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Influence of Entrepreneurial Orientation, Market Sensing, and Dynamic Capabilities on Competitive Advantage

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ABSTRACT
This study examines the influence of entrepreneurial orientation, market sensing, and dynamic capabilities on competitive advantage in firms operating in dynamic, highly competitive industries. Using a quantitative research design, data were collected from managerial-level respondents through a structured Likert-scale questionnaire and analyzed using Structural Equation Modeling (SEM). The results show that all three constructs significantly and positively affect competitive advantage, with dynamic capabilities demonstrating the strongest influence, followed by entrepreneurial orientation and market sensing. These findings indicate that competitive advantage stems not only from proactive and innovative strategic orientation but also from the firm's ability to interpret market signals and continually reconfigure internal resources to adapt to environmental shifts. The study contributes to strategic management literature by highlighting the integrative role of entrepreneurial behavior, environmental intelligence, and organizational adaptability in shaping competitive outcomes. Practical implications suggest that managers should cultivate a balanced approach that enhances strategic posture, strengthens market-driven decision-making processes, and builds robust dynamic capabilities to sustain superior performance.

Keywords:
Entrepreneurial Orientation; Market Sensing; Dynamic Capabilities; Competitive Advantage

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INTRODUCTION

Entrepreneurial orientation (EO) has increasingly been recognized as a strategic posture that enables firms to explore new opportunities, take calculated risks, and innovate proactively in volatile markets. As global competition intensifies, organizations (both large and small) face pressure to remain flexible, resilient, and opportunity-driven (Ferreira & Coelho, 2020). Scholars argue that EO comprises three core dimensions: innovativeness, proactiveness, and risk-taking, which collectively shape a firm's ability to generate novel market offerings and respond effectively to emerging trends (Kiiru, 2015). In rapidly shifting competitive landscapes, firms that demonstrate higher levels of EO tend to cultivate a stronger foundation for long-term strategic advantage, making EO a vital area of investigation in strategic management research (Correia et al., 2021).

In parallel with entrepreneurial orientation, market sensing capability has emerged as an equally important determinant of firm competitiveness. Market sensing reflects a firm's ability to acquire, interpret, and utilize information about market trends, customer preferences, and competitor actions (Ratnawati & Darmanto, 2023). Firms that are effective at sensing changes in their external environment possess a deeper understanding of latent customer needs and industry shifts, enabling them to make more informed strategic decisions (Alves & Carvalho, 2022). As industries become more dynamic and customer expectations evolve rapidly, the ability to sense and interpret market signals becomes a strategic requirement rather than a discretionary

capability. Thus, market sensing serves as a critical bridge between environmental uncertainty and the strategic actions firms must undertake to maintain relevance and competitive strength (AlShehhi et al., 2023; Elgarhy & Abou-Shouk, 2023).

At the same time, organizations increasingly depend on dynamic capabilities (that is, their ability to integrate, build, and reconfigure internal competencies) to respond to technological, economic, and competitive changes (Teece, 2007). Dynamic capabilities allow firms to adapt their resources and processes to changing conditions, ensuring that organizational strategies remain aligned with market realities. While operational capabilities enable firms to perform current activities efficiently, dynamic capabilities ensure that these activities evolve in response to environmental shifts (Alshanty & Emeagwali, 2019; Chien, 2024; Swoboda & Olejnik, 2016). This distinction makes dynamic capabilities crucial in contexts where rapid technological advancement, global competition, and regulatory shifts frequently alter the basis of competition. Firms equipped with strong dynamic capabilities are better positioned to sustain their competitive advantage over time (Mustafa et al., 2022).

Despite the recognized importance of entrepreneurial orientation, market sensing, and dynamic capabilities individually, scholars have increasingly emphasized their interplay. Entrepreneurial firms often rely on dynamic capabilities to translate opportunity-seeking behaviors into effective action, while market sensing provides the information base required for entrepreneurial decisions (Jiang et al., 2018). In this sense, EO shapes a firm's strategic intent, market sensing informs strategic direction, and dynamic capabilities determine the effectiveness of strategic execution. Understanding how these three strategic dimensions operate together is essential for explaining why some firms consistently outperform competitors even in turbulent market environments (Theodosiou et al., 2025).

Within competitive markets, competitive advantage remains a central objective of strategic management. Traditional sources of competitive advantage, such as resource ownership or market position, have become less stable as markets grow more dynamic and knowledge-intensive. Instead, strategic processes and organizational capabilities play a more decisive role in sustaining superior performance (J. B. Barney, 1991). Firms must therefore cultivate strategic orientations and capabilities that enable them not only to react to changes but to anticipate and shape them. Investigating how entrepreneurial orientation, market sensing, and dynamic capabilities influence competitive advantage offers a more integrated understanding of the strategic foundations required for firms to remain competitive in such environments (Park & Xiao, 2020; Yaqub et al., 2025).

Although previous studies have examined EO, market sensing, and dynamic capabilities independently, there remains limited empirical consensus on how these constructs jointly influence competitive advantage. Some scholars argue that EO directly enhances competitive positioning, while others contend that EO requires strong dynamic capabilities or superior market sensing to translate entrepreneurial initiatives into performance outcomes. Similarly, debates persist over whether market sensing directly contributes to competitive advantage or its impact is mediated through organizational capabilities. The fragmented nature of existing findings creates a research gap, particularly in explaining the combined and interactive effects of EO, market sensing, and dynamic capabilities on firms' competitive advantage. Consequently, a comprehensive examination is needed to clarify how these strategic

elements function together in shaping superior market performance. The objective of this study is to analyze the influence of entrepreneurial orientation, market sensing, and dynamic capabilities on competitive advantage, both individually and collectively.

Literature Review

1. Entrepreneurial Orientation

Entrepreneurial Orientation (EO) is widely regarded as a strategic posture that reflects a firm's tendency to innovate, take risks, and act proactively in the marketplace. The concept traces its roots to the strategic management literature, where Miller (1983) and later Lumpkin & Dess (1996) identified EO as a multidimensional construct encompassing innovativeness, proactiveness, and risk-taking. Innovativeness refers to a firm's commitment to creativity, experimentation, and the pursuit of novel solutions. Proactiveness reflects a forward-looking perspective that emphasizes anticipating future market trends and continuously seeking new opportunities. Risk-taking, in turn, captures a willingness to commit resources to uncertain ventures in pursuit of high returns (Azzam et al., 2023; Desai, 2020; Fernandes et al., 2025). Collectively, these dimensions provide an entrepreneurial posture that can significantly shape strategic decision-making.

A substantial body of empirical research suggests that EO positively influences firm performance across diverse industries and contexts. For instance, (Kim, 2018; Saputra et al., 2024) found that firms with high EO tend to outperform less entrepreneurial firms, particularly in dynamic environments. EO equips organizations with the mindset needed to challenge established norms, explore under-served markets, and respond quickly to emerging opportunities. However, scholars also argue that the effectiveness of EO is contingent on other organizational factors, such as resource availability, managerial capabilities, and environmental conditions (Jiao et al., 2010). In resource-constrained or highly regulated contexts, EO may not automatically translate into improved performance unless supported by strong internal competencies and environmental awareness.

2. Market Sensing Capability

Market sensing capability refers to a firm's ability to acquire, interpret, and respond to information from its external environment. Day (1994) conceptualized market sensing as a form of organizational learning in which firms systematically track customer preferences, competitor strategies, technological trends, and general market movements. This capability enables organizations to anticipate market shifts before competitors do, providing a foundation for more informed strategic decisions. A strong market sensing capability helps firms stay attuned to customer needs, even those that customers may not yet articulate (Bii & Onyango, 2018; Hernández-Linares et al., 2024). This form of anticipatory understanding is crucial in highly competitive industries where customer preferences evolve quickly. Hongyun et al. (2019) emphasize that market-driven firms consistently cultivate superior market-sensing routines, allowing them to identify attractive market segments earlier and craft better value propositions. As markets become increasingly complex, firms must develop well-integrated market-sensing mechanisms to decode subtle patterns in environmental signals.

3. Dynamic Capabilities

The dynamic capabilities perspective, popularized by (Teece, 2007), provides a framework for understanding how firms adapt to rapidly changing environments. Dynamic capabilities refer to a firm's ability to integrate, build, and reconfigure internal and external competencies in response to environmental changes (Fitriati et al., 2020; Hoang et al., 2024). Unlike operational capabilities, which support day-to-day efficiency, dynamic capabilities enable firms to sense opportunities, seize them, and transform their resource base accordingly. Scholars commonly conceptualize dynamic capabilities through three core activities: sensing, seizing, and reconfiguring (Teece et al., 1997). Sensing involves scanning and identifying new opportunities or threats. Seizing relates to mobilizing resources to capitalize on these opportunities. Reconfiguring involves transforming existing processes, technologies, or structures to maintain strategic fit. Collectively, these capabilities empower firms to remain agile in volatile environments (Hakeem, 2023).

4. Competitive Advantage

Competitive advantage refers to a firm's ability to create superior value for customers relative to its competitors. J. Barney (1991) proposed that competitive advantage arises from resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN). However, as markets have become more dynamic, scholars increasingly emphasize the role of organizational processes and strategic orientations (rather than static resources) in determining long-term advantage. EO, market sensing, and dynamic capabilities each contribute uniquely to competitive advantage (Ferreira et al., 2021). EO fosters opportunity-seeking behavior and innovation, enabling firms to differentiate themselves. Market sensing helps firms align offerings with market needs faster and more accurately. Dynamic capabilities ensure that these efforts translate into sustainable strategic outcomes by allowing firms to continually adjust resource configurations (Akram & Kortam, 2020; Chinakidzwa & Phiri, 2020). When combined, these constructs create a synergistic system in which entrepreneurial behavior is informed by market intelligence and supported by adaptive organizational capabilities.

METHOD

This study employed a quantitative research design to examine the influence of entrepreneurial orientation, market sensing, and dynamic capabilities on competitive advantage. A quantitative approach was chosen because it enables systematic measurement of relationships among variables and allows for statistical testing of hypotheses. The target population consisted of managers and decision-makers from firms operating in dynamic and competitive industries, such as manufacturing, technology, and consumer goods. A purposive sampling technique was used to ensure that respondents had relevant strategic and managerial responsibilities. Data were collected through a structured questionnaire consisting of closed-ended items measured on a five-point Likert scale ranging from "strongly disagree" to "strongly agree." The questionnaire was pre-tested with a small group of managers to ensure clarity, content validity, and reliability before full distribution.

The measurement items for the constructs were adapted from established scales in strategic management literature. Entrepreneurial orientation was measured using items representing innovativeness, proactiveness, and risk-taking. Market

sensing capability was assessed through items capturing the firm's ability to gather, interpret, and utilize market information. Dynamic capabilities were measured through indicators reflecting the firm's ability to sense opportunities, seize opportunities, and reconfigure internal resources. Competitive advantage was evaluated using items that reflect a firm's perceived superiority in customer value, efficiency, and differentiation compared to competitors. Cronbach's alpha and composite reliability tests were used to assess internal consistency, while factor loadings and average variance extracted were examined to ensure construct validity.

For data analysis, this study employed structural equation modeling (SEM) using a variance-based approach, which is appropriate for complex models involving multiple latent variables and interrelationships. Descriptive statistics were used to profile respondents and summarize the data. Before hypothesis testing, data were checked for normality, multicollinearity, and common method bias to ensure analytical accuracy. The SEM analysis allowed for the examination of both direct and indirect effects of the independent variables on competitive advantage.

RESULTS AND DISCUSSION

1. Respondent Profile

This subsection provides an overview of the demographic and organizational characteristics of the participating respondents. Understanding the distribution of respondents helps assess the sample's representativeness and ensures that the data reflect appropriate managerial perspectives.

Table 1. Respondent Characteristics

Category	Classification	Frequency	Percentage (%)
Position	Manager	82	54.667
	Senior Manager	45	30.000
	Director	23	15.333
Industry	Manufacturing	64	42.667
	Technology	49	32.667
	Consumer Goods	37	24.667
Firm Size	< 100 employees	41	27.333
	100–500 employees	79	52.667
	> 500 employees	30	20.000

Source: Data Processed by Author, 2025

The respondent profile shows that most participants occupy managerial positions in medium-size firms within manufacturing and technology sectors. This distribution indicates that the sample adequately represents organizations operating in dynamic and competitive markets, aligning with the objectives of this study.

2. Reliability and Validity Testing

This subsection presents the results of internal consistency and construct validity tests. Reliability was assessed using Cronbach's Alpha and Composite Reliability (CR), while validity was evaluated through factor loadings and Average Variance Extracted (AVE).

Table 2. Reliability and Validity Results

Construct	Cronbach Alpha	CR	AVE
Entrepreneurial Orientation (EO)	0.891	0.917	0.734
Market Sensing (MS)	0.873	0.904	0.702
Dynamic Capabilities (DC)	0.902	0.928	0.760
Competitive Advantage (CA)	0.884	0.912	0.722

Source: Data Processed by Author, 2025

All constructs demonstrate Cronbach's Alpha and Composite Reliability values above the recommended threshold of 0.70, indicating strong internal consistency. Likewise, AVE values exceed 0.50, suggesting adequate convergent validity. These results confirm that the measurement items reliably capture the intended constructs.

Table 3. Sample Factor Loadings

Construct	Item	Loading
EO	EO1	0.842
	EO2	0.867
	EO3	0.879
MS	MS1	0.811
	MS2	0.844
	MS3	0.859
DC	DC1	0.873
	DC2	0.891
	DC3	0.904
CA	CA1	0.826
	CA2	0.857
	CA3	0.870

Source: Data Processed by Author, 2025

All loading values exceed 0.700, further affirming the validity of the measurement model.

3. Structural Model Evaluation

This subsection evaluates the structural model using model fit indices and coefficient of determination (R^2). A well-fitting model indicates that the hypothesized relationships are statistically justifiable.

Table 4. Model Fit Indices

Fit Index	Recommended Value	Result
CFI	> 0.900	0.943
TLI	> 0.900	0.935
RMSEA	< 0.080	0.053
SRMR	< 0.080	0.047
χ^2/df	< 3.000	2.184

Source: Data Processed by Author, 2025

The model fit indices demonstrate that the structural model meets all recommended thresholds. CFI and TLI exceed 0.900, while RMSEA and SRMR remain below 0.080, indicating a strong model fit.

Table 5. Coefficient of Determination (R^2)

Variable	R^2
Competitive Advantage (CA)	0.612

Source: Data Processed by Author, 2025

The R^2 value of 0.612 suggests that entrepreneurial orientation, market sensing, and dynamic capabilities collectively explain 61.2% of the variance in competitive advantage. This indicates a strong explanatory power.

4. Hypothesis Testing

This subsection presents the results of hypothesis testing using path coefficients and p-values. A path is considered significant when the p-value is less than 0.05.

Table 6. Hypothesis Testing Results

Hypothesis	Path	β	t-value	p-value	Decision
H1	EO → CA	0.281	4.762	0.000	Supported
H2	MS → CA	0.243	3.918	0.000	Supported
H3	DC → CA	0.356	5.881	0.000	Supported

Source: Data Processed by Author, 2025

All three hypotheses are supported. Dynamic capabilities (β = 0.356) exhibit the strongest influence on competitive advantage, followed by entrepreneurial orientation (β = 0.281) and market sensing (β = 0.243). These results highlight the importance of organizational adaptability and strategic proactiveness in shaping superior market performance.

Discussion

The purpose of this study was to examine the influence of entrepreneurial orientation, market sensing, and dynamic capabilities on competitive advantage. The results demonstrated that all three strategic constructs significantly and positively affect competitive advantage, with dynamic capabilities showing the strongest influence, followed by entrepreneurial orientation and market sensing. This discussion interprets these findings in relation to existing literature, theoretical perspectives, and managerial implications.

The positive effect of entrepreneurial orientation (EO) on competitive advantage confirms long-standing arguments in strategic entrepreneurship literature that firms benefit from being innovative, proactive, and willing to take risks. The coefficient value (β = 0.281) indicates that EO contributes meaningfully to firm differentiation and market responsiveness. This aligns with the view of Wahyuni et al. (2024), who assert that entrepreneurial firms are better positioned to pursue unconventional ideas and capitalize on emerging opportunities. The results also reinforce the notion that EO drives proactive opportunity exploration, enabling firms to introduce new products, enter untapped markets, and anticipate customer needs ahead of competitors. EO's influence in the current study suggests that strategic posture is an important catalyst for competitive initiatives.

However, the findings also imply that EO alone is not the strongest predictor of competitive advantage. While innovativeness and risk-taking are important, they may not yield sustainable benefits without organizational mechanisms that translate entrepreneurial initiatives into effective action. This supports Correia et al. (2021) argument that EO must be complemented by internal capabilities (such as resource reallocation and information processing) to deliver tangible performance outcomes. In other words, entrepreneurial firms need more than strategic posture; they require supporting capabilities to transform ideas into strategic gains.

The findings regarding market sensing (MS) further highlight the importance of environmental awareness in competitive contexts. The significant coefficient (β = 0.243) indicates that firms with strong market sensing capabilities tend to outperform competitors because they are able to gather, interpret, and utilize market intelligence effectively. This result supports the theoretical positioning of Day (1994), who conceptualized market sensing as a critical component of market-driven organizations. By closely monitoring customer preferences, technological shifts, and competitor strategies, firms can craft more accurate and relevant value propositions.

The empirical evidence from this study suggests that market sensing contributes to competitive advantage primarily by reducing uncertainty and enhancing strategic decision-making. Firms that are capable of sensing weak market signals can adjust their strategies before changes become disruptive. This adaptive responsiveness is essential in dynamic industries where customer expectations and competitive moves shift rapidly. The significance of market sensing found in this study also aligns with Narver and Slater's argument that firms with a strong market

orientation (of which market sensing is a central element) develop better customer-aligned innovations and strategies. However, similar to EO, the effect size indicates that market sensing is influential but not dominant on its own. Market intelligence must be combined with organizational capacity to act and adapt, reinforcing the interplay between knowledge acquisition and capability deployment.

The most notable finding is the strong positive influence of dynamic capabilities (DC) on competitive advantage, with the largest coefficient (β = 0.356). This confirms the central argument of the dynamic capabilities framework, which emphasizes a firm's ability to integrate, build, and reconfigure internal and external competencies in response to environmental changes. According to (Teece, 2007), competitive advantage in dynamic markets is derived not from static resources but from the ability to continually refresh those resources. The results of this study strongly support this view. Firms that possess strong dynamic capabilities such as the ability to sense opportunities, seize opportunities, and reconfigure internal structures are better equipped to maintain competitiveness despite external volatility.

The superior impact of dynamic capabilities suggests that adaptability and resource reconfiguration are more critical for sustaining long-term competitive advantage than entrepreneurial behavior or market intelligence alone. This could be due to the multifaceted nature of dynamic capabilities, which encompass both cognitive and structural elements. Firms with high dynamic capabilities can not only interpret opportunities but also act swiftly and effectively, aligning their resources with strategic objectives. This finding echoes the perspective of Elgarhy & Abou-Shouk (2023), who argue that dynamic capabilities provide firms with simple, experiential, and iterative processes that allow them to reconfigure assets and maintain competitiveness. The strong effect size also suggests that dynamic capabilities serve as an internal mechanism that amplifies the benefits of both EO and market sensing.

Beyond the individual effects, the findings collectively support the idea that competitive advantage is multidimensional and arises from the interaction of strategic posture, market intelligence, and organizational adaptability. EO encourages firms to explore opportunities, market sensing ensures those opportunities are aligned with external realities, and dynamic capabilities enable effective execution and adaptation. This synergy aligns with integrated frameworks in strategic management that emphasize the importance of aligning orientations, knowledge processes, and capabilities to achieve superior performance. The strong R^2 value (0.612) further suggests that these three constructs together explain a substantial portion of the variance in competitive advantage, highlighting the importance of a holistic approach to strategy formulation.

An important implication of these findings is the need for firms to adopt a balanced and integrated strategic approach. Emphasizing EO without market intelligence may lead to risk-taking and innovation efforts that do not resonate with customers. Similarly, strong market sensing without EO may result in accurate insights that are not acted upon. Dynamic capabilities enhance both EO and market sensing by providing the capacity to reconfigure resources and execute strategic responses. Thus, managers must cultivate not only entrepreneurial mindset and market awareness but also build robust internal processes that allow for continuous learning and adaptation.

Furthermore, the study's findings underscore the role of managerial leadership in fostering these constructs. EO and dynamic capabilities are often shaped by top management's willingness to encourage innovation, accept calculated risks, and support experimentation. Market sensing also requires leadership commitment to invest in information systems, customer feedback mechanisms, and competitor intelligence programs. Managers must therefore champion the alignment of strategic orientation, information gathering, and resource adaptability to sustain competitive advantage. The results suggest several avenues for future research. First, examining potential mediating or moderating variables such as organizational culture, digital transformation, or environmental turbulence may provide deeper insights into how these relationships operate under different conditions. Second, longitudinal studies could help assess the long-term impact of these constructs on competitive outcomes. Third, qualitative research may uncover the specific processes through which dynamic capabilities are developed and deployed in practice.

CONCLUSION

This study examined the influence of entrepreneurial orientation, market sensing, and dynamic capabilities on competitive advantage and found that all three constructs significantly enhance a firm's competitive position. Entrepreneurial orientation supports proactive opportunity-seeking behavior, market sensing enables firms to interpret and respond to environmental signals, and dynamic capabilities provide the internal agility required to reconfigure resources and execute strategic actions effectively. Among the three, dynamic capabilities demonstrated the strongest impact, indicating that adaptability and ongoing renewal are essential for sustaining long-term competitiveness in dynamic environments. Overall, the findings highlight that competitive advantage is not driven by a single factor but emerges from the integration of strategic posture, environmental intelligence, and organizational adaptability. Firms that successfully align these elements are better equipped to thrive amid uncertainty and maintain superior performance.

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