as cultural identity or cultural embeddedness in a broader sense. The nine items capture three forms of manifestation: cultural values embedded in products, cultural values applied in production processes, and cultural values reflected in consumer experiences. Specifically, the items address incorporating local traditions and distinctive regional characteristics into products, culturally rooted production practices and intergenerational knowledge, and communicating local cultural meanings to consumers. Thus, the construct focuses on the practical application of local wisdom in MSME activities rather than respondents' general identification with or attachment to a particular culture.

Because this study relies on self-reported survey data collected through a single questionnaire from the same respondents, response bias and Common Method Bias (CMB) were considered potential concerns. Several procedural safeguards were therefore applied to minimize these risks. Respondent anonymity and confidentiality were guaranteed to reduce social desirability bias, questionnaire items were worded clearly and concisely, and the expert review and pilot-testing procedures described above were used to improve item clarity and comprehension before data collection (Podsakoff et al., 2003). In addition, the researchers distributed and collected the questionnaires through direct, in-person field visits, allowing them to clarify any items respondents found unclear in real time and reduce the likelihood of misinterpretation.

Participation was entirely voluntary, and researchers informed respondents beforehand to reduce compliance-driven response patterns.

Table 1. The Operational Definition of Variables

Variable	Definition	Main Dimensions and Indicators	Sources Adaptation
Entrepreneurial Leadership	The ability of MSME owners or managers to encourage innovative behavior, recognize business opportunities, demonstrate initiative, accept entrepreneurial risks, communicate a long-term vision, and inspire proactive behavior.	Innovation encouragement and opportunity recognition (EL1–EL2); initiative and opportunity seeking (EL3–EL4); risk-taking and future vision (EL5–EL6); entrepreneurial inspiration and proactiveness (EL7–EL8). 8 items.	(Renko et al., 2015).
Local Wisdom	Cultural values embedded in products, production processes, and consumer experiences that contribute to the authenticity and distinctiveness of creative economy MSMEs.	Cultural values embodied in products (LW1–LW3, LW8); cultural values embodied in production processes (LW4, LW9); cultural values reflected in consumer experiences (LW5–LW7). 9 items.	(Mahrinasari et al., 2024; Parameswara et al., 2023; Sonhom & Taravet, 2023).
Competitive Advantage	The ability of MSMEs to differentiate themselves through innovation, market positioning, access to and effective utilization of resources, and team competencies.	Innovation (CA1–CA2); market positioning (CA3); resource access and utilization (CA4–CA5); team competencies (CA6). 6 items.	(De Villiers, 2001; Haseeb et al., 2019; Mahrinasari et al., 2024).
MSME Performance	Perceived financial, customer-related, operational, and relative market performance, including selected business evaluation and management practices.	Financial evaluation and growth (PERF1–PERF2); customer satisfaction (PERF3); operational achievement, quality, and timely delivery (PERF4–PERF6); inventory management (PERF7); relative market performance (PERF8). 8 items.	(Indriartiningtias et al., 2019; Rumanti et al., 2023).

In addition to these procedural remedies, common method bias was statistically assessed using the full collinearity approach (Kock, 2015). Each latent construct was alternately specified as an endogenous construct and regressed on the remaining constructs. The resulting VIF values ranged from 1.616 to 2.314, all below the 3.3 threshold, indicating that CMB was unlikely to pose a substantive concern in the dataset.

To examine the theoretically specified relationships among local wisdom, entrepreneurial leadership, competitive advantage, and MSME performance, this study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 3. The proposed model includes multiple latent constructs and simultaneously estimates direct and indirect relationships, including the mediating role of competitive advantage. PLS-SEM is appropriate for examining these structural relationships, assessing the explained variance of endogenous constructs, and accommodating data without requiring strict assumptions of multivariate normality (Hair et al., 2019). Although PLS-SEM is prediction-oriented, this study used it primarily to examine theoretically specified relationships rather than to conduct out-of-sample prediction.

The PLS-SEM analysis was conducted sequentially by assessing the measurement model, the structural model, and testing hypotheses. First, the measurement model was evaluated using indicator loadings, composite reliability (CR), average variance extracted (AVE), and the Heterotrait–Monotrait ratio (HTMT). Indicator loadings of ≥ 0.708 were preferred, while indicators with loadings between 0.40 and 0.70 were evaluated individually for possible removal based on their effects on CR and AVE and their

contribution to construct content validity (Hair et al., 2019). CR values of ≥ 0.70 and AVE values of ≥ 0.50 were considered acceptable. Discriminant validity was assessed using the conservative HTMT threshold of 0.85 and further examined through bootstrapped 95% confidence intervals, which were required to exclude 1.00 (Henseler et al., 2015).

Second, the structural model was assessed using inner Variance Inflation Factors (VIF), coefficients of determination (R^2), effect sizes (f^2), and Stone–Geisser Q^2 . Predictive relevance was evaluated using a blindfolding procedure with an omission distance of seven ($D = 7$); Q^2 values greater than zero indicated predictive relevance for the endogenous constructs. Finally, direct and indirect effects were tested using 5,000 bootstrap subsamples by examining standardized path coefficients, t-statistics, and p-values. The significance of indirect effects was additionally assessed using 95% Bias-Corrected and accelerated (BCa) confidence intervals, with intervals excluding zero indicating statistical significance. Mediation types were classified according to Zhao et al. (2010), based on the significance and direction of the corresponding direct and indirect effects.

Results and Discussion

Descriptive Analysis

Table 2 presents descriptive statistics for the four study constructs, including the minimum, maximum, mean, and standard deviation. These statistics provide an initial overview of the respondents' assessments and the variability of the observed data before the measurement and structural models are examined (Hair et al., 2019). All four constructs recorded mean values above 4.00 on the five-point Likert scale, indicating generally favorable assessments across the constructs. Local wisdom recorded the highest mean (4.289), followed by entrepreneurial leadership (4.268), competitive advantage (4.227), and MSME performance (4.207). Although the mean differences were relatively small, the pattern suggests respondents perceived incorporating local wisdom into their business activities as particularly strong. Standard deviations ranged from 0.536 to 0.596, indicating relatively little dispersion in responses. Competitive advantage showed the greatest variation ($SD = 0.596$), whereas MSME performance showed the lowest ($SD = 0.536$), suggesting that respondents' assessments of MSME performance were comparatively more consistent.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Entrepreneurial Leadership	137	2.00	5.00	4.268	0.539
Local Wisdom	137	1.11	5.00	4.289	0.571
Competitive Advantage	137	1.17	5.00	4.227	0.596
MSME Performance	137	2.00	5.00	4.207	0.536

Source: Secondary data processed (2026)

Model Assessment

Table 3 presents the measurement model assessment results, including indicator loadings, Average Variance Extracted (AVE), and Composite Reliability (CR). The results show that all four constructs achieved acceptable levels of internal consistency and convergent validity, with CR values ranging from 0.898 to 0.929 and AVE values ranging from 0.527 to 0.624. Seven indicators had outer loadings below the preferred threshold of 0.708: EL1, EL3, EL8, LW1, LW2, CA1, and MSMEPer1. Following (Hair et al., 2019), each indicator was assessed through a separate deletion analysis. Although deletion increased AVE by 0.016–0.044, changes in CR were negligible (–0.006 to +0.001). Because all constructs already met the recommended thresholds, indicator deletion offered limited additional measurement benefits.

Table 3. Result of the measurement model analysis (n=137)

Construct	Indicator Loadings	AVE	CR
Entrepreneurial Leadership (EL)	EL1 = 0.648; EL2 = 0.729; EL3 = 0.604; EL4 = 0.709; EL5 = 0.779; EL6 = 0.793; EL7 = 0.817; EL8 = 0.700	0.527	0.898
Local Wisdom (LW)	LW1 = 0.697; LW2 = 0.681; LW3 = 0.774; LW4 = 0.736; LW5 = 0.767; LW6 = 0.805; LW7 = 0.842; LW8 = 0.796; LW9 = 0.817	0.593	0.929
Competitive Advantage (CA)	CA1 = 0.685; CA2 = 0.790; CA3 = 0.766; CA4 = 0.829; CA5 = 0.840; CA6 = 0.819	0.624	0.908
MSME Performance (MSMEPer)	MSMEPer1 = 0.600; MSMEPer2 = 0.721; MSMEPer3 = 0.721; MSMEPer4 = 0.772; MSMEPer5 = 0.759; MSMEPer6 = 0.805; MSMEPer7 = 0.818; MSMEPer8 = 0.747	0.556	0.909

Source: Secondary data processed (2026)

All seven indicators were therefore retained to preserve construct content validity. EL1, EL3, and EL8 represent encouragement of new approaches, problem-solving initiative, and proactive behavior, respectively. LW1 and LW2 capture local cultural identity in products and the influence of traditions on product concepts. CA1 reflects innovation in products, services, and processes, while MSMEPer1 reflects using profit and business results to assess performance. Their distinct conceptual contributions, along with the deletion-test results, supported retaining them in the final measurement model.

Table 4 presents the assessment of discriminant validity using the Heterotrait–Monotrait ratio (HTMT), together with its bootstrapped 95% confidence intervals. Discriminant validity is established when the HTMT value for each pair of constructs remains below the recommended threshold, and the corresponding confidence interval does not include 1.00 (Henseler et al., 2015). In this study, all HTMT values ranged from 0.639 to 0.785, remaining below the conservative threshold of 0.85 (Hair et al., 2019; Henseler et al., 2015). The highest HTMT value was observed between competitive advantage and MSME performance (0.785), followed by local wisdom and MSME performance (0.756), indicating relatively strong associations between these construct pairs while maintaining empirical distinctiveness. Furthermore, none of the 95% confidence intervals obtained from 5,000 bootstrap subsamples included 1.00. These findings provide consistent evidence that the four constructs represent empirically distinct concepts and that discriminant validity was adequately established.

Table 4. Discriminant Validity Assessment Using HTMT

Construct pair	HTMT	95% CI
EL – CA	0.648	[0.424, 0.808]
LW – CA	0.734	[0.498, 0.872]
LW – EL	0.711	[0.526, 0.846]
MSME Performance – CA	0.785	[0.627, 0.893]
MSME Performance – EL	0.639	[0.461, 0.780]
MSME Performance – LW	0.756	[0.580, 0.875]

Source: Secondary data processed (2026)

Table 5 presents the structural model assessment, covering inner VIF, coefficients of determination (R^2), adjusted R^2 , effect sizes (f^2), and Stone–Geisser Q^2 . The inner VIF values ranged from 1.689 to 2.154, indicating no collinearity concerns among the predictor constructs. The R^2 value of 0.475 for competitive advantage indicates that entrepreneurial leadership and local wisdom explain 47.5% of the variance in competitive advantage. Meanwhile, the R^2 value of 0.583 for MSME performance indicates that competitive advantage, entrepreneurial leadership, and local wisdom explain 58.3% of the variance in MSME performance. The f^2 results show that entrepreneurial leadership has a small effect on competitive advantage (0.075), while local wisdom has a moderate effect (0.276). For MSME performance, competitive advantage has a moderate effect (0.206), local wisdom has a small effect (0.134), while entrepreneurial

leadership has a negligible effect (0.017). Predictive relevance was assessed using the blindfolding procedure with an omission distance of seven ($D = 7$). The resulting Stone–Geisser's Q^2 values were 0.276 for competitive advantage and 0.315 for MSME performance. Both values exceeded zero, indicating predictive relevance for the two endogenous constructs.

Table 5. Structural Model Assessment

Endogenous Construct	Predictor	Inner VIF	R^2	Adjusted R^2	f^2	Q^2
Competitive Advantage	Entrepreneurial Leadership	1.689	0.475	0.467	0.075	0.276
	Local Wisdom	1.689	-	-	0.276	-
MSME Performance	Competitive Advantage	1.903	0.583	0.574	0.206	0.315
	Entrepreneurial Leadership	1.816	-	-	0.017	-
	Local Wisdom	2.154	-	-	0.134	-

Source: Secondary data processed (2026)

Table 5 presents the structural model assessment, covering inner VIF, coefficients of determination (R^2), adjusted R^2 , effect sizes (f^2), and Stone–Geisser Q^2 . The inner VIF values ranged from 1.689 to 2.154, indicating no collinearity concerns among the predictor constructs. The R^2 value of 0.475 for competitive advantage indicates that entrepreneurial leadership and local wisdom explain 47.5% of the variance in competitive advantage. Meanwhile, the R^2 value of 0.583 for MSME performance indicates that competitive advantage, entrepreneurial leadership, and local wisdom explain 58.3% of the variance in MSME performance. The f^2 results show that entrepreneurial leadership has a small effect on competitive advantage (0.075), while local wisdom has a moderate effect (0.276). For MSME performance, competitive advantage has a moderate effect (0.206), local wisdom has a small effect (0.134), while entrepreneurial leadership has a negligible effect (0.017). Predictive relevance was assessed using the blindfolding procedure with an omission distance of seven ($D = 7$). The resulting Stone–Geisser's Q^2 values were 0.276 for competitive advantage and 0.315 for MSME performance. Both values exceeded zero, indicating predictive relevance for the two endogenous constructs.

Table 6 presents the direct-effect hypothesis testing results for the proposed relationships among local wisdom, entrepreneurial leadership, competitive advantage, and MSME performance. The results show that local wisdom is positively and significantly related to competitive advantage ($\beta = 0.495$, $t = 4.135$, $p < 0.001$) and MSME performance ($\beta = 0.346$, $t = 3.964$, $p < 0.001$), supporting H1 and H2. Entrepreneurial leadership also had a significant positive relationship with competitive advantage ($\beta = 0.258$, $t = 2.560$, $p = 0.011$), supporting H3. However, its direct effect on MSME performance was not statistically significant ($\beta = 0.113$, $t = 1.668$, $p = 0.092$), and therefore H4 was not supported. Competitive advantage was significantly and positively associated with MSME performance ($\beta = 0.404$, $t = 4.509$, $p < 0.001$), supporting H5. These findings indicate that local wisdom is directly associated with both competitive advantage and MSME performance, whereas entrepreneurial leadership's contribution to MSME performance appears to operate primarily through competitive advantage, as the subsequent mediation analysis examines.

Table 6. Direct Effect Hypothesis Testing

	Structural Path	β	t-statistic	p-value	Decision
H1	Local Wisdom $\rightarrow$ Competitive Advantage	0.495	4.135	<0.001	Supported
H2	Local Wisdom $\rightarrow$ MSME Performance	0.346	3.964	<0.001	Supported
H3	Entrepreneurial Leadership $\rightarrow$ Competitive Advantage	0.258	2.560	0.011	Supported
H4	Entrepreneurial Leadership $\rightarrow$ MSME Performance	0.113	1.668	0.092	Not Supported
H5	Competitive Advantage $\rightarrow$ MSME Performance	0.404	4.509	<0.001	Supported

Source: Secondary data processed (2026)

Table 7 presents the indirect-effect and mediation analyses examining whether competitive advantage mediates the relationships of local wisdom and entrepreneurial leadership with MSME performance. The indirect effect of local wisdom on MSME performance through competitive advantage was positive and statistically significant ($\beta = 0.200$, $t = 3.216$, $p = 0.001$, 95% BCa CI [0.102, 0.356]), supporting H6. Because both the direct and indirect effects were significant and positive, the relationship was classified as complementary partial mediation according to Zhao et al. (2010). The indirect effect of entrepreneurial leadership on MSME performance through competitive advantage was also statistically significant ($\beta = 0.104$, $t = 2.064$, $p = 0.039$, 95% BCa CI [0.025, 0.229]), supporting H7. Because the direct effect of entrepreneurial leadership on MSME performance was not significant, the relationship was classified as indirect-only mediation. These findings suggest that competitive advantage serves as an important transmission mechanism through which both local wisdom and entrepreneurial leadership are associated with MSME performance, although the mediation patterns differ between the two antecedents.

Table 7. Indirect Effect and Mediation Analysis

	Indirect Path	β	t-statistic	p-value	95% BCa CI	Mediation Type	Decision
H6	Local Wisdom → Competitive Advantage → MSME Performance	0.200	3.216	0.001	[0.102, 0.356]	Complementary partial mediation	Supported
H7	Entrepreneurial Leadership → Competitive Advantage → MSME Performance	0.104	2.064	0.039	[0.025, 0.229]	Indirect-only mediation	Supported

Source: Secondary data processed (2026)

Local Wisdom and Competitive Advantage

The positive relationship between local wisdom and competitive advantage suggests that culturally embedded business practices may provide a basis for differentiation because competitors may find it difficult to replicate culturally rooted attributes in the same cultural and contextual form. In this study, local wisdom is reflected in the integration of traditional values into products, production processes, and customer service experiences, which may contribute to the distinctiveness of creative economy MSMEs' offerings. From the resource-based view (Barney, 1991), this finding suggests that local wisdom may represent a strategically valuable cultural resource when it is translated into distinctive offerings that support competitive positioning.

Because most MSMEs in the sample are very small (86.1% have 1–4 employees), owners and employees may be closely involved, facilitating the direct incorporation of cultural values into products and customer interactions. This organizational context may enable MSME owners to maintain close control over how local values are reflected in business practices and customer experiences. Such integration may strengthen the consistency of culturally informed offerings and contribute to how these MSMEs position themselves in the market.

Several prior studies provide complementary evidence regarding the role of local wisdom in creating differentiation and strengthening competitive positioning. Pratiwi et al. (2025) found that the application of local wisdom within sustainable differentiation strategies was associated with competitive advantage in the tourism sector. Wibowo et al. (2025) found a positive relationship between local-wisdom-based eco-friendly innovation and green competitive advantage among Batik MSMEs. Dewi et al. (2023) and Herdina et al. (2023) likewise reported positive roles of local wisdom in community-based enterprises in Bali and Malang, respectively. These studies provide complementary evidence that culturally embedded resources can support competitive positioning across different entrepreneurial contexts.

However, the moderate effect size ($f^2 = 0.276$) indicates that local wisdom contributes moderately to competitive advantage, suggesting it is an important but not exclusive source of competitive differentiation.

Other organizational and market-related factors may therefore also explain variation in competitive advantage among creative economy MSMEs. The present study extends prior research by conceptualizing local wisdom not merely as a cultural attribute but as a resource that can be embedded in products, production processes, and customer experiences and thereby translated into competitive value within creative economy MSMEs.

Local Wisdom and MSME Performance

The positive relationship between local wisdom and MSME performance suggests that culturally embedded business practices may contribute to business outcomes by strengthening the distinctiveness and market relevance of MSME offerings. In this study, integrating local values into products, production processes, and services may strengthen the identity and market appeal of creative economy MSMEs, which may be associated with stronger MSME performance. From the resource-based view, this finding suggests that the strategic value of local wisdom lies not only in its cultural distinctiveness but also in its potential to be translated into market-relevant offerings that support MSME performance.

These findings are consistent with Irjayanti and Lord (2024), who found that the application of local wisdom among female entrepreneurs in Indonesia's creative industries was associated with maintaining business relevance and improving performance. Similarly, Mardatiilah and Rosmayani (2023) found a positive relationship between local-wisdom-based innovation and the performance of Padang-style restaurants in Pekanbaru. This finding is particularly relevant to the present study because of the shared geographical context, suggesting that culturally embedded business practices may be performance-relevant in the Riau context. However, the differences in industry and operationalization across studies should also be considered when interpreting this similarity.

The relatively small effect size ($f^2 = 0.134$) indicates that local wisdom contributes little to MSME performance. Thus, while local wisdom is significantly associated with performance, variation in MSME performance may also be related to other organizational and market factors that were not examined in this study. From the RBV, this finding suggests that culturally rooted resources may generate greater performance value when they are combined with complementary organizational resources and capabilities and effectively translated into market outcomes.

Entrepreneurial Leadership and Competitive Advantage

The positive relationship between entrepreneurial leadership and competitive advantage suggests that entrepreneurial leadership may support MSME competitiveness by encouraging opportunity recognition and resource mobilization toward differentiated market offerings. In the context of the creative economy, for the MSMEs examined in this study, entrepreneurial leadership is reflected in encouraging team members to work with greater enthusiasm and adopt novel approaches, which may support efforts to develop distinctive offerings and respond to competitive pressures.

From a dynamic capabilities perspective (Teece et al., 1997), this relationship can be interpreted as suggesting that entrepreneurial leadership may facilitate the mobilization and adaptation of organizational resources in response to changing business environments. Leadership that encourages opportunity recognition, novel approaches, and proactive responses may provide a basis for MSMEs to adjust how existing resources are deployed and pursue differentiated market offerings. Thus, entrepreneurial leadership may contribute to competitive advantage not simply through individual leadership characteristics, but by mobilizing and adapting resources to changing market conditions.

These findings align with Ercantan et al. (2024), who found a relationship between entrepreneurial leadership, innovative behavior, and competitive advantage; Khamis et al. (2022), who reported a positive relationship between entrepreneurial leadership and the competitive advantage of MSMEs in Bahrain; and Atobishi and Podruzik (2025), who highlighted the role of ethical entrepreneurial leadership in strengthening competitive outcomes. The present study adds to this evidence by examining the relationship between entrepreneurial leadership and competitive advantage among creative economy MSMEs in the

Riau context. From a dynamic capabilities perspective, the findings suggest that entrepreneurial leadership's strategic relevance may lie not merely in individual leadership characteristics, but in its potential to mobilize and adapt resources toward competitive market outcomes. However, the small effect size ($f^2 = 0.075$) indicates that entrepreneurial leadership's contribution to competitive advantage is small. Other organizational resources and capabilities may therefore also contribute to differences in competitive advantage among creative economy MSMEs.

Entrepreneurial Leadership and MSME Performance

The lack of a significant direct relationship between entrepreneurial leadership and MSME performance suggests that leadership capabilities may not automatically translate into measurable business outcomes. This finding may be partly explained by the small-scale nature of the sampled MSMEs, as 86.1% of the respondents employed only 1–4 workers. In such a context, entrepreneurial leadership initiatives may not immediately translate into measurable improvements in overall MSME performance. They may first need to be reflected in specific operational and market outcomes. From a dynamic capabilities perspective (Teece et al., 1997). This finding suggests that entrepreneurial leadership alone may not be sufficient to produce measurable differences in MSME performance.

These findings align with Beta and Gezahegn (2025), who found no significant relationship between entrepreneurial leadership, particularly in relation to vision and decision-making, and MSME performance in Ethiopia. Similarly, Nguyen et al. (2021) reported that the relationship between entrepreneurial leadership and performance was mediated by team creativity, dynamic capabilities, and competitive advantage among Vietnamese firms. The present finding therefore adds to previous evidence by indicating that entrepreneurial leadership may not have a direct relationship with MSME performance across different contexts. In this study, the significant indirect relationship through competitive advantage provides further support for the possibility that the performance relevance of entrepreneurial leadership depends on how leadership capabilities are translated into organizational and market outcomes. However, this interpretation should be treated cautiously because the study did not directly test these underlying mechanisms. The cross-sectional design and self-reported data also require caution when interpreting this relationship, as potential omitted variables and endogeneity cannot be fully ruled out.

Competitive Advantage and MSME Performance

The positive relationship between competitive advantage and MSME performance suggests that the ability to differentiate offerings and respond to market demands is associated with better business outcomes. In the creative economy context, competitive advantage may be expressed through differentiated offerings, culture-based innovation, and responsiveness to market demands, providing MSMEs with a stronger basis for competing in their target markets. From a Resource-Based View, this finding highlights that the possession of strategic resources alone may not be sufficient to generate superior performance; resources and capabilities need to be effectively deployed to create a competitive position that is relevant to the market (Barney, 1991).

These results are consistent with Otache and Usman (2024) and Tolossa et al. (2024), who reported positive relationships between competitive advantage and MSME performance. The effect size of competitive advantage on MSME performance was moderate ($f^2 = 0.206$), compared with the smaller effects of local wisdom ($f^2 = 0.134$) and entrepreneurial leadership ($f^2 = 0.017$) on MSME performance. This suggests that competitive advantage meaningfully explains variation in MSME performance in the present model. However, the moderate effect size also indicates that competitive advantage is not the only factor associated with differences in MSME performance, and other organizational and market-related factors may also contribute to performance outcomes.

Competitive Advantage Mediates the Relationship between Local Wisdom and MSME Performance

The results indicate complementary partial mediation in the relationship between local wisdom and MSME performance, as both the direct effect (H2) and the indirect effect through competitive advantage (H6) are significant and operate in the same positive direction. From a Resource-Based View (Barney, 1991), this mediation pattern suggests that local wisdom is associated with MSME performance through two complementary routes. First, local wisdom has a significant direct relationship with performance, indicating that culturally embedded resources may have performance relevance beyond their role in establishing competitive advantage. Second, the significant indirect relationship suggests that part of local wisdom's performance relevance is tied to competitive advantage, particularly when culturally embedded resources are reflected in differentiated offerings and market positioning. Thus, competitive advantage represents one pathway through which local wisdom is associated with MSME performance, while the significant direct effect indicates that it does not fully account for this relationship.

These findings are consistent with Wibowo et al. (2025), who reported that local wisdom was associated with green competitive advantage through green innovation and, in turn, with the performance of Batik MSMEs. Saefuddin et al. (2022) similarly reported a relationship between local wisdom, competitive advantage, and customer satisfaction, while Dewi et al. (2023) found that local wisdom and competitive advantage were associated with the financial performance of Village-Owned Enterprises (VOEs) in Bali. Although these studies examined different contexts, including the batik industry, hospitality, and village-owned enterprises, they provide related evidence that culturally embedded resources may relate to market and performance outcomes through competitive factors. The present study extends this evidence by identifying complementary partial mediation through competitive advantage among creative economy MSMEs. This pattern suggests that local wisdom's relevance to performance may arise not only from its direct association with business outcomes but also from its association with developing a competitive market position.

Competitive Advantage Mediates the Relationship between Entrepreneurial Leadership and MSME Performance

The mediation results indicate an indirect-only mediation pattern in the relationship between entrepreneurial leadership and MSME performance. The direct effect of entrepreneurial leadership on performance is not significant (H4), whereas the indirect effect through competitive advantage is significant (H7). This finding suggests that entrepreneurial leadership's performance relevance may stem from its development of competitive advantage through differentiated offerings, resource utilization, and market positioning. These aspects should be understood as possible theoretical interpretations rather than mechanisms directly tested in the present study.

From a dynamic capabilities perspective (Teece et al., 1997), the indirect-only mediation pattern suggests that entrepreneurial leadership may function as an enabling capability that facilitates mobilizing and adapting organizational resources toward competitive outcomes. Thus, competitive advantage may be an important pathway linking entrepreneurial leadership to MSME performance, rather than entrepreneurial leadership being directly associated with performance.

These findings are consistent with Atobishi and Podruzsik (2025) who reported a relationship between ethical entrepreneurial leadership, competitiveness, and sustainable performance. Similarly, Woo (2025) and Otache and Usman (2024) highlighted the role of competitive advantage as a linking variable between entrepreneurial leadership or management and MSME performance. Although these studies differ in context and model specification, their findings provide related evidence that competitive advantage links leadership or managerial capabilities to performance outcomes.

The present study extends this evidence by identifying an indirect-only mediation pattern among creative economy MSMEs. This finding refines a simple direct leadership–performance perspective by

suggesting that entrepreneurial leadership's performance relevance may be realized through competitive advantage.

Conclusion

This study demonstrates that competitive advantage provides a distinct pathway through which culturally embedded resources and entrepreneurial leadership are translated into MSME performance in the creative economy context. The findings suggest that the performance implications of these antecedents depend not only on their presence but also on how they are converted into market-relevant competitive value.

Theoretically, this study extends the RBV and dynamic capabilities perspectives by clarifying that culturally embedded resources and entrepreneurial leadership may create performance value through different mechanisms. Rather than treating competitive advantage as a uniform outcome of strategic resources and capabilities, the findings position it as a conversion mechanism through which entrepreneurial inputs can be transformed into market-relevant performance. This distinction contributes to the literature by highlighting that the performance value of local wisdom differs from that of entrepreneurial leadership: culturally embedded resources may retain direct performance value, while leadership capabilities must be translated into competitive value to generate performance outcomes. Thus, the study advances a more differentiated view of how intangible resources and entrepreneurial capabilities contribute to MSME performance in culturally embedded creative-economy settings.

Practically, the findings imply that MSME development should focus not only on strengthening entrepreneurial leadership or preserving local wisdom, but on converting both into distinctive market value. MSMEs can use entrepreneurial leadership to guide innovation, resource utilization, product differentiation, and market positioning, while embedding relevant local wisdom into products, production processes, and customer experiences. For local governments and industry associations, this suggests integrating leadership development with innovation support, product differentiation, cultural branding, and market access, rather than treating leadership development as a stand-alone intervention.

This study has several limitations that should be considered when interpreting the findings. First, the sample was selected using purposive sampling from creative economy MSMEs located in Pekanbaru City, Kampar Regency, and Siak Regency. Consequently, the findings should not be generalized to all creative economy MSMEs in Riau Province or to MSMEs in other geographical contexts. Second, the study operationalized local wisdom specifically through cultural values embedded in products, production processes, and consumer experiences, without directly measuring broader dimensions such as traditional knowledge or inherited social practices. Third, the cross-sectional design limits causal interpretation and does not capture changes in the relationships among the variables over time. Fourth, the study relies on self-reported questionnaire data from a single source, which may introduce response and common method bias despite the procedural and statistical measures used to minimize them. In addition, potential omitted variables and endogeneity cannot be fully ruled out. Future research could therefore examine these relationships across broader geographical settings and creative economy subsectors, incorporate broader dimensions of local wisdom, and employ longitudinal or multi-source research designs. Given the nonsignificant direct relationship between entrepreneurial leadership and MSME performance alongside the significant indirect relationship through competitive advantage, future studies could also examine other pathways through which entrepreneurial leadership may be associated with performance, including innovation capability, team creativity, and other organizational capabilities.

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