



Faculty of Economics and Business

**Factors Affecting the Halal Entrepreneurial Performance in Indonesia:
The Role of Halal Entrepreneurial Mindset, Halal Certification,
Entrepreneurial Competency, Effectual Logic and Online Application**

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Factor Affecting the Halal Entrepreneurial Performance in Indonesia: The Role of Halal Entrepreneurial Mindset, Halal Certification, Entrepreneurial Competency, Effectual Logic and Online Application

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DECLARATION

I declare that the research in this thesis was carried out in accordance with the rules of the Universiti Malaysia, Sarawak. Unless with proper approval, the study is the work of the author only. The dissertation has not been accepted to any extent and has not been submitted as a candidate for another degree at the same time.

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ABSTRACT

The purpose of this study is to examine factors affecting the halal entrepreneurial performance in Indonesia such as halal entrepreneurial mindset, halal certification, entrepreneurial competency, effectual logic and online application. In particular, this study quantitatively assessed the significance of halal entrepreneurial mindset, halal certification and the mediating role of entrepreneurial competency and effectual logic as well as moderating role of online application. This research employed a cross-sectional approach and gathered quantitative data from a purposive sampling chosen sample of participants using an online survey. The survey involved 415 halal SMEs based in West Borneo. Subsequently, all collected data underwent analysis using partial least square- structural equation modeling (PLS-SEM). This study demonstrated that halal entrepreneurial mindset and halal certification have significant effects on halal entrepreneurial performance. Additionally, our data indicated that entrepreneurial competency and effectual logic play crucial mediating role between halal entrepreneurial mindset and halal certification on halal entrepreneurial performance. This study indicated the role of moderating effect of online application influenced halal entrepreneurial mindset and entrepreneurial competency on halal entrepreneurial performance. Overall, this study's findings on the significance of halal entrepreneurial mindset, halal certification, entrepreneurial competency, effectual logic and online application based on the RBV framework serve as insightful guidelines to expand the halal entrepreneurial performance among halal SMEs In West Borneo. Results of this study might be utilized as a foundation for policy makers, academics and researchers in the field of halal entrepreneurship.

Keywords: halal entrepreneurial mindset, halal certification, entrepreneurial competency, effectual logic, online application, halal entrepreneurial performance.

**Faktor-faktor yang Mempengaruhi Prestasi Keusahawanan Halal di Indonesia:
Peranan Minda Keusahawanan Halal, Pensijilan Halal, Kompetensi Keusahawanan,
Logik Berkesan dan Aplikasi Dalam Talian**

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji faktor-faktor yang mempengaruhi prestasi keusahawanan halal di Indonesia seperti minda keusahawanan halal, pensijilan halal, kecekapan keusahawanan, logik berkesan dan aplikasi dalam talian. Secara khususnya, kajian ini secara kuantitatif menilai kepentingan minda keusahawanan halal, pensijilan halal dan peranan pengantara kecekapan keusahawanan dan logik berkesan serta menyederhanakan peranan aplikasi dalam talian. Penyelidikan ini menggunakan pendekatan keratan rentas dan mengumpul data kuantitatif daripada sampel peserta yang dipilih dengan mudah menggunakan tinjauan dalam talian. Tinjauan itu melibatkan 415 keusahawanan halal yang berpangkalan di Borneo Barat. Selepas itu, semua data yang dikumpul menjalani analisis menggunakan pemodelan persamaan struktur kuasa dua terkecil separa (PLS-SEM). Kajian ini menunjukkan bahawa pemikiran keusahawanan halal dan pensijilan halal mempunyai kesan yang signifikan terhadap prestasi keusahawanan halal. Selain itu, data kami menunjukkan bahawa kecekapan keusahawanan dan logik berkesan memainkan peranan pengantara yang penting antara pemikiran keusahawanan halal dan pensijilan halal ke atas prestasi keusahawanan halal. Kajian ini menunjukkan peranan kesan penyederhanaan aplikasi dalam talian mempengaruhi minda keusahawanan halal dan kecekapan keusahawanan terhadap prestasi keusahawanan halal. Secara keseluruhannya, dapatan kajian tentang kepentingan minda keusahawanan halal, pensijilan halal, kecekapan keusahawanan, logik berkesan dan aplikasi dalam talian berdasarkan rangka kerja RBV menjadi garis panduan yang bernas untuk mengembangkan prestasi keusahawanan halal di kalangan keusahawanan halal Di Borneo Barat. Hasil

kajian ini mungkin boleh digunakan sebagai asas kepada penggubal dasar, ahli akademik dan penyelidik dalam bidang keusahawanan halal.

Kata kunci: *Peranan Minda Keusahawanan Halal, Pensijilan Halal, Kompetensi Keusahawanan, Logik Berkesan, Aplikasi Dalam Talian, Prestasi Keusahawanan Halal*

TABLE OF CONTENTS

	Page
DECLARATION	i
ACKNOWLEDGEMENT	ii
ABSTRACT	iii
ABSTRAK	iv
TABLE OF CONTENTS	vi
LIST OF TABLES	x
LIST OF FIGURES	xii
LIST OF ABBREVIATIONS	xiii
CHAPTER 1: INTRODUCTION	1
1.1 Study Background	1
1.2 The Problem Statements	13
1.3 Research Question	16
1.4 Objectives of Study	20
1.5 Key Concepts and Operational Definitions	22
1.6 Scope of the Study	24
1.7 Significance and Contribution of the Study	25
1.8 Theoretical Background	27
1.9 Organization of Study	30

CHAPTER 2: LITERATURE REVIEW	34
2.1 Introduction	34
2.2 Resource-Based View (RBV)	37
2.3 The Concept of Entrepreneurship	41
2.4 Entrepreneurship and Halal SME Performance	45
2.5 Halal Entrepreneurial Mindset	47
2.6 The Concept of Halal Certification	56
2.7 Effectual Logic	61
2.8 Entrepreneurial Competency	67
2.9 Online Application	72
2.10 Halal Entrepreneurial Performance in Indonesia	76
2.11 Hypothesis Development	83
2.12 Conceptual Framework	92
2.13 Operationalization of Constructs	93
2.14 Summary	96
CHAPTER 3: METHODOLOGY	98
3.1 Introduction	98
3.2 Research Philosophy	101
3.3 Philosophy and paradigm of scientific research	101
3.4 Justification for Use of Positivism Paradigm	104

3.5	Study approach	105
3.6	Justification for the Use of Quantitative Research Approach	106
3.7	Research Design and Sampling Method	107
3.8.	Mediating effect	114
3.9	Moderating Effect	115
3.10	Measurement Scales	116
3.11	Pilot-Testing of the Questionnaire	119
3.12	Data Analysis Technique	131
3.13	Summary	140
	CHAPTER 4: RESULTS AND DISCUSSION	142
4.1	Introduction	142
4.2	Data Collection	145
4.3	Descriptive Statistics	148
4.4	Assessment of Measurement Models	152
4.5	Assessment of Structural Model	159
4.6	Discussion of Hypotheses and Findings	162
4.7	Determinant Coefficients (R ² Value)	173
4.8	Analysis of Effect Size (f ²) and Predictive Relevance (Q ²)	175
4.9	Goodness of Fit (GoF) and Absolute Model Fit Indices	178
4.10	The Discussion of Mediating Effects	178

4.11	The Discussion of Moderating Effect	183
4.12	Summary	186
	CHAPTER 5: CONCLUSIONS	188
5.1	Introduction	188
5.2	Summary of Research Findings	191
5.3	Research Contributions	201
5.4	Practical Implication	208
5.5	Limitations of the Study	212
5.6	Future Research Directions	213
5.7	Summary	215
	REFERENCES	219
	APPENDIX	295

LIST OF TABLES

		Page
Table 1.1	Muslim Population in 2010 and 2050	3
Table 1.2	Expected Contribution in This Study	26
Table 3.1	The Summarization of Constructs	119
Table 3.2	Factor Analysis Results of HEM pilot-test Data	123
Table 3.3	Second Round Factor Analysis Results of HEM pilot-test Data	124
Table 3.4	Factor Analysis Results of Halal certification pilot-test Data	124
Table 3.5	Second Round Factor Analysis Results of Halal certification pilot-test Data	125
Table 3.6	Second Round Factor Analysis Results of EC pilot test Data	126
Table 3.7	Factor Analysis Results of EL pilot-test Data	127
Table 3.8	Factor Analysis Results of OA pilot-test Data	129
Table 3.9	Second Round Factor Analysis Results of OA pilot-test Data	130
Table 3.10	Factor Analysis Results of HEP pilot-test Data	130
Table 3.11	Factor Analysis Results of HEP pilot-test Data	131
Table 3.12	Assessment Process for Reflective	134
Table 3.13	Criteria for Assessment of Reflective Measurement Models	135
Table 3.14	Assessment Process for Structural Models	136
Table 3.15	Criteria for the Assessment of Structural Models	139
Table 4.1	Demographic respondents	159
Table 4.2	Mean, standard deviation and variance	151
Table 4.3	Composite Reliability	153

Table 4.4	Factor Convergence Validity	154
Table 4.5	Discriminant Validity Fornell Larcker Test	157
Table 4.6	Discriminant Validity Cross Loading	157
Table 4.7	Validity Discriminant HTMT	159
Table 4.8	Path Coefficient Values	161
Table 4.9	Path coefficients (Mean, STDEV, T-value, T-statistics, P-value)	161
Table 4.10	R Square dan Q Square Model	175
Table 4.11	The effect size f ² of all feasible associations	176
Table 4.12	Q-Square	177
Table 4.13	SRMR	178
Table 4.14	Mediating effect of entrepreneurial competency and effectual logic	179
Table 4.15	Moderating effect of online application	183

LIST OF FIGURES

	Page
Figure 1.1 Small-medium enterprise's percentage of non-oil and gas contribution to GDP in 2017	2
Figure 1.2 Food Service Market: Revenue in USD Billion, Home Delivery Restaurant, Indonesia 2017 - 2027	11
Figure 1.3 Organizational Structure of this study	33
Figure 2.1 Organizational Structure of Chapter 2	36
Figure 2.2 Conceptual Model of modeling of halal entrepreneurial performance	93
Figure 3.1 Organizational Structure	100
Figure 3.2 Effect size	111
Figure 4.1 Organizational structure	144
Figure 4.2 Research model	160
Figure 5.1 Organizational Structure of Chapter 5	190

LIST OF ABBREVIATIONS

DCT	Dynamic Capability Theory
GDP	Gross Domestic Product
HC	Halal Certification
HEM	Halal Entrepreneurial Mindset
HEP	Halal entrepreneurial performance
MUI	Majelis Ulama Indonesia
NCSEF	National Committee on Sharia Economics and Finance
OP	Online Application
PLS-SEM	Partial least square-structural equation modeling
RBV	Resource Base View
SMEs	Small and Medium Enterprises

CHAPTER 1

INTRODUCTION

1.1 Study Background

The environmental turbulence represents unpredictable changes in customer needs and advances in technology systems (Nudurupati et al., 2020). An entrepreneur in a small and medium scale is responsible for and focusing on adopting innovative, creativity, and proactive approaches to enhance performance (Ibidunni et al., 2018). Entrepreneurs in this business must engage with a business model that helps them be proactive and build strategic internal competencies for the long term. Concerning customer needs, entrepreneurs need to adopt appropriate entrepreneurial competency, have strong products, and have the analytical capability to predict business opportunities and new opportunistic businesses. Moreover, Cahyadin (2017) revealed that SMEs need real support from the government to develop a business and the support should be realized in the form of policies and labor programs.

It is obvious that small and medium enterprises play an important role in a country's economic growth and sustainable entrepreneurial performance (Mamun, 2018). Based on statistics published by SMEs annual reports, 97-89 percent of the business population are small and medium enterprises, which account for 66.3 percent of employment and 42.2 percent of gross value added in ASEAN (SMEs Annual reports, 2018). In 2016, 57.2 million businesses were classified as micro-enterprises. It was estimated that the number comprised 645.222 small enterprises, 106 medium-sized size-enterprises, and 5.066 large active enterprises (Indonesia Bureau of Statistics report, 2018). Additionally, in Indonesia, small

and medium enterprises significantly contributed 60 percent (8.400 trillion rupiah) to the total Gross Domestic Product (GDP) in 2018 (Statistic Bureau of Indonesia, 2019).

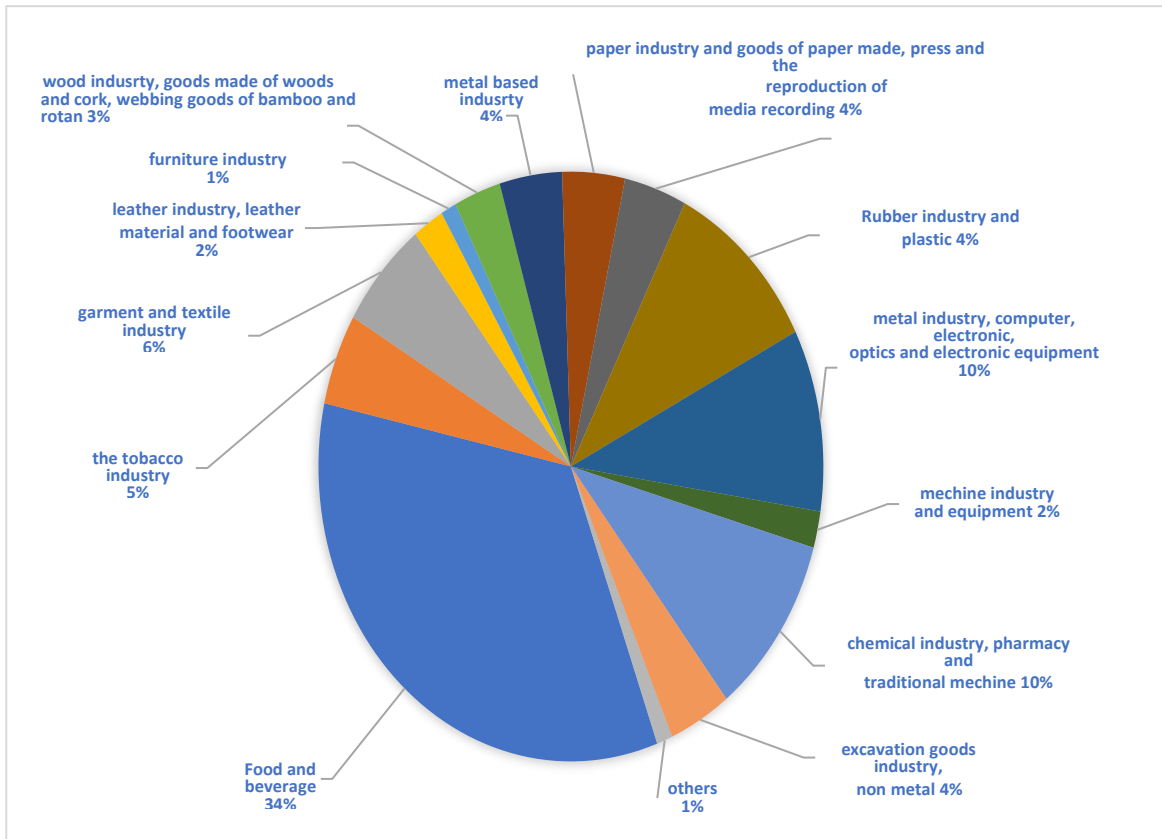


Figure 1.1: Small-medium enterprise’s percentage of non-oil and gas contribution to GDP in 2017

This ratio describes that small and medium enterprises’ have a significant contribution to the non-oil and gas sector. According to data from National Committee on Sharia Economics and Finance (NCSEF, 2018), the total ratio of food and beverage industries was the highest, accounting for 34 percent of the total gross domestic product (GDP) to non-oil and gas industries in 2017 especially, food and beverage sector. Many businesses have focused their business on the food and beverage sector and give opportunities for new halal start-ups to expand their business in Indonesia. According to the Global Islamic Economy Report (2020), in 2018, Muslims spent \$1.4 trillion on food and

beverages and it is anticipated to reach \$2 trillion in 2024. Indonesia is now ranked twentieth as an exporter of halal food, with a market share of 1.86 percent, significantly lower than non-Muslim majority nations such as Brazil and Thailand.

Table 1.1 below shows that Indonesia has the largest Muslim population with approximately 209.120.000 (13.1%) in 2010 among top 10 countries with the largest Muslim population in the world. However, it is predicted Indonesia will shift down from number one to number three after India and Pakistan in 2050. This indicates that Indonesia and the other countries in the table have a big potential market to conduct businesses related to Muslim attributes. Meanwhile, Indonesia is predicted to grow to 87% or 229.62 people in 2020 (Statistic Bureau of Indonesia, 2019) before turning down in 2050. Furthermore, Muslim population is expected to increase from 23% to roughly 30% of the total world population by 2030. The increasing Muslim population leads to the increase of the halal market which has grown exponentially over the last few years. It was estimated to be worth US\$4.37 trillion in 2016 and is expected to reach US\$ 7.39 trillion by 2025 (Pew View Research, 2018).

Tabel 1. 1: Muslim Populations in 2010 and 2050

No	Country	2010 Muslim Population	% of world's Muslim Population in 2010	No	Country	2050 Muslim Population	% of world's Muslim Population in 2050
1	Indonesia	209.120.000	13.1	1	India	310.660.000	11.2
2	India	176.200.000	11	2	Pakistan	273.110.000	9.9
3	Pakistan	167.410.000	10.5	3	Indonesia	256.820.000	9.3
4	Bangladesh	134.430.000	8.4	4	Nigeria	230.700.000	8.4
5	Nigeria	77.300.000	4.8	5	Bangladesh	182.360.000	6.6
6	Egypt	76.990.000	4.8	6	Egypt	119.530.000	4.3
7	Iran	73.570.000	4.6	7	Turkey	89.320.000	3.2
8	Turkey	71.330.000	4.5	8	Iran	86.190.000	3.1
9	Algeria	34.730.000	2.2	9	Iraq	80.190.000	2.9
10	Morocco	31.930.000	2	10	Afghanistan	72.190.000	2.6

Source: Pew View Research, 2018

As a country with the greatest Muslim population in the world, Indonesia has a tremendous potential for optimizing the halal industry (Isef, 2021). The global Islamic financial assets were approximately USD\$ 2,050.2 billion at the end of 2017 and Islamic financial assets totaled to USD \$2,438 billion in 2017 and are projected to reach \$3,809 billion by 2023 (Salaam Gateway, 2019). In addition, the analysis indicates that the predicted total assets of many halal industrial sectors, including halal food, banking, travel, fashion, health, entertainment media, and cosmetics, will expand by an average of 31% by 2023. Islamic financial institutions should ideally play a significant role in the halal industry in Indonesia (Aji & Dharmmesta, 2019). The high level of contact between Islamic financial institutions and the halal business demonstrates the Islamic financial institutions' willingness to accommodate the halal industry. Budi and Serkayuni (2020) stated that integration of the halal business and Islamic financial institutions to form an Islamic ecosystem offers considerable potential in Indonesia.

The government has established an association called the Assessment Institute for Foods, Drugs, and Cosmetics-Indonesian Council of Ulama, which is referred to as LPPOM-MUI in Bahasa Indonesia (Giyanti & Indriastiningsih, 2019). LPPOM MUI has demonstrated its credibility as a national and global halal certification agency. The Halal certification procedure and Halal Assurance System designed and implemented by LPPOM MUI have been recognized and adopted by international halal certification authorities. Malaysia, Saudi Arabia, Nigeria, United Arab Emirates (UAE), and Jordan are among the countries to which Indonesia exports food products. The export increased from US\$ 540 million in 2005 to US\$ 2.19 billion in 2015. The Organization of Islamic Cooperation (OIC) countries' imports of processed foods increased at a rapid rate in 2020 (Gayatri & Sukmana, 2021). LPPOM MUI obtained a certificate of accreditation from the National Accreditation

Committee (KAN) in accordance with SNI ISO/IEC 17065: 2012 and UAE 2055:2. This enables LPPOM MUI to operate a certification body in accordance with international standards and the acceptance of MUI-certified products in nations having the same standard references.

Micro and small business actors are stretched and show high intention for applying for halal certified products. Data from the Indonesia Halal Markets Report (2021) stated that 31,529 business actors applied for halal certification. Of this number, most micro-businesses reached 19,209 or 60.92%. Followed by small business actors totaling 5,099 or 16.17%. According to Shah et al. (2019), small and medium enterprises in Indonesia should have a wide mindset to sell products by using technology through customers' engagement (Muslim and non-Muslim) with halal products. In this regard, entrepreneurial orientation on halal products should focus on people perceiving business activities and the effect on customer demand for halal products. Also, Muflih and Juliana (2020) found that to increase the competitiveness of halal products, entrepreneurs must improve resources to impress customers about the health, safety, and quality of halal products.

Halal companies require not only the production of halal goods and services, but also the development of a strategy to meet the health, safety, and quality of halal products (Budi & Sekaryun, 2020). Based on the facts of Indonesia, Mohiuddin and Al-Azad (2018) stated that as part of strategies, many companies and products use halal certification to convince consumers that it is safe to consume the products for health reasons and create competitive advantages among non-holding halal certification companies. Halal certification toward halal entrepreneurial performance can be seen as an opportunity for entrepreneurs to expand their market (Kwon et al., 2018). As demonstrated by prior research, halal certification is

also associated with enhanced firm performance. China, India, Turkey, Sri Lanka, Canada, the United Arab Emirates, Brunei, and Indonesia are among the countries where Halal-certified product producers have been able to grow their markets (Akin & Okumus, 2020). Singapore's exports of halal food goods to the United Arab Emirates climbed 67% annually (Ridwan, 2020). After acquiring halal certifications, Malaysian manufacturers of frozen foods could increase their market share to one hundred percent (Sari, 2021). Moreover, Ab-Talib et al. (2017) found a positive correlation between halal certification and firm performance improvement.

Ayu and Urumsa (2021) observed halal food certification positively and significantly affects firm's performance in Indonesia which indicated that halal-certification obtains a strategic point to make distinctive labels from non-halal brands. Further, Kwon et al. (2018) found that halal certification has a direct influence on the entrepreneurial performance of SMEs. However, previous studies conducted on halal certification worldwide (Jeaheng et al., 2019 in Thailand; Elseidi, 2018 in the United Kingdom; Han et al., 2021 in Korea; Ali et al., 2018 in China; Sherwani et al., 2018 in Germany) showed inconsistent findings toward halal entrepreneurial performance.

At the same time, another critical factor in determining entrepreneurial performance is entrepreneurial mindset (Michael & Tucker, 2021). The recognition of an entrepreneurial mindset plays a crucial role in determining the success or failure of entrepreneurs, as highlighted in studies by Belousova et al. (2020) and Aima et al.f (2020). Numerous scholars emphasize the significance of the entrepreneurial mindset as a key variable in entrepreneurship research, including Allen (2020); Ajor and Alikor (2020); Kouakou et al., (2019); Schaefer and Minello (2019). Notably, Cui et al. (2019) pointed out that the

entrepreneurial mindset is associated with deeper cognitive phenomena that reflect the distinctive engagement of individuals in entrepreneurial activities. Saptono et al. (2020) highlighted the entrepreneurial mindset that directs an individual's behavior toward entrepreneurial actions and accomplishments.

However, some previous studies noted that entrepreneurial performance research in developing areas with an entrepreneurial mindset is still scarce (Saptono et al., 2020; Daspit et al., 2021; Kuratko et al., 2021; Pidduck et al., 2021). Simultaneously, it is a concept that lacks extensive development. A universally agreed-upon definition of an entrepreneurial mindset is absent, and there is ongoing debate about its components or dimensionality (Morris & Tucker, 2023). Furthermore, it lacks clear distinction from other constructs like entrepreneurial mindset, and there is limited effort devoted to creating validated measurement scales for it (Franzen et al., 2020). For example, current research on entrepreneurial mindset appears to concentrate on either cognitive or emotional facets. Ciu and Bell (2022) explored specific elements of entrepreneurial mindset towards entrepreneurial performance, examining emotional aspects such as passion and optimism. Entrepreneurial mindset goes beyond mere intention, encompassing flexible thinking rooted in the transformation of fundamental beliefs within uncertain, intricate, and dynamic environments (Handriana et al., 2020). Nabi et al. (2017) stated that an entrepreneurial mindset relates to an individual's feelings and beliefs with a unique way of seeking opportunities and challenges. Some scholars proved that an entrepreneurial mindset has a significant impact on business strategies and performance (Lin et al., 2020; Ciu & Bell, 2022). Entrepreneurs' mindset enables the discovery and exploitation of business opportunities in markets (Saptono et al., 2020) and a positive relationship between entrepreneurial mindset and the performance of small and medium enterprises (Cui et al.,

2021).

By synthesizing and integrating concepts and dimensions from multiple entrepreneurial mindset literatures above about the halal entrepreneurial mindset (Franzen et al., 2020; Saadat et al., 2021; Colombelli et al., 2022), this study proposes the existence of the halal entrepreneurial mindset of individual' toward halal entrepreneurial performance. Few have presented clear definitions of or insights into the fundamental traits, qualities, and impacts. The question of what the halal entrepreneurial mindset is and how to access it remains unclear. This study argues that halal entrepreneurial performance requires a high probability that a company's internal resources can be utilized and developed to get more market benefits. In this instance, the internal resources comprise assets, capability, competence, organizational process, data, and knowledge. Therefore, this study highlights that halal entrepreneurial mindset and halal certification can play an important role in addressing the issue of halal entrepreneurial performance of small and medium enterprises in Indonesia.

Furthermore, some potential factors that drive a halal entrepreneurial mindset and halal certification in achieving performance are entrepreneurial competencies and effectual logic which are necessary to be implemented for halal entrepreneurial success (Li et al., 2020; Aidara et al., 2021). Recognizing entrepreneurial competencies as a significant organizational resource, they play a vital role in improving organizational performance. Existing literature indicates that a deficiency in entrepreneurial competencies, as highlighted by Ahmad (2007) and Tehseen and Ramayah (2015), can adversely impact an organization's performance. Consequently, there is an imperative to emphasize entrepreneurial competencies in evaluating halal business performance.

Barney and Arikan (2001) assert that the resource-based view (RBV) is centered on business strategy and holds a pivotal role in shaping business performance. Businesses aiming to compete in the current market should prioritize entrepreneurial competencies, enabling them to leverage their array of resources and gain a competitive edge, as suggested by Seraj et al. (2022). Rehman et al. (2023) indicated that the impact of entrepreneurial competencies on control systems design varies based on the chosen strategy. Decisions related to entrepreneurial competencies empower management to anticipate external business conditions, while effective strategies enable them to access and utilize crucial resources for attaining a competitive advantage. Additionally, it has been demonstrated that entrepreneurial competency acts as a mediator in the relationship between entrepreneurial orientation and entrepreneurial performance (Khan et al., 2020). The resource-based view emphasizes the significance of entrepreneurs as capable resources, playing a crucial role in enhancing the performance of small and medium-sized enterprises (SMEs).

Effectual logic is recognized as a robust framework for comprehending the establishment and expansion of new organizations and markets (Ghorbel et al., 2021). The primary distinctions between effectuation and causation lie in the commencement of the entrepreneurial process. Sarasvathy (2008) explored causation and effectuation as distinct approaches to the venture creation process. The term 'effectual' is attributed to the expert frame because it unfolds outward from the means and causes new effects and unforeseen outcomes (Alsos et al., 2020). Various approaches and theoretical frameworks have been employed to examine the decision-making processes of entrepreneurs (Kotler et al., 2022), with one of the most widely utilized being effectuation theory (Sarasvathy, 2001). Effectuation is characterized by a non-predictive decision logic in which entrepreneurs utilize existing means to generate novel effects (Miller et al., 2022). This stands in contrast